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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended: December 4, 2005**

**Commission file number**

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**NETWORK COMMUNICATIONS, INC.**

**Formed under the laws of the State of Georgia**  
*I.R.S. Employer Identification Number 58-1404355*

**2305 Newpoint Parkway, Lawrenceville, GA 30043**  
**Telephone Number: (770) 962-7220**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act.)

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	<u>March 27, 2005 *</u> <u>Successor</u> <u>(Restated)</u>	<u>December 4, 2005</u> <u>Successor</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents .....	\$ 4,090,960	\$ 8,283,277
Accounts receivable, net of allowance for doubtful accounts of \$1,330,861 and \$2,075,000, respectively .....	10,661,558	18,000,934
Inventories .....	1,989,095	3,765,231
Prepaid expenses and deferred charges.....	2,585,954	1,467,155
Deferred tax assets.....	621,755	1,267,155
Income tax receivable .....	1,118,810	—
Other current assets .....	<u>89,662</u>	<u>475,462</u>
Total current assets .....	<u>21,157,794</u>	<u>33,259,214</u>
Property, equipment and computer software, net .....	35,241,465	29,621,349
Goodwill.....	262,046,695	282,740,536
Deferred financing costs, net.....	13,072,677	14,485,567
Intangible assets, net.....	149,582,458	150,877,934
Other assets.....	<u>212,851</u>	<u>312,407</u>
Total noncurrent assets .....	<u>460,156,146</u>	<u>478,037,793</u>
Total assets .....	<u>\$ 481,313,940</u>	<u>\$ 511,297,007</u>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current liabilities		
Accounts payable.....	\$ 4,758,475	\$ 6,459,697
Accrued compensation, benefits and related taxes .....	4,477,715	6,254,488
Customer deposits.....	1,218,965	1,274,503
Unearned revenue .....	2,282,678	1,977,662
Accrued interest.....	1,582,849	248,832
Other accrued expenses .....	552,475	997,601
Income tax payable.....	55,897	1,057,047
Current maturities of long-term debt .....	12,481,422	500,000
Current portion of capital lease obligations .....	<u>467,831</u>	<u>590,873</u>
Total current liabilities.....	<u>27,878,307</u>	<u>19,360,703</u>
Long-term debt, less current maturities .....	198,354,855	249,463,441
Capital lease obligations, less current portion .....	587,059	459,507
Deferred tax liabilities .....	<u>63,518,697</u>	<u>56,736,299</u>
Total liabilities .....	<u>290,338,918</u>	<u>326,019,950</u>
<b>Stockholder's Equity</b>		
Common Stock, \$0.001 par value, 100 shares issued and outstanding.....	—	—
Additional paid-in capital .....	194,378,446	194,475,028
Accumulated deficit.....	<u>(3,403,424)</u>	<u>(9,197,971)</u>
Total stockholder's equity .....	<u>190,975,022</u>	<u>185,277,057</u>
Total liabilities and stockholder's equity.....	<u>\$ 481,313,940</u>	<u>\$ 511,297,007</u>

\* The March 27, 2005 results hereon have been derived from audited financial statements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	Three Periods Ended	
	December 5, 2004 Predecessor	December 4, 2005 Successor
Sales.....	\$ 33,701,185	\$ 43,395,088
Cost of sales (exclusive of production depreciation and software amortization expense shown separately below) .....	22,055,679	28,722,549
Production depreciation and software amortization .....	617,705	2,160,346
Gross profit .....	11,027,801	12,512,193
Selling, general and administrative expenses .....	3,836,992	5,166,847
Amortization of intangibles .....	1,840,303	3,529,632
Operating income .....	5,350,506	3,815,714
Other income (expense)		
Interest and dividend income .....	16,764	8,749
Interest expense.....	(2,260,832)	(10,986,918)
Other income (expense), net .....	5,268	(2,320)
Other expense .....	(2,238,800)	(10,980,489)
Income (loss) before expense (benefit) for income taxes.....	3,111,706	(7,164,775)
Income tax expense (benefit) .....	1,266,775	(2,227,991)
Net income (loss) .....	\$ 1,844,931	\$ (4,936,784)

See notes to condensed consolidated financial statements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

	<b>Nine Periods Ended</b>	
	<b>December 5, 2004 Predecessor</b>	<b>December 4, 2005 Successor</b>
Sales.....	\$ 98,270,478	\$ 125,210,850
Cost of sales (exclusive of production depreciation and software amortization expense shown separately below) .....	63,921,440	80,302,488
Production depreciation and software amortization .....	2,972,834	6,382,387
Gross profit .....	31,376,204	38,525,975
Selling, general and administrative expenses .....	13,203,198	17,326,188
Amortization of intangibles .....	5,480,390	10,255,587
Operating income.....	12,692,616	10,944,200
Other income (expense)		
Interest and dividend income .....	36,943	72,032
Interest expense.....	(6,234,636)	(19,898,509)
Realized gain on derivatives .....	417,932	—
Other income .....	66,397	3,475
Other expense .....	(5,713,364)	(19,823,002)
Income (loss) before expense (benefit) for income taxes.....	6,979,252	(8,878,802)
Income tax expense (benefit) .....	2,841,253	(3,084,255)
Net income (loss) .....	\$ 4,137,999	\$ (5,794,547)

See notes to condensed consolidated financial statements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (UNAUDITED)**

	<u>Common Stock</u>		<u>Additional Paid- In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance at March 27, 2005 (Restated)</b> .....	100	\$     —	\$ 194,378,446	\$ (3,403,424)	\$ 190,975,022
(Successor)					
Capitalization from parent .....			96,582		96,582
Net loss .....				(5,794,547)	(5,794,547)
<b>Balance at December 4, 2005</b> .....	<u>100</u>	<u>\$     —</u>	<u>\$ 194,475,028</u>	<u>\$ (9,197,971)</u>	<u>\$ 185,277,057</u>

See notes to condensed consolidated financial statements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

	Nine Periods Ended	
	December 5, 2004 Predecessor	December 4, 2005 Successor
<b>Cash flows from operating activities</b>		
Net income (loss) .....	\$ 4,137,999	\$ (5,794,547)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and other assets .....	4,010,490	8,624,848
Amortization of intangible assets .....	5,480,390	10,255,587
Amortization of deferred financing costs .....	1,082,253	8,033,698
Amortization of debt discount for pay-in-kind senior subordinated debt .....	—	47,080
Interest expense for pay-in-kind senior subordinated debt .....	—	2,058,333
Provision for doubtful accounts receivable .....	780,540	868,998
Unrealized gain on derivatives .....	(907,932)	—
Deferred income taxes .....	(2,141,147)	(7,427,798)
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable .....	(4,358,396)	(6,463,374)
Inventories .....	(1,085,423)	(1,776,136)
Prepaid expenses and deferred charges .....	1,212,343	1,434,824
Income tax receivable/payable .....	4,982,428	2,119,960
Other current assets and other assets .....	325,527	(479,019)
Accounts payable .....	(418,595)	817,722
Accrued compensation, benefits and related taxes .....	(742,589)	1,621,773
Other current liabilities and other liabilities .....	(434,499)	(2,980,402)
Net cash provided by operating activities .....	<u>11,923,389</u>	<u>10,961,547</u>
<b>Cash flows from investing activities</b>		
Purchase of property, equipment and computer software .....	(4,339,866)	(2,366,977)
Acquisitions of businesses, net of cash acquired .....	(3,414,160)	(31,651,202)
Net cash used in investing activities .....	<u>(7,754,026)</u>	<u>(34,018,179)</u>
<b>Cash flows from financing activities</b>		
Net (payments on) proceeds from revolver .....	(2,685,049)	153,709
Proceeds from term loans .....	150,000,000	80,000,000
Proceeds from Senior Notes .....	—	172,709,250
Payments on term loans .....	(83,778,487)	(215,794,208)
Equity (distribution) contribution .....	(61,554,366)	96,582
Payments on capital leases .....	(231,450)	(422,796)
Derivative payment .....	(490,000)	(47,000)
Payment of debt issuance costs .....	(3,633,613)	(9,446,588)
Net cash (used in) provided by financing activities .....	<u>(2,372,965)</u>	<u>27,248,949</u>
Net increase in cash .....	1,796,398	4,192,317
Cash at beginning of period .....	2,534,348	4,090,960
Cash at end of period .....	<u>\$ 4,330,746</u>	<u>\$ 8,283,277</u>
<b>Noncash investing and financing activities</b>		
Proceeds from capital lease .....	\$ 949,155	\$ 418,286
Acquisition of businesses		
Fair value of assets acquired .....	\$ 3,414,160	\$ 34,531,735
Less liabilities assumed .....	—	2,880,533
	<u>\$ 3,414,160</u>	<u>\$ 31,651,202</u>

See notes to condensed consolidated financial statements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Organization and Basis of Presentation**

Network Communications, Inc. (“NCI”), and its wholly-owned subsidiaries, NCID, LLC and other entities and Network Publications Canada, Inc. (“NCI-Canada”) (collectively “the Company”) has its principal management, administrative and production facilities in Lawrenceville, GA. The Company is a publisher, producing *The Real Estate Book*, which is distributed in over 400 markets, including 49 states, the District of Columbia and Canada. It also produces the *Apartment Finder*, *New Home Finder*, *Mature Living Choices*, *Corporate Choices*, *Unique Homes Magazine*, *Enclave Magazine*, *Black’s Guide*, *Kansas City Homes and Gardens* and other publications. Revenue is generated from advertising displayed in these print publications and on-line versions of such publications. The combined online and print distribution provides a unique advantage in reaching real estate consumers. Advertisers may also purchase enhanced print or online listings for an additional fee. Each market is operated either by an independent distributor assigned a particular market or by the Company.

