

UNITED STATES DISTRICT COURT
DISTRICT OF DELAWARE

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CLERK, U.S. DISTRICT COURT
DISTRICT OF DELAWARE
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MARC SAGGESE,

Plaintiffs,

- against -

DAVID C. SWANSON, GEORGE F.
BEDNARZ, STEVEN M. BLONDY, and
BARRY SAUDER

Defendants,

Civil Action No. 09-859

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF FEDERAL
SECURITIES LAWS**

JURY TRIAL DEMANDED

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the publicly traded securities of RH Donnelley Corporation ("RH Donnelley") between July 26, 2007 and May 28, 2009, inclusive (the "Class Period"), naming as defendants RH Donnelley's officers and/or directors (collectively "defendants") for violations of the Securities Exchange Act of 1934 ("1934 Act").

2. RH Donnelley operates as a Yellow Pages and online local commercial search company, headquartered in Cary, North Carolina. Prior to 2003, RH Donnelley was an independent sales agent and pre-press vendor for yellow pages advertising. Beginning in 2003, RH Donnelley began acquiring yellow page publishing businesses in a quest to transform the Company into a leading publisher of yellow pages directories and provider of online local commercial search services.

3. In 2003, RH Donnelley acquired the Embarq Directory Business ("Embarq") from Sprint Nextel Corporation. The following year, the Company acquired the AT&T Directory Business ("AT&T Directory"). In January 2006, RH Donnelley acquired Dex Media from Qwest Communications International, Inc. The Company's growth through acquisition history caused it to take on a substantial amount of debt. From 2002 through 2007, RH Donnelley's long-term debt grew from \$2.1 billion at year-end 2002 to \$10 billion by year-end 2007.

4. For years, investors viewed yellow page companies as stable, high-margin companies with strong cash flows capable of carrying high debt. Nonetheless, in recent years, investors' perceptions have changed due to declines in advertising budgets and perceived shifts in trends away from traditional yellow page searches to online searches.

5. In an attempt to diversify, RH Donnelley has been expanding its online offerings and offering its customers a Triple Play bundle. The Triple Play bundle includes print yellow pages, Internet yellow pages and search engine marketing/search engine optimizing tools. Despite the increase in online offerings, the majority of the Company's revenue was from its high margin print advertising.

6. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and financial results. Defendants caused the Company to fail to properly account for its bad debt expense and timely write down its impaired goodwill. As a result of defendants' false and misleading statements, RH Donnelley's stock traded at artificially inflated prices during the Class Period, trading as high as \$66.67 in July 2007.

7. Most of RH Donnelley's products and services involved a twelve-month cycle. As a result, RH Donnelley would effectively extend credit to its customers, most of whom were

small and mid-sized companies. At the beginning of the Class Period, defendants reported the Company's bad debt expense represented 3% of its revenue. During the Class Period, defendants repeatedly assured investors that the Company was not experiencing a substantial increase in its uncollectible accounts and further that the Company was adequately reserving for its bad debts. Despite these assurances, by June 2009, the Company's bad debts represented 7.6% of its revenue, having a material adverse impact on the Company's liquidity.

8. Additionally, during the Class Period, defendants blamed the downward pressure on its advertising revenue on cyclical factors based on the weak economy, downplaying the effect shifting trends in peoples preferences away from yellow page searches was having on the Company's operations. According to an article entitled "Flashing Yellow, With Lots of Green" in *Barron's* on August 18, 2008:

"Wall Street has it completely wrong, and that's completely understandable," says David Swanson, R.H. Donnelley's chief executive. "They think we sell a product that's falling off a cliff. That assumption is wrong."

Stock analysts are "the worst demographic for yellow-pages usage," Swanson adds. "Just because they don't use it, they assume nobody is. If you go to Cedar Rapids, Iowa, the print yellow pages is a much more stable" business than it may be in Manhattan.

Swanson argues the yellow pages are much healthier than newspapers, another tough media business. R.H. Donnelley has a wide base of 600,000 advertisers, mostly small and medium-sized businesses that have few other low-cost alternatives to connect with consumers. About 80% of revenue comes from service-based businesses, including plumbers, landscapers and locksmiths.

The average advertiser spends about \$3,500 a year. Newspapers, in contrast, have heavily relied on ailing ad categories like retailing, autos, real estate and classifieds.

9. R.H. Donnelly's stock has plummeted to \$2 from \$68 on fears its debt will drag it into bankruptcy. If its business stabilizes, however, the stock could rally. The bonds also look good. A key issue for R.H. Donnelley is whether recent ad declines represent a permanent shift

away from yellow pages, or simply reflect a weak economy. Swanson argues the latter, saying this economy is one of the “worst” he’s seen in 30 years for small and medium-sized concerns. Ads from housing-related businesses such as mortgage lenders, real-estate services and contractors are hurting. Some bright spots include pawnbrokers, bankruptcy lawyers, cleaning services, junk dealers and dumpster rentals. Donnelley’s strategy is to offset declines in high-margin print yellow pages with online yellow pages and business-to-business e-commerce, which it calls its “triple play.”