NCI is a wholly-owned subsidiary of Gallarus Media Holdings, Inc. (“GMH”), and effective January 7, 2005, a wholly-owned subsidiary of GMH Holding Company (“GMHC”). GMH was incorporated on May 21, 2002 to acquire the outstanding stock of NCI and NCI-Canada. Effective June 28, 2002, pursuant to a stock purchase agreement and plan of merger, GMH acquired Hughes Holdings, Inc (“HHI”) and its wholly-owned subsidiaries, NCI and NCI-Canada. GMH acquired all of the issued and outstanding common stock of HHI for \$133.36 million, including \$1.54 million in transaction costs. The purchase price was funded through issuance of 60,300 shares of GMH preferred stock in the amount of \$60.3 million and a term loan of \$71.65 million. GMH was majority-owned by ABRY Partners IV, L.P. and ABRY Investment Partnership, L.P. On the same day as the acquisition, HHI was merged with and into NCI. The acquisition was accounted for under the purchase method of accounting. As such, the purchase price was allocated to NCI’s tangible and intangible assets and liabilities based on their estimated fair values on the date of acquisition. The excess of the purchase price over the estimated fair value of net assets acquired resulted in assigning approximately \$44.3 million to goodwill.

On September 26, 2002, pursuant to a stock purchase agreement and plan of merger, NCI acquired all of the issued and outstanding stock of Black’s Holdings, Inc. (“BHI”). Prior to entering into the agreement, BHI was majority-owned by ABRY Partners IV, L.P. and ABRY Investment Partnership, L.P. Due to the common ownership of Black’s Holdings, Inc. and Gallarus Media Holdings, Inc., the acquisition was accounted for as a merger of entities under common control effective as of the June 28, 2002 date upon which they came under common ownership. In connection with the merger, the Company issued \$10.6 million in preferred stock and \$10.6 million in debt. The proceeds from the stock and debt along with available cash on hand was used to repay existing bridge loans. Additionally, \$4.03 million was paid to the former BHI shareholders.

On December 22, 2004, GMHC was incorporated to acquire the outstanding stock of GMH and all of its wholly-owned subsidiaries (collectively referred to as the “Predecessor”). The acquisition was facilitated via a merger of GMH Acquisition Corporation, a subsidiary of GMHC incorporated on December 22, 2004, and GMH. GMH was the surviving corporation. The accompanying Predecessor’s financial statements for the period from March 29, 2004 to December 5, 2004 (Predecessor) are those of NCI and its subsidiaries under the ownership of GMH. The purchase price was \$383.9 million, plus \$6.7 million in transaction costs. The acquisition was funded through issuance of GMHC common stock: 17,524,091 shares of series L common stock in the amount of \$192.7 million, issuance of 1,079,863 shares of series A common stock in the amount of \$1.1 million, term loans of \$148.7 million (Note 10), and senior subordinated debt of \$55.0 million (Note 10). GMHC is majority-owned by Citigroup Venture Capital Equity Partners, L.P. The acquisition was accounted for under the purchase method of accounting. As such, the purchase price was allocated to NCI’s tangible and intangible assets and liabilities based on their estimated fair values on the date of acquisition.

The excess of the purchase price over the estimated fair value of net assets acquired on January 7, 2005 resulted in assigning \$256.0 million to goodwill.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The allocation of purchase consideration was as follows:

Current assets .....	\$ 18,863,748
Definite-lived intangible assets .....	147,991,000
Goodwill.....	256,022,695
Fixed assets .....	36,474,468
Other long-term assets.....	8,307,286
Current liabilities.....	(11,742,151)
Deferred tax liability .....	(65,045,988)
Long-term liabilities.....	(147,375,000)
Other long-term liabilities .....	(271,669)
	\$ 243,224,389

Effective March 31, 2004, NCI Development Corporation was merged into NCI. A new subsidiary, NCID LLC (“NCIDL”) was created effective March 31, 2004 and four new subsidiaries, NCID (Austin), LLC (“NCIDA”), NCID (Seattle), LLC (“NCIDS”), NCID (Vegas), LLC (“NCIDV”) and NCID (West Palm), LLC (“NCIDW”) were created effective March 7, 2005. Each of NCIDL, NCIDA, NCIDS, NCIDV and NCIDW is designated as an unrestricted subsidiary and provides the Company with organization and operational services for new market start-ups.

**2. Restatement of Financial Statements**

The consolidated financial statements for 2003, 2004 and 2005 have been restated to reflect the correction of an error related to revenue recognized in incorrect periods for certain print and online advertising sales. The Company previously recognized advertising revenue on certain of its print publications based on the date of shipping and billing. Revenue for online advertising, which is sold in a single contract along with print advertising, was recognized at the same time as the related print advertising, which would have been no later than the upload of the online advertising to the Company’s websites. During the course of preparing the June 19, 2005 unaudited quarterly consolidated financial statements, the Company re-evaluated its accounting for advertising revenue recognition and determined that certain advertising sales were recognized prematurely and that the contracts for both print and online advertising were multiple deliverable arrangements and should be accounted for under the principles of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, (“EITF 00-21”).

In its application of EITF 00-21, the Company determined that individual deliverables in the Company’s bundled arrangement should be separated and the total revenue in the contract should be allocated to each of the individual deliverables based on their relative fair values. The revenue allocated to each deliverable would be recognized separately.

The Company evaluated its recognition principles for each deliverable using the guidance in the Securities and Exchange Commission Staff Accounting Bulletin No. 104, *Revenue Recognition*, and determined that the revenue for print advertising sales should be recognized when delivered and available for consumer access and that the revenue for online advertising sales should be recognized ratably over the period the online advertisement is maintained on its websites.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The following table sets forth the impact of the restatement on the condensed consolidated balance sheet as of March 27, 2005:

	<b>Balance Sheet as of March 27, 2005</b>	
	<b>Successor</b>	
	<b>As Previously Reported</b>	<b>As Restated</b>
<b>Assets</b>		
Inventories .....	\$ 1,639,675	\$ 1,989,095
Deferred tax assets .....	517,705	621,755
Total current assets .....	20,704,324	21,157,794
Total assets .....	480,860,470	481,313,940
<b>Liabilities</b>		
Unearned revenue .....	1,665,776	2,282,678
Total current liabilities .....	27,261,405	27,878,307
Total liabilities .....	289,722,016	290,338,918
<b>Stockholder's Equity</b>		
Accumulated Deficit .....	(3,239,992)	(3,403,424)
Total stockholder's equity .....	191,138,454	190,975,022
Total liabilities and stockholder's equity	\$ 480,860,470	\$ 481,313,940

### 3. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying financial statements represent the consolidated statements of the Company and its wholly owned subsidiaries. The Company and its consolidated entities report on a 52-53 week accounting year which includes 13 four-week periods. Financial quarters 1, 2 and 3 each include 12 weeks; financial quarter 4 includes 16 weeks. The consolidated financial statements include the financial statements of the Company for the period from March 29, 2004 (Predecessor) to December 5, 2004 (Predecessor) and the nine periods ended December 4, 2005 (Successor). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying interim consolidated financial statements as of December 4, 2005 (Successor) and for the three and nine periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor) are unaudited. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States for interim financial information have been condensed or omitted pursuant to the rules and regulations of Article 10 of SEC Regulation S-X. In the opinion of management, these financial statements contain all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Operating results for the nine periods ended December 4, 2005 (Successor) are not necessarily indicative of results that may be expected for any other future interim period or for the year ending March 26, 2006 (Successor).

#### *Cash and Cash Equivalents*

For the purpose of the statements of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of March 27, 2005 (Successor) or December 4, 2005 (Successor).

#### *Trade Accounts Receivable*

Accounts receivable consists primarily of amounts due from advertisers in Company-operated markets and Independent Distributors ("ID")

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

The Company uses the allowance method of reserving for accounts receivable estimated to be uncollectible.

***Concentrations of Credit Risk***

The Company maintains substantially all cash and cash equivalent balances in one financial institution. The Federal Deposit Insurance Corporation insures the balances up to \$100,000. Management monitors the soundness of this financial institution and feels the Company's risk is not significant.

The Company grants credit without collateral to many of its customers. Substantially all trade accounts receivable are comprised of accounts related to advertising displayed in various real estate publications and online advertising sales. Management believes credit risk with respect to those receivables is limited due to the large number of customers and their dispersion across geographic areas, as well as the distribution of those receivables among the various publication products of the Company.

***Prepaid Expenses and Deferred Charges***

The Company prints and ships certain advertising publications and displays certain online advertising prior to the recognition of revenue. See "Revenue Recognition" discussion below. Deferred charges include the production cost related to unearned and unrecognized revenue on online ads and advertising publications shipped but not billed to customers. The related shipping and handling charges are included in production costs and classified as cost of sales.

***Inventories***

Inventories of direct production materials, principally paper and ink, as well as resale items are valued at cost, determined on the first-in, first-out (FIFO) basis, which is not in excess of market. The work-in-process inventory component includes material cost, labor and production overhead.

An allowance for obsolete inventory was not deemed necessary at March 27, 2005 (Successor) or December 4, 2005 (Successor).

***Property, Equipment and Computer Software***

Property, equipment and computer software are stated at cost. In accordance with SFAS 141, *Business Combinations*, property, equipment and computer software was revalued to reflect the fair value acquired on the date of the most recent transaction, January 7, 2005. In valuing the assets acquired, the Company employed certain valuation techniques to develop the fair value of property, equipment and computer software in place at the date of the transaction. The valuation techniques included, but are not limited to: future expected cash flows; current replacement cost for the similar capacity equipment; and appropriate discount rates and growth rates.

The cost of additions and betterments are capitalized and expenditures for repairs and maintenance are expensed in the period incurred. When items are sold or retired, the related costs and any accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

Depreciation and amortization of property and equipment is provided utilizing the straight-line method over the estimated useful lives of the respective assets as follows:

Furniture and fixtures .....	5 years
Machinery and equipment .....	10 years
Transportation equipment .....	6 years
Computer software .....	2 years
Computer equipment .....	4 years

Leasehold improvements are amortized over the shorter of the remaining term of the lease or the useful life of the improvement utilizing the straight-line method.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Depreciation and amortization expense associated with the fixed assets and software used to produce and deliver the Company's advertising content has been included in the calculation of gross profit. All remaining depreciation and amortization of non-production equipment and software is included within selling, general and administrative expenses.

***Software Development Costs***

In accordance with AICPA Statement of Position ("SOP") 98-1, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use*, the Company capitalizes qualifying costs of computer software. Costs incurred during the application development stage, costs of conversion of old data to new systems as well as upgrades and enhancements that results in additional functionality are capitalized. The Company capitalized \$1.9 million as of March 27, 2005 (Successor), and \$1.3 million as of December 4, 2005 (Successor). These capitalized software costs are included in "Property, equipment and computer software" in the consolidated balance sheets. Computer software is amortized utilizing the straight-line method over two years, the expected period of benefit. The net computer software costs capitalized were \$17.7 million and \$12.0 million at March 27, 2005 (Successor) and December 4, 2005 (Successor), respectively.

***Deferred Financing Costs***

Deferred financing costs are capitalized and amortized over the terms of the underlying obligation using the straight-line method, which approximates the effective interest method. Amortization of deferred financing costs included in interest expense was \$0.208 million for the three periods ended December 5, 2004 (Predecessor) and \$7.0 million for the three periods ended December 4, 2005 (Successor); and \$1.1 million for the nine periods ended December 5, 2004 (Predecessor) and \$8.0 million for the nine periods ended December 4, 2005 (Successor).

In connection with the issuance of Senior Notes in November 2005 described in Note 10, the Company recorded \$9.0 million of deferred costs for transaction fees and other related debt issuance costs. These deferred costs are amortized over the related terms of the notes using the straight-line method. Additionally, approximately \$6.3 million of deferred financing costs related to the prior credit facilities was written off during the quarter ended December 4, 2005.

***Intangible Assets***

Intangible assets consist of the values assigned to a consumer database, Independent Distributor Agreements ("IDA"), advertiser lists, trade names, trademarks, and other intangible assets.

Amortization of intangible assets is provided utilizing the straight-line method over the following estimated useful lives:

Advertiser lists.....	12 years
Consumer databases .....	4-17 years
Distribution network .....	10 years
Independent distributor agreements .....	15 years
Noncompete agreements .....	1-5 years
Trademarks/Trade names .....	15 years

***Goodwill***

The Company has recorded goodwill for the excess of cost of acquiring NCI and other businesses over the fair value amounts assigned to assets acquired and liabilities assumed. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, the Company tests goodwill for impairment at the end of the fiscal year, and will test for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting unit level. An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a

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reporting unit is determined using various valuation techniques. The Company has not recognized any impairment of goodwill in the periods presented.

***Impairment of Long Lived Assets***

The Company assesses the recoverability of long-lived assets at least annually or whenever adverse events or changes in circumstances indicate that impairment may have occurred in accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS 144. If the future undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment has been incurred and a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting estimated future cash flows. The Company has not recognized an impairment loss in the periods presented.

In addition to the recoverability assessment, the Company routinely reviews the remaining estimated lives of its long-lived assets. Any reduction in the useful life assumption will result in increased depreciation and amortization expense in the period when such determinations are made, as well as in subsequent periods.

***Income Taxes***

Deferred taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

***Advertising Costs***

Advertising costs for the three periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor) were \$0.18 million and \$0.55 million, respectively; and for the nine periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor), were \$0.5 million and \$1.2 million, respectively.

***Foreign Currency Adjustments***

The U.S. dollar is the functional currency of the Company's Canadian operations. All foreign currency asset and liability amounts are remeasured into U.S. dollars at the end of each period. Exchange gains and losses arising from remeasurement of foreign currency-denominated monetary assets and liabilities are included in operations in the period in which they occur. Aggregate foreign remeasurement adjustments included in operations totaled \$0.034 million and \$0.037 million, for the three periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor), respectively; and \$0.032 million and \$0.079 million, for the nine periods ended December 5, 2004 (Predecessor) and the nine periods ended December 4, 2005 (Successor), respectively.

***Revenue Recognition and Unearned Revenue***

***Revenue recognition***

The principal revenue earning activity of the Company is related to the sale of on-line and print advertising by both Independent Distributors ("ID") as well as direct sales to customers through Company-managed distribution territories. These revenue arrangements are typically sold as a bundled product to customers and include a print ad in a publication as well as online advertisement. The Company bills the customer a single negotiated price for both elements. In accordance with EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, the Company separates its deliverables into units of accounting and allocates consideration to each unit based on relative fair values. The Company recognizes revenue for each unit of accounting in accordance with SEC Staff Accounting Bulletin Number 104, *Revenue Recognition*.

***Print***

Print revenues are derived from the sale of advertising pages in our publications. The Company sells a bundled product to our customers that includes print advertisement as well as a standard online advertisement. The customer can also purchase premium placement advertising pages such as front cover and back cover. Revenue for

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print advertisement sales, including the premium placement advertising pages, is recognized when publications are delivered and available for consumer access.

*Online*

Online revenues are derived from the sale of advertising on our various websites. The Company sells a bundled product to our customers that includes a print ad in our publications as well as a standard online advertisement. The customer is also permitted to purchase premium internet advertisements whereby they can include additional data items such as floor plans, multiple photos and neighborhood information, and also secure premium placement in search results. Revenue for online sales, including the premium internet advertisements, is recognized ratably over the period the online advertisements are maintained on the website.