10. Furthermore, during the Class Period, defendants assured the market that RH Donnelley’s strong cash flow from its operations and the amount available to the Company under its revolving line of credit would be sufficient to support its capital structure. Defendants repeatedly assured investors that RH Donnelley had enough liquidity to fund its operations through early 2010, as the Company did not face a material maturity of its outstanding debt until March 2010.

11. Beginning in February 2008, defendants began to acknowledge problems in the Company’s operations and with its financial results. Nonetheless, these partial disclosures were accompanied by denials and continued misrepresentations by defendants.

12. On March 12, 2009, RH Donnelley announced that it had retained Lazard as a financial advisor to assist in the evaluation of its capital structure, including various balance sheet restructuring alternatives.

13. Then, on May 29, 2009, RH Donnelley filed for bankruptcy. The stock now trades at around six cents per share.

14. As a result of defendants’ false statements and omissions, RH Donnelley’s stock traded at artificially inflated prices during the Class Period. However, after the above revelations

seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 99% from their Class Period high.

JURISDICTION AND VENUE

15. Jurisdiction is conferred by §27 of the 1934 Act. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act and SEC Rule 10b-5.

16. Venue is proper in this District pursuant to §27 of the 1934 Act. RH Donnelley is a Delaware corporation. The Company filed for Bankruptcy in the United States Bankruptcy Court for the District of Delaware.

17. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

THE PARTIES

18. Plaintiff Marc Saggese purchased shares in the Company during the Class Period.

19. Defendant David C. Swanson ("Swanson") is, and at all relevant times was, Chairman of the Board and Chief Executive Officer ("CEO") of RH Donnelley.

20. Defendant George F. Bednarz ("Bednarz") is, and at all relevant times was, President and Chief Operating Officer ("COO") of RH Donnelley.

21. Defendant Steven M. Blondy ("Blondy") is, and at all relevant times was, Chief Financial Officer ("CFO") and Executive Vice President of RH Donnelley.

22. Defendant Barry Sauder ("Sauder") was at all relevant times, Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Office) of the Company.

23. Defendants Swanson, Blondy, Bednarz, and Sauder (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of RH Donnelley's quarterly reports, press releases and presentations to securities analysts, money and portfolio managers and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

CLASS ACTION ALLEGATIONS

24. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired RH Donnelley publicly traded securities during the Class Period (the "Class"). Excluded from the Class are defendants.

25. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. RH Donnelley has over 68 million shares of common stock outstanding, owned by hundreds if not thousands of persons.

26. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

- (a) whether the 1934 Act was violated by defendants;
- (b) whether defendants omitted and/or misrepresented material facts;
- (c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) whether defendants knew or deliberately disregarded that their statements were false and misleading;
- (e) whether the prices of RH Donnelley publicly traded securities were artificially inflated; and
- (f) the extent of damage sustained by Class members and the appropriate measure of damages.

27. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

28. Plaintiff will adequately protect the interests of the Class and has retained counsel experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

29. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

SUBSTANTIVE ALLEGATIONS

30. On July 26, 2007, RH Donnelley reported its second quarter 2007 financial results in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported second quarter 2007 free cash flow of \$146 million based on cash flow from operations of approximately \$171 million and \$24 million of capital expenditures. Advertising sales during the second quarter were \$729 million, up 0.2 percent from the same period in the

prior year. Net revenue for the quarter was \$667 million. EBITDA, including \$8 million of FAS 123 R expense and approximately \$8 million of purchase accounting entries, during the second quarter was \$348 million. Net income and EPS for the same period were \$25 million and \$0.34 per share, respectively. As of June 30, 2007, RHD's net debt outstanding, including the purchase accounting fair value adjustment of \$181 million, was \$9,980 million.

"The highlight of the quarter was the growth in our AT&T markets in Illinois," said David C. Swanson, chairman and CEO of R.H. Donnelley. "Second quarter is that region's largest ad sales period and includes the highly competitive Chicago market. *We've worked hard over the last two years to make improvements there and it's rewarding to see the results of those efforts. Our robust suite of Internet solutions in addition to our print yellow pages are proving to be a very effective combination in larger markets.* Our progress in Illinois was partially offset by the impact of the soft real estate sector and the challenges in major metro markets in our EMBARQ and Qwest markets."

Dex Brand and DexKnows.com

In June, R.H. Donnelley launched DexKnows.com™, a new online local search site that combines RHD's robust local content with new search technology and innovative features to help consumers find the most relevant local businesses faster and more efficiently than if they used conventional search engines. At the same time, R.H. Donnelley launched the Dex® market brand in Las Vegas with an integrated, mass media campaign ahead of the publication of its market-leading directory. Las Vegas is the first market outside of the Qwest 14-state region to pair the recognizable incumbent telephone brand with Dex. ***This unified market brand serves as a strong foundation for the Company's Triple Play™ strategy as it links together all of RHD's local commercial search solutions for consumers and advertisers.***

* * *

Outlook

The Company is affirming the annual guidance last provided on April 26, 2007. The guidance is summarized below and does not reflect the impact of the pending acquisition of Business.com.