*Unearned revenue*

Company billings may occur one to four days prior to the shipment of the related publication and final upload of online advertising. At both interim and fiscal year end, the Company records unearned revenue to properly account for the timing differences and properly match revenue recognition to the proper period. The Company receives cash deposits from customers for certain publications prior to printing and upload of online advertising. These deposits are recorded as a liability and reflected accordingly in the consolidated financial statements.

***Derivative Instruments***

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires the recognition of all derivative instruments as either assets or liabilities in the balance sheet measured at fair value. The changes in fair value of derivative instruments will be recognized as gains or losses in the period of change.

On September 30, 2005, the Company entered into a hedge agreement for \$0.257 million to manage the risk associated with foreign currency fluctuations. The agreement expires on March 31, 2006. Under the hedge agreement, the Company has committed to exchange \$0.30 million of Canadian dollars for U.S. dollars at the negotiated rate prior to March 31, 2006. The market value of the hedge agreement at December 4, 2005 approximated the negotiated value and therefore, no gains or losses have been recorded in the condensed consolidated financial statements.

***Fair Value of Financial Instruments***

The Company's financial instruments, including cash, cash equivalents, accounts receivable, accounts payable and accrued expenses, are carried at cost, which approximates their fair value because of the short-term maturity of these instruments. Long-term debt and capital lease obligations are carried at cost, which approximates fair value due to the proximity of the interest rates of these financial instruments and the prevailing market rates for similar instruments.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting year and period. Actual results could differ from those estimates.

***Segment Reporting***

NCI is a publishing company producing publications serving the real estate and housing market. The Company follows the provisions of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, and has one reportable business segment: publishing. The publishing segment consists of online and print advertising. Virtually all of the Company's revenues and assets are based in the United States.

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The Chief Executive Officer (the chief operating decision maker) evaluates the performance of, and determines the amount of investment in, the Company based on the results of operations on a consolidated basis.

***Recent Accounting Pronouncements***

On June 1, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. The Statement applies to all voluntary changes in accounting principles. The Company will adopt SFAS 154 at March 27, 2006 and does not anticipate any material change to its operating results as a result of the adoption.

**4. Prepaid expenses and deferred charges**

Prepaid expenses and deferred charges consist of the following:

	<b>March 27, 2005</b>	<b>December 4, 2005</b>
	<b>Successor</b>	<b>Successor</b>
Prepaid expenses .....	\$ 1,315,307	\$ 795,136
Deferred charges .....	1,270,647	672,019
	\$ 2,585,954	\$ 1,467,155

**5. Inventories**

Inventories consist of the following:

	<b>March 27, 2005</b>	<b>December 4, 2005</b>
	<b>Successor</b>	<b>Successor</b>
Distribution products and marketing aids for resale.....	\$ 292,612	\$ 568,425
Production, paper and ink.....	1,019,011	2,422,943
Work-in-process.....	677,472	773,863
	\$ 1,989,095	\$ 3,765,231

An allowance for obsolete inventory was not deemed necessary at March 27, 2005 (Successor) or December 4, 2005 (Successor).

**6. Acquisitions**

During 2005 and 2006, the Company completed certain transactions as part of its overall strategy to expand its product offerings and geographical presence. NCI paid a premium over the fair value of the net tangible and identified intangible assets acquired to carry out the Company's strategic initiatives and to ensure strategic fit with its current publications.

***Allocation of purchase price***

The application of purchase accounting under SFAS 141 requires that the total purchase price be allocated to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date. The allocation process requires an analysis of acquired contracts, customer relationships, contractual commitments and legal contingencies to identify and record the fair value of all assets acquired and liabilities assumed. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: future expected cash flows; current replacement cost for similar capacity for certain fixed assets; market rate assumptions for contractual obligations; settlement plans for litigation and contingencies; and appropriate discount rates and growth rates.

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Goodwill resulting from the acquisitions discussed below was assigned to the Company's one reportable business segment. Goodwill and intangible assets related to the CVC transaction are not tax deductible; therefore, deferred tax liabilities were recorded for this transaction. Goodwill and intangible assets acquired in conjunction with the publication acquisitions are tax deductible. The deferred tax liabilities related to finite-lived intangible assets will be reflected as a tax benefit in the consolidated statements of income in proportion to and over the amortization period of the related intangible assets.

***Predecessor***

On August 31, 2004, the Company acquired the publishing assets of *The Real Estate Book of North King County, WA and South King County, WA* from TREB Incorporated, an Independent Distributor for NCI. The magazines are residential housing real estate directories serving the Seattle, WA market. The total purchase price including transaction costs was \$1.27 million.

On November 5, 2004, the Company acquired the publishing assets of the *Apartment Blue Book of Lufkin, Gulf Coast, Abilene, Bryan, North Houston and Southwest Houston* from RTJW Limited Partnership, an Independent Distributor for NCI. The publications are apartment directories serving several Texas markets. The total purchase price including transaction costs was \$2.0 million.

The acquisitions were accounted for using the purchase method and, accordingly, the purchase prices were allocated to the assets acquired based on their estimated fair values on the dates of acquisition. The purchase price for each acquisition was allocated as follows:

	<b>March 29, 2004 to December 5, 2004</b>			
	<b>(Predecessor)</b>			
	<b>TREB, Inc.</b>	<b>RTJW LP</b>	<b>All Other Deals</b>	<b>Total</b>
	<b>(In thousands of dollars)</b>			
<b>Tangible assets</b>				
Current assets.....	\$104	\$—	\$—	\$104
Fixed assets.....				
Total tangible assets.....	104	—	—	104
<b>Intangible assets</b>				
Advertiser list.....	693	910	—	1,603
Subscriber list.....	—	—	—	—
Distribution Network.....	137	221	—	358
Trade name.....	—	—	—	—
Trademarks.....	—	—	—	—
Non-compete.....	—	—	—	—
Goodwill.....	337	880	23	1,240
Total intangible assets.....	1,167	2,011	23	3,201
Total purchase price.....	\$1,271	\$2,011	\$23	\$3,305

***Successor***

On March 1, 2005, the Company acquired the publishing assets of the *Apartment Book* and *New Homes & Ideas* from Lone Wolf Publishing, Inc. The Apartment Book is an apartment directory. New Homes & Ideas is a new home and home design publication. Both publications serve the Raleigh, NC market. The total purchase price including transaction costs was \$11.1 million.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired based on their estimated fair values on the date of acquisition. The purchase price for the acquisition was allocated as follows:

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	<u>(In thousands of dollars)</u>
<b>Tangible assets</b>	
Current assets.....	\$—
Fixed assets.....	181
Total tangible assets.....	181
<b>Intangible assets</b>	
Advertiser list.....	3,350
Distribution Network.....	—
Trade name.....	—
Trademarks.....	390
Non-compete.....	1,130
Goodwill.....	6,032
Total intangible assets.....	10,902
Total purchase price.....	\$11,083

On May 2, 2005, the Company acquired the publishing assets of *Seattle Homes & Lifestyles*, *St. Louis Homes & Lifestyles*, *Colorado Homes & Lifestyles*, *Atlanta Homes & Lifestyles*, *Mountain Living*, *Log & Timber Style*, and *Homes & Lifestyle To The Trade* from Wiesner Publishing. The publications are focused on the home and design market segment in their respective markets. The total purchase price including transaction costs was \$23 million.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired based on their estimated fair values on the date of acquisition. Goodwill and intangible assets acquired in conjunction with this acquisition are tax deductible. The purchase price for the acquisition was allocated as follows:

	<u>(In thousands of dollars)</u>
<b>Tangible assets</b>	
Current assets.....	\$2,067
Fixed assets.....	95
Total tangible assets.....	2,162
<b>Liabilities assumed</b> .....	(2,795)
<b>Intangible assets</b>	
Advertiser list.....	3,610
Subscriber list.....	265
Trade name.....	—
Trademark.....	1,840
Non-compete.....	930
Goodwill.....	16,984
Total intangible assets.....	23,629
Total purchase price.....	\$22,996

On September 9, 2005, the Company acquired the publishing assets of *Home Tour Magazine of Knoxville*, *Home Tour Magazine of East Tennessee*, *Prestigious Properties* and *Commercial Real Estate Guide* from Omni Communications. The publications are focused on the resale and commercial real estate markets in Knoxville, Tennessee and surrounding markets. The total purchase price including transaction costs was \$2.11 million.