- Positive advertising sales growth.
- Net revenue of approximately \$2.67 billion.
- EBITDA, excluding FAS 123 R expense and purchase accounting impacts, of approximately \$1.44 billion.
- Free cash flow of approximately \$615 million.
- Net debt, excluding fair value adjustment, at year end of approximately \$9.5 billion.
- Weighted average fully diluted shares outstanding during 2007 of up to 72.5 million.

31. On September 18, 2007, RH Donnelley reported updates to 2007 guidance, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today updates financial guidance for 2007 to reflect recent sales trends and its Business.com acquisition, which closed on August 23, 2007.

Including the Business.com acquisition, the Company expects 2007 pro forma advertising sales growth to be in the range of flat to positive 1 percent. Excluding the impact of the acquisition, the Company now expects that 2007 advertising sales growth would have been in the range of minus 1 percent to flat - versus previous guidance of modestly positive growth. R.H. Donnelley also affirms its previous guidance for EBITDA and free cash flow on the same basis.

"Notwithstanding challenges in some of our major metro markets and the housing sector in Nevada and Florida, the inclusion of Business.com adds 100 basis points to ad sales performance this year." said Steven M. Blondy, executive vice president and CFO for R.H. Donnelley. ***"We also expect to deliver strong EBITDA and free cash flow on plan. We're confident in the strength of our diversified business and our growth prospects, particularly with our new search marketing products and Business.com."***

Business.com, a leading business search engine company and pay-per-click advertising network, brings a significant infusion of talent and leading-edge search technology to R.H. Donnelley's online local advertising efforts, as well as a profitable business. Business.com Founder and CEO, Jake Winebaum, has been appointed President of R.H. Donnelley's interactive unit (RHDi), which now includes DexKnows.com™, Dex Search Marketing, LocalLaunch!, Business.com, Work.com and the Business.com Advertising Network.

32. On October 25, 2007, RH Donnelley reported its third quarter 2007 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported third quarter 2007 adjusted free cash flow of approximately \$132 million based on cash flow from operations of \$156 million and capital expenditures of \$24 million.

Third quarter advertising sales, pro forma for the impact of Business.com operations for the entire period, were \$542 million, down 1.1 percent from pro forma advertising sales for the same period in the prior year. Net revenue for the quarter was \$670 million. Adjusted EBITDA, after \$9 million of FAS 123 R expense and approximately \$4 million of purchase accounting and related

expenses, during the third quarter was \$349 million. Net income and EPS for the same period were \$18 million and \$0.25 per share, respectively. As of September 30, 2007, RHD's net debt outstanding, including the purchase accounting fair value adjustment of \$173 million, was \$10,182 million.

"During the quarter, we closed the Business.com acquisition, infusing significant talent and leading search technology into R.H. Donnelley's online advertising operations. In addition, we significantly advanced our strategy by investing in marketing consultant training and extending the Dex market brand. ***We have recently implemented our Triple Play solution across all markets, ahead of our year-end completion goal,***" said David C. Swanson, chairman and CEO of R.H. Donnelley. "As anticipated, third quarter ad sales performance reflected the housing weakness in Florida and Nevada; nevertheless, ***we delivered solid EBITDA and free cash flow due to the strength of our advertising products and diversified customer base. In addition, we recently refinanced a significant portion of our capital structure that enables us to reduce interest costs, simplify our capital structure and enhance operating and financial flexibility.***"

Dividend Announcement

R.H. Donnelley intends to initiate a cash dividend on its common stock concurrent with its first quarter earnings release in April 2008. The Company anticipates an annual dividend payout of approximately 25% of the Company's free cash flow. The actual declaration of dividends and the establishment of record and payment dates are subject to final determination and approval by R.H. Donnelley's Board of Directors and satisfaction of applicable legal requirements. Steven M. Blondy, executive vice president and CFO of R.H. Donnelley said, "Our strong and stable cash flow enables us to distribute value directly to shareholders through healthy dividends, while continuing to invest in strategic initiatives and to repay debt."

Outlook

The Company affirms its full year 2007 guidance last updated on September 27, 2007. The guidance is summarized below.

- Advertising sales growth pro forma for full year impact of Business.com operations in both 2006 and 2007 of between 0 percent and 1 percent.
- Net revenue of approximately \$2.68 billion.
- EBITDA, after FAS 123 R expense and purchase accounting impacts, of approximately \$1.44 billion and operating income of approximately \$0.93 billion.

- Free cash flow of approximately \$600 million and operating cash flow of approximately \$685 million.
- Net debt at year end, excluding the fair value adjustment of \$0.1 billion, of approximately \$9.9 billion.
- Weighted average fully diluted shares outstanding during 2007 of up to 72.5 million.

33. On December 4, 2007, RH Donnelley issued a press release entitled "R.H.

Donnelley Announces 2008 Guidance and \$100 Million Share Repurchase Plan," which stated in

part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, will be providing 2008 financial guidance today at the UBS 35th Annual Global Media & Communications Conference. During the presentation, which will begin at 8:00 a.m. EDT, the company will forecast:

- Advertising sales of \$2,745 million.
- Adjusted EBITDA, excluding the impact of FAS 123 R expense and purchase accounting and related expenses, of at least \$1,440 million and operating income of \$930 million.
- Free cash flow of at least \$620 million and operating cash flow of \$710 million.
- Net debt at year end, excluding the fair value adjustment of \$0.1 billion, of approximately \$9.5 billion.
- Weighted average fully diluted shares outstanding during 2008 of approximately 72.5 million,

During its presentation, the company will also affirm its 2007 outlook, which was last updated on October 25, 2007, with the exception of weighted average fully diluted shares outstanding for the year, which is now expected to be 72.0 million versus the previous guidance of 72.5 million.

34. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

- (a) The Company was not adequately reserving for its bad debts in violation of Generally Accepted Accounting

Principles ("GAAP"), causing its financial results to be materially misstated;

- (b) The Company was not adequately reserving for its goodwill in violation of GAAP, causing its financial results to be materially misstated;
- (c) The downward pressure the Company was experiencing with its advertising revenue was not exclusively due to cyclical challenges but was also due to a permanent shift in customers moving away from print yellow pages advertising;
- (d) The Company had far greater exposure to liquidity concerns and ratings downgrades than it had previously disclosed; and
- (e) Given the turmoil in the economy and the trends related to a shift away from print advertising, the Company had no reasonable basis to make projections about its 2007 and 2008 results or its ability to pay a dividend.

35. On February 28, 2008, RH Donnelley reported its fourth quarter and full year 2007 financial results, and stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported full year 2007 adjusted free cash flow of approximately \$617 million based on cash flow from operations of \$692 million, capital expenditures of \$77 million and \$2 million of adjustments related to Business.com. Full year advertising sales, pro forma for the impact of Business.com operations for the entire period, were \$2,743 million, up 0.4 percent from pro forma advertising sales for the same period in the prior year. Net revenue for 2007 was \$2,680 million. EBITDA for the full year was \$1,368

million after \$39 million of FAS 123 R expense and approximately \$35 million of purchase accounting and related expenses. Net income and EPS for the same period were \$47 million and \$0.65 per share, respectively. Net income includes approximately \$29 million of one-time costs related to the refinancing completed in the fourth quarter and the write-down of an intangible asset due to the recent rebranding of our print products in the Embarq territory. As of December 31, 2007, RHD's net debt outstanding was \$10,130 million, including the purchase accounting fair value adjustment of \$104 million.

"We made significant progress addressing our strategic priorities in 2007," said David C. Swanson, chairman and CEO of R.H. Donnelley. "We aggressively invested in key areas to improve our value proposition both to consumers and advertisers. We extended the Dex market brand across our footprint and now present a single identity in the markets we serve. In addition, we significantly advanced both our diversification in terms of online sales through our Triple Play solutions and the Business.com ad network, as well as our technology capabilities through the acquired Business.com team. These initiatives will help us to maintain our market leadership position in local search."

Swanson continued, ***"Though we are pleased with our 2007 accomplishments, weaker economic conditions than originally anticipated have created a more difficult selling environment. As a result, we have lowered our outlook for 2008. Furthermore, given the recent decline in the share price and the near-term economic outlook, we have decided not to initiate a dividend in order to apply all cash flow towards debt repayment. I am confident that we remain well positioned for growth once we move past the current cyclical challenges."***

36. On May 8, 2008, RH Donnelley reported its first quarter 2008 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported first quarter 2008 net revenues of \$675 million, up 2 percent over the same period in the prior year. Adjusted EBITDA in the quarter was \$357 million and adjusted EBITDA margin was 52.9%. Adjusted free cash flow in the quarter was \$92 million based on cash flow from operations of \$100 million, capital expenditures of \$10 million and \$2 million of adjustments related to other compensation expense at Business.com. First quarter advertising sales were \$718 million, down 4.8 percent from pro forma advertising sales for the same period in the prior year. Net loss for the quarter was \$1.6 billion, reflecting a goodwill impairment charge of \$2.5 billion. Excluding the effect of goodwill impairment recorded in the quarter, net income would have been \$15 million. As of March 31, 2008, RHD's net debt outstanding was \$9,951 million, excluding the purchase accounting fair value adjustment of \$100 million.

“We generated strong revenues in the quarter driven by the pull through of ad sales from the prior year, lower claims and allowances and the addition of Business.com. This resulted in solid EBITDA in the quarter. Ad sales, a leading indicator of revenues, reflected weak economic conditions in our markets as we expected,” said David C. Swanson, chairman and CEO of R.H. Donnelley. “We are aggressively managing costs in response to this operating environment.”