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The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets based on their estimated fair values on the date of acquisition. The purchase price for the acquisition was allocated as follows:

	<b>(In thousands of dollars)</b>
<b>Tangible assets</b>	
Current assets .....	\$—
Fixed assets .....	35
Total tangible assets .....	35
<b>Intangible assets</b>	
Advertiser list .....	867
Distribution network .....	51
Trade name .....	—
Trademarks .....	—
Non-compete .....	146
Goodwill .....	1,012
Total intangible assets .....	2,076
Total purchase price .....	\$2,111

On October 14, 2005, the Company acquired the publishing assets of Atlanta Home Improvement magazine and The Green Pages directory from Atlanta Home Improvement, Inc. The magazine and directory provide editorial and advertising focused on the home design, home renovation and home improvement sectors in the greater Atlanta market. The total purchase price including transaction costs was \$3.32 million plus an earnout tied to the revenue growth for the twelve-month period following the closing date of the acquisition.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets based on their estimated fair values on the date of acquisition. The purchase price for the acquisition was allocated as follows:

	<b>(In thousands of dollars)</b>
<b>Tangible assets</b>	
Current assets .....	\$—
Fixed assets .....	90
Total tangible assets .....	90
<b>Intangible assets</b>	
Advertiser list .....	798
Distribution network .....	201
Trade name .....	427
Trademarks .....	—
Non-compete .....	502
Goodwill .....	1,305
Total intangible assets .....	3,233
Total purchase price .....	\$3,323

On November 4, 2005, the Company acquired the publishing assets of *At Home In Arkansas* from New At Home Media Group, LLC. The magazine, which is distributed via newsstands, subscriptions and direct mail, covers the home and design market segment for the state of Arkansas. The total purchase price including transaction costs was \$1.0 million.

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The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets based on their estimated fair values on the date of acquisition. The purchase price for the acquisition was allocated as follows:

	<b>(In thousands of dollars)</b>
<b>Tangible assets</b>	
Current assets .....	\$—
Fixed assets .....	—
Total tangible assets .....	—
<b>Liabilities assumed</b> .....	
	(85)
<b>Intangible assets</b>	
Advertiser list .....	403
Subscriber List .....	18
Trade name .....	270
Trademarks .....	—
Non-compete .....	75
Goodwill .....	321
Total intangible assets .....	1,087
Total purchase price .....	\$1,087

On November 14, 2005 the Company acquired the publishing assets of *Relocating In Las Vegas* from Showcase Publishing, Inc. The magazine, which is targeted for new residents of Las Vegas, focuses on home products and services for the Vegas market. The total purchase price including transaction costs was \$1.57 million.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets based on their estimated fair values on the date of acquisition. The purchase price for the acquisition was allocated as follows:

	<b>(In thousands of dollars)</b>
<b>Tangible assets</b>	
Current assets .....	\$—
Fixed assets .....	—
Total tangible assets .....	—
<b>Intangible assets</b>	
Advertiser list .....	719
Distribution Network .....	23
Trade name .....	152
Trademarks .....	—
Non-compete .....	253
Goodwill .....	423
Total intangible assets .....	1,570
Total purchase price .....	\$1,570

During the third quarter of fiscal 2006, the Company also acquired two publications in Colorado and Kansas for an aggregate purchase price of approximately \$0.6 million. These acquisitions were made to add geographic presence in the resale, rental and leasing areas of our business.

Unaudited pro forma results of operations data for the three periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor), and the nine periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor), as if NCI and the entities described above had been combined as of March 29, 2004 (Predecessor), follow. The pro forma results include estimates and assumptions which management believes are reasonable. However, pro forma results do not include any anticipated cost savings or other effects of the planned integration of

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these entities, and are not necessarily indicative of the results which would have occurred if the business combinations had been in effect on the dates indicated, or which may result in the future.

	<b>Pro Forma Results of Operations</b>			
	<b>Three Periods Ended</b>		<b>Nine Periods Ended</b>	
	<b>December 5, 2004</b>	<b>December 4, 2005</b>	<b>December 5, 2004</b>	<b>December 4, 2005</b>
	<b>Predecessor</b>	<b>Successor</b>	<b>Predecessor</b>	<b>Successor</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Sales.....	\$5,304	\$1,556	\$16,194	\$4,993
Income before expense for income taxes .....	\$320	\$218	\$1,423	\$488
Net income .....	\$196	\$133	\$870	\$298

The Company is satisfied that no material change in value has occurred in these acquisitions or other acquisitions since the acquisition dates. The results of all acquired entities have been included in the Company's consolidated financial statements since the respective acquisition date.

**7. Goodwill**

The total amount of goodwill on the Company's books at March 27, 2005 (Successor) and December 4, 2005 (Successor) is \$262.0 million and \$282.7 million, respectively.

The Company performed an impairment test of its goodwill at March 27, 2005 (Successor) and determined that no impairment of goodwill existed.

Balance, March 27, 2005 (Successor) .....	\$ 262,046,695
Additions (unaudited) .....	20,693,841
Balance, December 4, 2005 (Successor) (unaudited) .....	\$ 282,740,536

**8. Intangible Assets**

Intangible assets consist of the following:

	<b>March 27, 2005</b>	<b>December 4, 2005</b>
	<b>Successor</b>	<b>Successor</b>
		<b>(Unaudited)</b>
<b>Carrying Amount</b>		
Independent distributor agreements .....	\$ 68,000,000	\$ 68,000,000
Advertiser lists.....	16,750,000	23,146,900
Distribution network .....	5,150,000	5,425,346
Trademarks/trade names.....	43,990,000	46,679,047
Consumer databases .....	13,715,000	13,715,000
Noncompete agreements .....	5,256,000	7,162,754
Subscriber list.....	—	283,016
	\$ 152,861,000	\$ 164,412,063
<b>Accumulated Amortization</b>		
Independent distributor agreements .....	(1,133,333)	(4,271,795)
Advertiser lists.....	(296,828)	(1,829,627)
Distribution network .....	(128,750)	(490,115)
Trademarks/trade names.....	(728,833)	(2,855,896)
Consumer databases .....	(427,360)	(1,610,820)
Noncompete agreements .....	(563,438)	(2,448,321)
Subscriber list.....	—	(27,555)
	(3,278,542)	(13,534,129)
Intangible assets, net .....	\$ 149,582,458	\$ 150,877,934

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Amortization expense was \$1.8 million and \$3.5 million for the three periods ended December 5, 2004 (Predecessor) and December 4, 2005 (Successor), respectively; and \$5.48 million for the nine periods ended December 5, 2004 (Predecessor) and \$10.26 million for the nine periods ended December 4, 2005 (Successor). Based on the current amount of intangible assets subject to amortization, the estimated amortization expense is expected to be approximately \$13.4 million for each of the fiscal years 2006 through 2010. As acquisitions and dispositions occur in the future, these amounts may vary.

**9. Accrued Compensation, Benefits and Related Taxes**

Accrued expenses consist of the following:

	<u>March 27, 2005</u> Successor	<u>December 4, 2005</u> Successor (Unaudited)
Accrued salaries .....	\$ 1,712,279	\$ 2,596,536
Accrued commissions/bonuses.....	519,269	431,397
Accrued vacation.....	—	967,686
Accrued profit sharing.....	1,257,820	1,427,333
Other.....	988,347	831,536
	<u>\$ 4,477,715</u>	<u>\$ 6,254,488</u>

**10. Long Term Debt**

Long-term debt consists of the following:

	<u>March 27, 2005</u> Successor	<u>December 4, 2005</u> Successor (Unaudited)
10 ¾% Senior Notes, due December 1, 2013 .....	\$ —	\$ 172,709,250
New Senior Term loan .....	—	50,000,000
Senior Term A loan .....	23,000,000	—
Senior Term B loan .....	125,687,500	—
Revolver .....	7,000,000	—
Senior subordinated debt.....	55,148,777	27,254,191
	<u>210,836,277</u>	<u>249,963,441</u>
Less: Current portion.....	(12,481,422)	(500,000)
	<u>\$ 198,354,855</u>	<u>\$ 249,463,441</u>

***Prior Senior Credit Facility***

GMH, as Parent, and Network Communications, Inc., as Borrower, entered into an amended and restated loan agreement on February 11, 2005. The facility provides the Company and GMH with a \$25.0 million revolving loan facility and a \$148.69 million term facility (together the “senior credit facility”). Prior to the February 11, 2005 facility, the Company had entered into a senior credit facility on June 24, 2004, which consisted of a \$25.0 million revolving commitment and \$150.0 million term loan facility.