Swanson continued, “We are also launching a series of refinancings today that are expected to reduce near-term mandatory debt repayments, extend our maturity profile and reduce debt levels. These actions provide us with greater flexibility to navigate through this business cycle and manage the business for sustainable growth when a better climate returns.”

The Company recorded a \$2.5 billion non-cash, pre-tax charge associated with goodwill impairment in the quarter to reflect the recent decline in the market value of the Company’s debt and equity securities. The charge does not impact the Company’s current or future cash flow, compliance with debt covenants, tax attributes or management’s outlook for the business.

Refinancing

The Company announced its intention to refinance the Dex West credit facility and amend the R.H. Donnelley Inc. credit agreement to provide additional covenant flexibility as well as extend the maturity date of the revolving credit facility.

37. On July 30, 2008, the Company reported its second quarter 2008 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation’s leading Yellow Pages and online local commercial search companies, today reported second quarter 2008 net revenues of \$664 million, essentially in line with the same period in the prior year. Adjusted EBITDA in the quarter was \$366 million, also in line with last year. Adjusted free cash flow was \$159 million, based on cash flow from operations of \$176 million, capital expenditures of \$20 million and \$3 million of other adjustments. Second quarter advertising sales were \$678 million, down 8.6 percent from pro forma advertising sales for the same period in the prior year. Net loss for the quarter was \$339 million, reflecting a goodwill impairment charge of \$660 million. Excluding the effect of goodwill impairment in the quarter, net income would have been \$89 million. As of June 30, 2008, RHD’s net debt outstanding was \$9,719 million, excluding the purchase accounting fair value adjustment of \$95 million.

“EBITDA in the quarter was better than expected as we’ve been able to over achieve on our plans to capture efficiencies by standardizing products, processes and technologies across our entire business,” said David C. Swanson, chairman and CEO of R.H. Donnelley. “These savings were partially offset by the

effect of lower ad sales, higher bad debt expense and continued investment in our interactive initiatives.”

Swanson continued, “Second quarter ad sales were weaker both sequentially and on a year over year basis due to deteriorating consumer sentiment and the impact of rising operating costs on small businesses. We are seeing the effect across all markets and products. While demand for our bundled advertising solutions through Triple Play remains strong, many advertisers currently lack the funds to invest in growing their business. We adjusted our guidance for full year 2008 ad sales to reflect this more challenging selling environment.”

Steven M. Blondy, executive vice president and CFO, added, “In addition to delivering solid EBITDA and free cash flow in the quarter, we also successfully completed over \$3 billion of debt transactions that significantly reduce near-term maturities and enhance financial flexibility.”

The impact of these refinancings and debt repayment lowered net debt by over \$230 million, reducing leverage to 6.8 times at June 30th. *We're pleased to confirm 2008 EBITDA guidance, although we've lowered our 2008 free cash flow outlook primarily to reflect higher interest rates following the refinancings.* Both EBITDA and free cash flow will be further impacted by anticipated restructuring charges of approximately \$40 million this year.”

The \$660 million non-cash, pre-tax goodwill impairment charge reflects the further decline in the market value of the Company's equity securities during the second quarter. The charge does not impact the Company's current or future cash flow, compliance with debt covenants, tax attributes or management's outlook for the business.

38. On October 23, 2008, RH Donnelley reported its third quarter 2008 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported third quarter net revenues of \$648 million. Adjusted EBITDA in the quarter was \$334 million. Adjusted free cash flow was \$108 million, based on cash flow from operations of \$110 million, capital expenditures of \$17 million and \$15 million of other adjustments. Third quarter advertising sales were \$504 million, down 8.3 percent from pro forma advertising sales for the same period in the prior year. Net income and EPS for the quarter were \$26 million and \$0.38 per share, respectively. As of September 30, 2008, RHD's net debt outstanding was \$9,564 million, excluding the purchase accounting fair value adjustment of \$91 million.

“We continue to make excellent progress streamlining operating processes and reducing costs,” said David C. Swanson, chairman and CEO of R.H. Donnelley.

“The decline in third quarter ad sales was as expected due to weak consumer sentiment and the impact it is having on advertisers' ability to make new growth

investments, pay existing bills, and for some, stay in business. As a result of the continued deterioration in the economy, we are revising our full year 2008 guidance to the low end of the previous range.”

Swanson continued, “While we are carefully managing expenses and maintain our focus on debt reduction, we remain committed to increasing the value we provide to advertisers and consumers. We continue to expand advertisers’ reach by connecting them with consumers looking for local products and services regardless of where they are searching. This month we rolled out our exciting new voice search platform, 1-800-CALL-DEX, across the 14-state Qwest region. This service allows consumers to use their phone to search our accurate and comprehensive database of local business information as well as locate businesses near landmarks or other convenient search criteria. By year-end, we will launch DexKnows.com 2.0, our next generation local search site. In addition, in the first half of 2009, we will be launching the Dex Search Network and a new DexKnows.com platform for mobile, continuing to increase consumers’ ability to access our unique and up to date content over additional convenient platforms. These initiatives are all about building the foundation for sustainable growth as the economy recovers.”

Capital Markets Activity

During the third quarter, the Company repurchased senior notes and senior discount notes of R.H. Donnelley Corporation having an aggregate principal value of approximately \$187 million for \$92 million. In addition, the Company repaid approximately \$35 million of bank debt during the same period.

On October 22, 2008, R.H. Donnelley Inc., a wholly owned subsidiary of the Company, obtained a waiver under its senior secured credit facility to permit voluntary prepayments of its Term Loan D-1 and Term Loan D-2 at a discount to their principal amounts. R.H. Donnelley Inc. is not obligated to make any such prepayments.

39. On November 14, 2008, RH Donnelley issued a press release entitled “R.H.

Donnelley Receives Notice Regarding NYSE Listing,” which stated in part:

R.H. Donnelley Corporation, one of the nation’s leading Yellow Pages and online local commercial search companies, was notified today by the New York Stock Exchange (NYSE) that the Company was not in compliance with two NYSE standards for continued listing of the Company’s common stock on the exchange. Specifically, the Company is considered below criteria by the NYSE because (i) the average closing price of the Company’s common stock was less than \$1.00 per share over a consecutive 30-day trading period and (ii) the Company’s average total market capitalization has been less than \$75 million over the same period and its last reported stockholders’ equity was less than \$75 million.

Under NYSE rules, the Company has six months from the notification date to comply with the minimum price standard and 18 months to comply with the minimum market capitalization/stockholders' equity standard. The Company plans to notify the NYSE that it intends to cure the deficiencies within the prescribed timeframes. If the Company is not compliant with the continued listing standards within the prescribed timeframes, its common stock will be subject to suspension and delisting by the NYSE. In the meantime, R.H. Donnelley's common stock will continue to be listed on the NYSE under the symbol "RHD," but will be assigned a ".BC" indicator by the NYSE to signify that the Company is not currently in compliance with the NYSE's continued listing standards.

The Company's business operations, Securities and Exchange Commission reporting requirements, credit agreements and other debt obligations are unaffected by this notification.

40. On December 31, 2008, RH Donnelley issued a press release entitled "R.H. Donnelley Stock to Trade Over the Counter," which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, announced today that The New York Stock Exchange (NYSE) has determined that the trading in the common stock of R.H. Donnelley should be suspended in view of the fact that the Company did not maintain a market capitalization of at least \$25 million over a consecutive 30 trading day period as required by the continued listing standards. As a result of the suspension of the NYSE listing, R.H. Donnelley expects its common stock to begin trading over-the-counter (OTC) on the Pink Sheets beginning on January 2, 2009 under the symbol RHDC. Pink Sheets provides the leading inter-dealer electronic quotation and trading system in the OTC securities market. The Company's operations remain healthy, and the NYSE listing suspension does not impair R.H. Donnelley's ability to continue to operate on a business as usual basis as well as invest in new and enhanced online platforms and capabilities.

41. On March 12, 2009, RH Donnelley reported its fourth quarter and full year 2008 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation's leading Yellow Pages and online local commercial search companies, today reported full year 2008 net revenues of \$2,617 million, representing a 2 percent decline from the prior year. Adjusted EBITDA in the year was \$1,417 million, down \$26 million or 2 percent from 2007. 2008 adjusted free cash flow was \$510 million – based on cash flow from operations of \$549 million, capital expenditures of \$71 million and \$32 million of other adjustments – down from \$617 million in the prior year. Full year advertising sales were \$2,518 million, down 8 percent from pro forma advertising sales for the prior year. Operating loss was \$3,006 million in 2008. Excluding

\$3,870 million of impairment charges, operating income would have been \$865 million in the year. Operating income in 2007 was \$905 million. Net debt during 2008 decreased by \$621 million, resulting in year-end net debt outstanding of \$9,405 million, excluding the purchase accounting fair value adjustment.

In the fourth quarter of 2008, net revenue declined 7 percent from the fourth quarter of the prior year to \$630 million. Adjusted EBITDA was \$360 million, an increase of \$8 million or 2 percent compared to fourth quarter 2007. Adjusted free cash flow during the quarter was \$151 million compared to \$208 million in the prior year period.

“During 2008, we took significant initiatives to address the challenging selling environment and advanced our strategic priorities,” said David C. Swanson, chairman and CEO of R.H. Donnelley. “We dramatically improved our efficiency and eliminated non-essential operating costs, reducing headcount by 20% and achieving \$100 million of cost savings. At the same time, we broadened and improved our Dex branded interactive local search solutions. We also completed a major, company-wide systems integration and upgrade project and reduced net debt by more than \$600 million. These initiatives helped us to continue building a foundation for sustainable growth once the economy recovers.”

Swanson continued, “Advertising sales declined 8 percent for the full year and 12 percent in the fourth quarter as trends weakened during the second half of the year. These disappointing results were primarily due to the impact that the recession had on small and medium sized businesses, including lower consumer spending, reduced liquidity and higher business failure rates. We continued to diversify advertisers into our online and mobile platforms in addition to our core print solutions, but could not overcome the extremely difficult economic conditions. Despite the challenging environment, our mission remains unchanged - to help local businesses grow.