Under the senior credit facility, the Company, at its option, can borrow funds at an interest rate equal to the London Interbank Offered Rate (“LIBOR”) plus a margin or at the lender’s base rate (which approximates the Prime rate) plus a margin. Interest rates under the term facility are base rate plus a margin of 1.75% or LIBOR plus a margin of 2.75%. Interest rates under the revolving facility are base rate plus a margin ranging from 2.25% to

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1.25% or LIBOR plus a margin ranging from 3.25% to 2.25%. The applicable margin payable by the Company on the revolving facility is determined by the Company's senior leverage ratio, which is calculated quarterly.

The Company had \$148.69 million of term loans (Term A and Term B) outstanding under the term facility with no availability to borrow at March 27, 2005 (Successor). Also, as of March 27, 2005 (Successor) the Company had \$18.0 million, available to borrow under the revolving loan facility. As of March 27, 2005 (Successor) \$7.0 million was outstanding under the revolving facility. The interest rate at March 27, 2005 (Successor) for the Revolver was at a rate of base plus 2.25% and/or LIBOR plus 3.25%. The effective interest rates on the balances outstanding under the Term A loan was 5.61% at March 27, 2005 (Successor). The effective interest rate on the balance outstanding under the Term B loan was 5.53% at March 27, 2005 (Successor). The effective interest rate under the Revolver was 5.94% at March 27, 2005 (Successor).

The final repayment of any outstanding amounts under the revolving facility was due June 30, 2010. The Term Loan A facility commenced amortization in quarterly installments beginning March 31, 2005 through June 30, 2010. The Term Loan B facility commenced quarterly amortization on March 31, 2005 and final repayment was due June 30, 2011.

The senior credit facility was collateralized by substantially all of the assets of NCI and its subsidiaries. In addition, NCI's subsidiaries were joint and several guarantors of the obligations. The loan agreement contained certain restrictive provisions which included, but were not limited to, requiring the Company to maintain certain financial ratios and limits upon the Company's ability to incur additional indebtedness, make certain acquisitions or investments, sell assets or make other restricted payments, including dividends (as defined in the loan agreement).

The Company's senior credit facility contained a subjective acceleration clause in which certain events of default, as detailed in the senior credit facility agreement, would result in acceleration of the call date of the senior credit facility. Management reviewed these events on a regular basis and believed that the Company currently had no risk associated with these events.

In August 2004, the Company entered into an interest rate cap transaction for \$75.0 million of its outstanding senior credit facility. The transaction involved establishing a cap of 6% on the interest rate to be paid by the Company. The Predecessor paid \$0.04 million for the cap which had a market value of \$0.009 million at March 27, 2005 (Successor). The Company terminated this transaction effective July 25, 2005 and received \$.003 million from the counterparty.

Prior to 2004, the Predecessor entered into an interest rate collar which did not qualify for hedge accounting under SFAS 133 and, accordingly, appreciation and depreciation in value was charged to operations. The collar was terminated in June 2004, at which time the Predecessor recorded a gain of \$0.42 million.

The Company made principal and interest payments of \$11.91 million and \$156.0 million as of March 27, 2005 (Successor) and December 4, 2005 (Successor), respectively. The principal payments included \$3.63 million on the Term A loan and \$0.71 million on Term B during the year ended March 27, 2005 (Successor). The principal payments, excluding the Excess Cash Flow Repayment described below, included \$23.9 million on the Term A loan and \$130.7 million on the Term B loan for the nine periods ended December 4, 2005 (Successor).

In addition to providing fixed principal payment schedules for the term and revolving facilities the loan agreement also included an Excess Cash Flow Repayment provision that required repayment of principal based on the Company's leverage ratio, EBITDA, working capital, debt service and tax payments. The Excess Cash Flow amount was calculated and paid annually with the repayment of principal allocated on a pro rata basis to the term and revolving loans. The Company made a payment of \$7.07 million under the Excess Cash Flow Repayment provision based on the period ended March 27, 2005 (Successor) financial results. This payment was made on July 1, 2005 and was included in current maturities of long-term debt at March 27, 2005 (Successor). The Excess Cash Flow Repayment was allocated to the principal balances of the Term A, Term B and Term C loans in the amounts of \$0.88 million, \$4.99 million and \$1.20 million, respectively. The Company was also required to pay an annual non-utilization fee equal to .50% of the unused portion of the credit facility.

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On May 2, 2005, the Company executed an amendment to the amended and restated loan agreement dated February 11, 2005. The amendment provided the Company with an additional term loan facility (Term C) of \$30.0 million to fund the Wiesner acquisition and to use for general corporate purposes.

Under the Term C loan, the Company, at its option, could borrow funds at an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a margin or at the lender's base rate (which approximates the Prime rate) plus a margin. Interest rates under the term facility were base rate plus a margin of 1.5% or LIBOR plus a margin of 2.5%. The effective interest rate on the balances outstanding under Term C was 6.43% at November 30, 2005 (Successor).

The final repayment of any outstanding amounts under the Term C loan was due December 31, 2011. The loan commenced amortization in quarterly installments beginning September 30, 2005 through September 30, 2011.

The Company made principal and interest payments, excluding the Excess Cash Flow Repayment, on the Term C loan for the nine periods ended December 4, 2005 (Successor) of \$29.9 million.

All other terms and conditions of the Term C loan were governed by the amended and restated loan agreement dated February 11, 2005.

***Senior Subordinated Debt***

Network Communications, Inc., as borrower, entered into a senior subordinated credit agreement on January 7, 2005. The agreement provided the Company with a \$30.0 million loan that was fully drawn on the execution date.

The interest rate on the senior subordinated debt was 10% per annum. The interest was earned on the unpaid principal amount of the loan from date made through maturity. Interest was payable in cash on June 30 and December 31 of each year. Interest payments commenced on June 30, 2005.

The maturity date for the senior subordinated debt was June 30, 2012 at which time the principal and all accrued but unpaid interest thereon were payable in full. There was no amortization of principal during the term of the loan. The Company had the ability to pay the principal balance of the loan in advance of the maturity date, however, there was an associated call premium ranging from 1% to 4% depending on when the payment was made.

The Company made no interest payments on the senior subordinated debt during the year ended March 27, 2005 (Successor). For the period ended December 4, 2005 (Successor) the Company made interest payments of \$2.7 million. As of March 27, 2005 (Successor), the Company had accrued \$0.67 million for interest on the senior subordinated debt.

Also on January 7, 2005, GMH, as borrower, entered into a senior subordinated credit agreement (Parent Mezzanine Debt). The agreement provides GMH a loan of \$25.0 million. The full amount of the loan was drawn on January 7, 2005. NCI's assets are pledged to collateralize this obligation. Therefore, the related liability is recorded on the accompanying balance sheet.

The loan bears interest on the unpaid principal balance amount thereof from the date made through maturity at a rate equal to 12% per annum. Interest is payable on June 30 and December 31. The interest is pay-in-kind, thus the unpaid accrued interest is added to the outstanding balance of the loan.

The maturity date for the Parent Mezzanine Debt is June 30, 2013. The principal of the loan and any accrued unpaid interest is due at maturity. There is no amortization of principal during the term of the loan. The principal can be paid in advance of the maturity date, however, there is a call premium ranging from 1% to 3% depending on when the prepayment is made.

As of March 27, 2005 (Successor), \$0.67 million had been added to principal for interest on the Parent Mezzanine Debt. As of December 4, 2005 (Successor) the total principal added to the Parent Mezzanine Debt was \$2.73 million on a cumulative basis.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
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In conjunction with the senior subordinated credit agreement for the Parent Mezzanine Debt, GMHC entered into a warrant agreement. The warrant agreement gives the lender of the Parent Mezzanine Debt the right to purchase certain common equity authorized by GMHC. The purchase rights represented by the warrant are exercisable through January 7, 2015. The warrant agreement contains certain provisions requiring an adjustment of exercise price and number of shares based on the occurrence of specific events (all as are defined in the warrant agreement and stock purchase warrant).

In accordance with Accounting Principles Board Opinion No. 14 ("APB 14"), *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, the Company allocated \$0.53 million to the warrants based on their relative fair value and recorded this amount as a debt discount and additional paid-in capital. The debt discount will be amortized over the eight year life of the related debt.

Both senior subordinated debt agreements contain restrictive provisions which include, but are not limited to, requiring the Company to maintain certain financial ratios and limits upon the Company's ability to incur additional indebtedness, make certain acquisitions or, investments, sell assets or make other restricted payments, including dividends. The Company is also required to calculate quarterly covenants for debt leverage ratios, interest coverage ratio and fixed charge ratio.