R.H. Donnelley continues to generate large volumes of ready-to-buy leads at an accessible price and attractive ROI for local advertisers. Our services will generate even more value as the market becomes more complex and fragmented.” During the fourth quarter, R.H. Donnelley recognized a \$744 million non-cash, pre-tax impairment charge associated with its intangible assets that in large part reflects the decline in the market value of the Company’s debt and equity securities and the impact that the overall economy has had on its operating results. Earlier in the year, the Company recorded \$3.1 billion of non-cash, pre-tax charges associated with goodwill impairment to reflect the decline in the market value of the Company’s debt and equity securities.

* * *

Capital Structure

R.H. Donnelley has engaged Lazard as its financial advisor to assist in the evaluation of its capital structure, including various balance sheet restructuring alternatives.

“Our goal is to better position R.H. Donnelley for the future by establishing a more sustainable capital structure,” said Steven M. Blondy, executive vice president and CFO. “We have significant debt maturities commencing in 2010 that we are working to address. Though we intended to refinance this debt prior to maturity, it may no longer be possible to do so given the current state of the capital markets. In the meantime, the company continues to generate robust EBITDA and has significant liquidity to meet all our financial and business obligations.”

Blondy continued, “We plan to initiate discussions with our banks and bondholders about amending, refinancing or restructuring our debt obligations. Whichever path we choose to strengthen our balance sheet, R.H. Donnelley will continue to provide outstanding service and support to our customers, while also remaining committed to our employees and business partners. Our print and digital solutions continue to be the best way for local businesses to connect with ready-to-buy consumers, which should position R.H. Donnelley for healthy growth once the economy stabilizes.”

As previously reported, R.H. Donnelley borrowed \$361 million from the revolving credit facilities of three of its operating subsidiaries on February 17, 2009. The Company borrowed the cash in order to increase liquidity and financial flexibility given the continuing uncertainty in the global credit markets. As of February 28, 2009, the company had more than \$500 million of cash and cash equivalents on hand.

42. On May 7, 2009, RH Donnelley reported its first quarter 2009 financial results, in a release which stated in part:

R.H. Donnelley Corporation, one of the nation’s leading consumer and business-to-business local commercial search companies, today reported first quarter 2009 net revenue of \$602 million, representing an 11 percent decline from first quarter 2008. Adjusted EBITDA in the quarter was \$320 million, down \$37 million or 10 percent from first quarter 2008. Adjusted free cash flow in the quarter was \$66 million – based on cash flow from operations of \$56 million, capital expenditures of \$4 million and \$14 million of other adjustments that primarily relate to restructuring - down from \$92 million in first quarter 2008. First quarter advertising sales were \$598 million, down 17 percent from advertising sales in the first quarter 2008. Net loss was \$401 million in the quarter, compared to a net loss of \$1,623 million in first quarter 2008. Net debt during the quarter decreased by \$61 million, resulting in quarter-end net debt outstanding of \$9,344 million,

excluding the purchase accounting fair value adjustment. As of March 31, 2009, the cash balance was \$533 million.

“Results continue to be impacted by the recession and its effect on small- and medium-sized businesses and consumer spending,” said David C. Swanson, chairman and CEO of R.H. Donnelley. “Our efforts to improve efficiency and eliminate non-mission critical costs helped to protect EBITDA and generated over \$30 million of year-over-year cost savings.”

Swanson continued, “As we previously announced, we are working to better position R.H. Donnelley for the future by establishing a more sustainable capital structure. We continue to discuss options for amending, refinancing or restructuring our debt obligations with our creditors.”

During the first quarter, the Company underwent an ownership change as defined in Section 382 of the Internal Revenue Code. As a result, the Company believes it will be restricted in its ability to use some of its net operating losses and other corporate tax attributes in the future. The financials in the attached schedules contain the Company’s best estimate of the impact related to the ownership change based on analysis performed to date; however, the analysis is not yet complete and there could be material changes in subsequent periods. As a result, deferred tax liability at quarter end and deferred tax expense in the first quarter were each \$375 million higher than they otherwise would have been. Such ownership change does not constitute a change in control under any of the Company’s debt agreements.

43. On May 13, 2009, RH Donnelley issued a press release entitled “R.H. Donnelley Announces Continued Discussions With Its Bondholders and Agent Banks,” which stated in part:

R.H. Donnelley, one of the nation’s leading consumer and business-to-business local commercial search companies, today said it is continuing discussions with ad hoc steering committees representing its bondholders and bank lenders about a potential debt restructuring plan. In connection with such discussions, the company is seeking forbearance from certain of its bondholders and bank lenders with respect to the consequences of the expiration of the 30-day grace period relating to a \$55 million interest payment on one series of the company’s senior unsecured notes. The relevant interest payment was due April 15, 2009 and the 30-day grace period for such payment expires on May 15, 2009. Expiration of the 30-day grace period without making the interest payment would constitute an event of default under that series of notes and could potentially constitute an event of default under other debt obligations of the company or its subsidiaries. While the company currently expects to obtain forbearance agreements from certain of its bondholders and the requisite bank lenders under the company’s and its

subsidiaries' applicable debt agreements, it can give no assurances that it will be successful in doing so or as to the scope and breadth of any such forbearance agreement obtained.