The loan agreement allows the lender to accelerate repayment of the principal in the case of specific events of default outlined in the senior subordinated credit agreement. Management believes the Company currently has no risk with regards to events of default.

On July 25, 2005, the Company entered into an interest rate cap transaction for \$100.0 million of its outstanding senior credit facility. The transaction involved establishing a cap of 6% on the interest rate to be paid by the Company. The Company paid \$0.047 million for the cap which had a market value of \$0.51 million at December 4, 2005. The related derivative asset has been included in Other Assets on the condensed consolidated balance sheet.

### ***Refinancing***

On November 30, 2005, the Company refinanced its existing capital structure. The objective of the refinancing was to provide the Company with a long-term capital structure that is consistent with its strategy and preserve acquisition flexibility. The refinancing was completed through an offering of \$175 million of Senior Notes and a new senior secured credit facility comprised of a \$50 million senior credit term loan facility, a new revolving credit facility with an availability of \$35 million and an additional \$75 million in uncommitted incremental term loans. The transactions described in this paragraph are collectively referred to herein as the "Refinancing". The proceeds of the Refinancing were used to repay the outstanding balances under the Term A, Term B, Term C, the revolving facility and \$30 million of the senior subordinated debt.

### ***10 3/4% Senior Notes***

In November 2005, the Company completed the sale of \$175 million of Senior Notes under Rule 144A of the Securities Act of 1933. The Senior Notes are unsecured senior obligations and rank equally with all other senior, unsecured and unsubordinated indebtedness. Interest on the Senior Notes is payable in arrears semi-annually on June 1 and December 1, commencing on June 1, 2006. The Senior Notes mature on December 1, 2013. The interest rate on the Senior Notes is 10.75%.

The Senior Notes are governed by an indenture with Wells Fargo Bank, N.A., which acts as trustee. The indenture provides that the Company will not subject its property or assets to any mortgage or other encumbrance unless the Senior Notes are secured equally and ratably with other indebtedness that is secured by that property or assets. There is no sinking fund or mandatory redemption applicable to the Senior Notes. The Senior Notes are redeemable, in whole or in part, at any time at a price equal to their principal amount plus any accrued interest and any "make-whole" premium, which is designed to compensate the investors for early payment of their investment. The premium is the greater of (i) 1.00% of the principal amount of such Note and (ii) the excess of (A) the present value at such redemption date of (1) the redemption price of such Note on December 1, 2009 plus (2) all required remaining scheduled interest payments due on such Note through December 1, 2009 (but excluding accrued and

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unpaid interest to the redemption date), computed using a discount rate equal to the Adjusted Treasury Rate, over (B) the principal amount of such note on such redemption date.

The Senior Notes were issued at a price of 98.691%. The discount related to the pricing is recorded on the balance sheet and will be amortized over the life of the Senior Notes.

The Company is obligated to file an Exchange Offer Registration Statement with the SEC by July 28, 2006 and to use commercially reasonable efforts to cause the Exchange Offer Registration Statement to become effective by October 26, 2006.

***New Senior Credit Facility***

In conjunction with the Refinancing, the Company entered into a Term Loan Credit Agreement with certain lenders for an aggregate principal amount of \$50 million. The proceeds of the loan were used to repay all amounts outstanding under the existing credit agreement, amounts outstanding in respect of the senior subordinated notes (including accrued interest and applicable prepayment penalties) and to pay fees and expenses incurred in connection with the Refinancing.

Under the new senior credit facility, the Company, at its option, can borrow funds at an interest rate equal to the London Interbank Offered Rate ("LIBOR") plus a margin or at the lender's base rate (which approximates the Prime rate) plus a margin. Interest rates under the term facility are base rate plus a margin of 1.50% or LIBOR plus a margin of 2.50%. Interest rates under the revolving facility are base rate plus a margin ranging from 1.50% to .75% or LIBOR plus a margin ranging from 2.50% to 1.75%. The applicable margin payable by the Company on the revolving facility is determined by the Company's senior leverage ratio, which is calculated quarterly.

The Company had \$50.0 million outstanding under the term facility with no availability to borrow at December 4, 2005 (Successor). Also, as of December 4, 2005 (Successor), the Company had \$35.0 million available to borrow under the revolving loan facility. There were no borrowings outstanding under the revolving facility as of December 4, 2005 (Successor). The interest rate at December 4, 2005 (Successor) for the Revolver was at a rate of base plus 1.25% and/or LIBOR plus 2.25%. The effective interest rate on the balances outstanding under the term loan was 6.79% at December 4, 2005 (Successor).

The final repayment of any outstanding amounts under the revolving facility is due November 30, 2010. The term loan facility commences amortization in quarterly installments of \$0.125 beginning March 31, 2006 through November 30, 2012.

Under the new credit facility, the Company may obtain additional funding through Incremental Loan Commitments in an amount not to exceed \$75 million. As of December 4, 2005, there were no borrowings against the Incremental Loan Facility.

The new senior credit facility is collateralized by substantially all of the assets of NCI and its subsidiaries. In addition, NCI's subsidiaries are joint and several guarantors of the obligations. The loan agreement contains certain restrictive provisions which include, but are not limited to, requiring the Company to maintain certain financial ratios and limits upon the Company's ability to incur additional indebtedness, make certain acquisitions or investments, sell assets or make other restricted payments, including dividends (as defined in the term loan credit agreement).

The Company's new senior credit facility contains a subjective acceleration clause in which certain events of default, as detailed in the new senior credit facility agreement, will result in acceleration of the call date of the new senior credit facility. Management reviews these events on a regular basis and believes that the Company currently has no risk associated with these events.

In addition to providing fixed principal payment schedules for the term and revolving facilities the loan agreement also includes an Excess Cash Flow Repayment provision that requires repayment of principal based on the Company's leverage ratio, EBITDA, working capital, debt service and tax payments. The Excess Cash Flow amount is calculated and paid annually with the repayment of principal allocated on a pro rata basis to the term and

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revolving loans. The Company is also required to pay an annual non-utilization fee equal to .50% of the unused portion of the revolving credit facility.

The Company assumes that as amounts become due under the loan agreement the amounts needed for the payments will be obtained from the Company's operating cash flow supplemented by borrowings under the revolving loan as needed.

## **11. Commitments and Contingencies**

### ***Commitments***

The Company has entered into a contract for the manufacture of a printing press expected to be delivered in two years from the contract date. This commitment became effective in August 2005. The total cost of the press, including installation, will be \$5.3 million. The press is expected to be delivered and installed in fiscal 2007. The payments for the press will be made according to certain performance based milestones. Failure to meet the agreed-upon milestones could result in a termination of the contract. Title to the equipment will transfer to the Company upon delivery to its Lawrenceville facility. The Company made its first contract payment of \$0.472 million and approximately \$4.7 million of the purchase commitment remained outstanding at December 4, 2005.

### ***Operating Leases***

The Company is obligated under noncancellable operating leases and leases for office space which expire at various dates through 2012. Certain of the leases require additional payments for real estate taxes, water and common maintenance costs.

### ***Employment Agreements***

Two senior executives of the company have employment agreements which terminate in January 2010. Pursuant to the agreements, the executives are entitled to annual base salaries and annual bonuses based on the Company's EBITDA for each year. These agreements also provide for severance benefits equal to two years' base salary and benefits upon termination of employment by the Company without cause.

## **12. Related Party Transaction**

On June 28, 2002, the Predecessor entered into a management and consulting agreement with ABRY Partners, LLC (ABRY) whereby the Predecessor would owe ABRY approximately \$0.21 million for the year ended March 27, 2005 (Successor), and 105% of the previous year's fee in subsequent years for management and consulting services. The management and consulting agreement with ABRY terminated effective January 7, 2005.

In December 2004, the Company entered into a 10-year advisory agreement with CVC Management LLC (CVC) whereby the Company is to pay CVC in quarterly installments an annual fee, which is the greater of \$0.21 million or .016% of the Predecessor's annual consolidated revenue, in exchange for advisory services. The Company was also to reimburse CVC for reasonable out-of-pocket expenses incurred in its performance of advisory services. No payments were made under this agreement as of March 27, 2005 (Successor) or for the nine periods ended December 4, 2005. The amounts accrued under this agreement as of December 4, 2005 was \$0.09 million.

The Company paid \$0.23 million to ABRY for the period March 29, 2004 to December 5, 2004 (Predecessor).