While the company remains optimistic that it will be successful in its discussions with the ad hoc steering committees, there can be no guarantee of that outcome.

The company will have no further comment at this time about this matter beyond what is contained in this press release.

44. Subsequently, on May 29, 2009, RH Donnelley issued a press release announcing

the Company had filed for bankruptcy, which stated in part:

R.H. Donnelley, one of the nation's leading consumer and business-to-business local commercial search companies, ***announced that the company and its subsidiaries today filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in order to consummate a balance sheet restructuring.***

R.H. Donnelley also announced it has reached an agreement in principle with key creditor constituencies on the terms of a plan of reorganization that proposes to reduce debt by approximately \$6.4 billion, eliminate approximately \$500 million in annual interest expense and extend the company's bank maturities out to 2014. Throughout the restructuring process, R.H. Donnelley will be conducting "business as usual" and does not anticipate any interruptions in the services it provides to its more than 500,000 valued customers across the U.S.

R.H. Donnelley anticipates that more than \$300 million of cash on hand, as well as projected positive cash flow from operations will be more than sufficient to fund its operations during the restructuring process, and therefore does not plan to seek debtor-in-possession (DIP) financing during the reorganization of its business.

"Our growth-through-acquisition strategy never anticipated the cataclysmic collapse of the U.S. economy and the local advertising market. As a result of these developments, earlier this year we began negotiating with our lenders to restructure our debt and provide the company with a more sustainable capital structure that reflects the current economic realities," said David C. Swanson, chairman and CEO of R.H. Donnelley.

45. As a result of defendants' false statements and omissions, RH Donnelley's stock traded at artificially inflated prices during the Class Period. However, after the above revelations

were made to the market, the Company's shares were hammered by massive sales, sending them down more than 99.9% from their Class Period high.

46. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

- (a) The Company was not adequately reserving for its bad debts in violation of GAAP, causing its financial results to be materially misstated;
- (b) The downward pressure the Company was experiencing with its advertising revenue was not exclusively due to cyclical challenges but was also due to a permanent shift in customers moving away from print yellow pages advertising;
- (c) The Company had far greater exposure to liquidity concerns and ratings downgrades than it had previously disclosed; and
- (d) Given the turmoil in the economy and the trends related to a shift away from print advertising, the Company had no reasonable basis to make projections about its 2008 results.

LOSS CAUSATION/ECONOMIC LOSS

47. By misrepresenting RH Donnelley's business, the defendants presented a misleading picture of the Company's business and prospects. Thus, instead of truthfully disclosing during the Class Period that RH Donnelley's business was not as healthy as represented, and that its subscriber growth was not keeping pace with its need for operating cash flows, defendants falsely overstated how RH Donnelley's business was performing.

48. These omissions caused and maintained the artificial inflation in RH Donnelley's stock price throughout the Class Period and until the truth about its future earnings was revealed to the market.

49. Defendants' false and misleading statements had the intended effect and caused RH Donnelley stock to trade at artificially inflated levels throughout the Class Period, trading as high as \$66.67 per share in July 2007.

50. The truth about RH Donnelley's business operations, finances, business metrics, and future business and financial prospects began to enter the market with a series of partial disclosures and revelations beginning in February 2008, which were accompanied by denials and continuing misrepresentations by defendants. As a result, the artificial inflation in RH Donnelley's stock price did not come out of the stock all at once, rather the artificial price inflation came out over time, in bits, pieces, and spurts as the stock continued to trade at artificially inflated, albeit lower, prices through May 2009.

51. As a result of defendants' false statements, RH Donnelley's stock traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down more than 99.9% from their price before these disclosures. This drop removed the artificial inflation from RH Donnelley's stock price, causing real economic loss to investors who had purchased the stock during the Class Period.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

52. Plaintiff incorporates all previous allegations by reference.

53. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

54. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they employed devices, schemes and artifices to defraud; made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of RH Donnelley publicly traded securities during the Class Period.

55. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for RH Donnelley publicly traded securities. Plaintiff and the Class would not have purchased RH Donnelley publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

56. Plaintiff incorporates all previous allegations by reference.

57. The defendants acted as controlling persons of RH Donnelley within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their ownership of RH Donnelley stock, the defendants had the power and authority to cause RH Donnelley to

engage in the wrongful conduct complained of herein. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

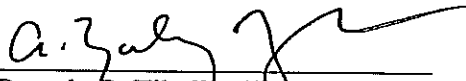
PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;
- B. Awarding plaintiff and the members of the Class damages, including interest;
- ~~C. Awarding plaintiff's reasonable costs and attorneys' fees; and~~
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

Dated: November 13, 2009

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