## **13. Subsequent Events**

During the fourth quarter of fiscal year 2006, the Company entered into two hedge agreements for \$0.13 million and \$1.0 million to manage the risk associated with Canadian currency fluctuations. The hedge agreements expire on June 14, 2006 and June 30, 2006, respectively.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART I – FINANCIAL INFORMATION**

**Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

We are a Georgia corporation that was formed in 1980. The following discussion and analysis is based upon our unaudited interim consolidated financial statements and historical combined financial statements and our review of our business and operations. Furthermore, we believe the discussion and analysis of our financial condition and results of operations as set forth below are not indicative nor should they be relied upon as an indicator of our future performance. The following discussion includes a comparison of our results for the three periods ended December 5, 2004 to the three periods ended December 4, 2005 and for the nine periods ended December 5, 2004 to the nine periods ended December 4, 2005.

We have 13 reporting periods in each fiscal year. The first, second and third quarters each contain three periods, or a twelve week period each, and the fourth quarter contains four periods, or a sixteen week period.

**Restatement of Consolidated Financial Statements**

Our consolidated financial statements for 2001, 2002, 2003, 2004 and 2005 have been restated to reflect the correction of an error related to revenue recognized in incorrect periods for certain print and online advertising sales. We previously recognized advertising revenue on certain of our print publications based on the date of shipping and billing. Revenue for online advertising, which is always sold in a single contract along with print advertising, was recognized at the same time as the related print advertising, which would have been no later than the upload of the online advertising to our websites. During the course of preparing the June 19, 2005 unaudited quarterly consolidated financial statements, we reevaluated our accounting for advertising revenue recognition and determined that certain advertising sales were recognized prematurely and that the contracts for both print and online advertising were multiple deliverable arrangements and should be accounted for under the principles of EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, (“EITF 00-21”).

Upon the application of EITF 00-21, we determined that individual deliverables in our bundled arrangement should be separated and the total revenue in the contract should be allocated to each of the individual deliverables based on their relative fair values. The revenue allocated to each deliverable would be recognized separately.

We evaluated our recognition principles for each deliverable using the guidance in the SEC’s Staff Accounting Bulletin No. 104, *Revenue Recognition*, and determined that the revenue for print advertising sales should be recognized when delivered and available for consumer access and that the revenue for online advertising sales should be recognized ratably over the period the online ads are maintained on our websites.

**Overview of Operations**

We are one of the largest and most diversified publishers of information for the local real estate market in North America. Through our extensive proprietary network of online and print distribution points, we provide critical local information to consumers involved in buying, leasing and renovating a home. Our reader base selects our print and online publications almost exclusively for the extensive advertisements, and, as a result, we are able to provide high quality leads at an effective cost to our advertisers, which are comprised of agents, property management companies, new home builders and home renovation products and service providers. In fiscal 2005, we believe that we generated over ten million leads for our advertisers. Approximately 63% of our revenue was generated by advertisers under contract and over 75% of our advertisers under contract renew on an annual basis. We operate in over 630 local markets in the U.S. and Canada, and have a monthly print and online reach of over 11 million potential consumers seeking to buy, rent or renovate their homes. The predominant content in our publications is advertisements, and our two largest publications are 100% advertisement based. In the resale home market, our flagship brand, *TREB*, is the largest real estate advertising publication in North America. In the leasing market, we provide residential and commercial leasing listings in more than 95 markets, primarily through *Apartment Finder* and *Black’s Guide*. In the home improvement market, we are the largest publisher of local and regional design magazines for the luxury market, including *Kansas City Homes & Gardens*, *Atlanta Homes & Lifestyles*, *Colorado Homes & Lifestyles* and *Mountain Living*. We believe that our focus on the three largest and most diversified areas of the housing market insulates us from a downturn in any specific area.

We distribute our printed publications through an extensive rack distribution network, comprised of more than 320,000 high traffic locations in areas frequented by our target consumers. In addition, we maintain more than 30,000 uniquely shaped proprietary sidewalk distribution boxes. For those products targeting affluent consumers and businesses, we utilize sophisticated database management and customer acquisition tools in order to develop highly targeted direct mail distribution. We also distribute all of our content — including our database of more than 1.2 million homes and apartments — online to our advertisers. We maintain a proprietary online network (*LivingChoices.com*) which has over 1 million unique visitors each month. In addition, we distribute our content on an exclusive basis to more than ten online distribution partners, including RealEstate.com, BobVila.com and Lycos.com with a monthly reach of over 43 million online users. We believe our combined online and print distribution network, which is provided to advertisers at one all-inclusive cost, drives exceptional results for our advertisers.

We have two distinct marketing channels through which we generate revenue, the ID channel and the Direct channel. In our ID channel, the independent distributor is responsible for selling the advertising, collecting listings from agents/brokers and distributing publications in a specific geographic market. In our Direct channel, we sell the advertising, collect the listings from the agents/brokers, create and print the publications and distribute the publications.

As of December 4, 2005, we had 1,027 employees, approximately 530 of which were located at our corporate headquarters and production facility in Lawrenceville, Georgia, a suburb of Atlanta.

We believe the key drivers of financial performance are:

- advertising volume;
- expansion into other local real estate markets; and
- strong brand recognition.

## **Revenue**

We generate revenue through two sales channels, the ID channel and the Direct channel. In the ID channel we generate revenue by providing our independent distributors with production services, software, internet, marketing materials and distribution supplies. In the Direct channel, we generate revenue from the sale of advertising within our publications and websites.

## **Costs**

We categorize our operating expenses as cost of sales and operating expenses. Cost of sales includes all costs associated with our Georgia production facility, our outsourced printing (which are the costs we pay to third party printers to print books not printed in our Georgia production facility), our field sales operations, field distribution operations and online operations. Operating expenses include all corporate departments, corporate headquarters, the management of the publications and bad debt.

Our operating expense base consists of almost 70% fixed costs. These expenses relate to our production facility in Georgia, our national distribution network and our sales management infrastructure. The remaining 30% of operating expenses are variable and relate to paper, ink, sales commissions, performance-based bonuses, bad debt and third party production expenses. Costs related to our workforce are the largest single expense item, accounting for almost 50% of our total expense base. The second largest expense item, which accounts for almost 19% of our total expense base, is the costs associated with producing our publications. We expect to be able to continue to manage our expense growth to levels consistent with past years with the exception of paper expenses. We anticipate that we will experience increases in our paper prices of 15% to 20% during fiscal 2006. Based on our paper expense in fiscal 2005 of over \$11.0 million, a 20% increase in paper prices will increase our paper costs by over \$2.0 million for the fiscal year. We also expect at least an approximate 4% increase in ink prices, or over \$0.04 million, for the fiscal year.

## **Depreciation and Amortization**

Depreciation costs of computer equipment and software relate primarily to the depreciation of our computer hardware and software developed for internal use. The depreciation and amortization of equipment and software associated with production is included in cost of sales. The amounts of depreciation and amortization expense included in cost of sales for the three periods ended December 5, 2004 and December 4, 2005 were \$0.618 million and \$2.16 million, respectively; and for the nine periods ended December 5, 2004 and December 4, 2005 were \$3.0 million and \$6.4 million, respectively. Depreciation and amortization expense related to nonproduction equipment and software is included in selling, general and administrative expenses. The amounts of depreciation and amortization expense included in selling, general and administrative expense for the three periods ended December 5, 2004 and December 4, 2005 were \$0.217 million and \$0.759 million, respectively; and for the nine periods ended December 5, 2004 and December 4, 2005 were \$1.0 million and \$2.24 million, respectively. Depreciation for computer equipment and software as well as property, plant and equipment is calculated on a straight-line basis over the expected useful life of each asset class.

Amortization costs relate to the amortization of intangible assets. Our two largest intangible assets are our independent distributor agreements and trademarks/trade names. Amortization is calculated on a straight-line basis over the expected useful life of the asset with each identifiable asset assessed individually.

## **Interest Income and Interest Expense**

Interest income consists primarily of interest income earned on our cash balances. Interest expense consists of interest on outstanding indebtedness, interest on capital leases and the amortization of deferred financing costs.

## **Income Tax Expenses**

Income tax expense consists of current corporation tax expense, deferred tax expense, and any other accrued tax expenses. We are subject to taxation in two tax jurisdictions, the United States and Canada. Our effective tax rate was 34.7% in fiscal 2006.

### ***Three Periods Ended December 4, 2005 Compared to Three Periods Ended December 5, 2004***

## **Results of Operations**

*Revenue.* The following table sets forth our revenue (in thousands) for our third quarter ended December 4, 2005 and December 5, 2004 from our three key business areas and their percentages of total revenue for the periods indicated (dollars in thousands). These three key areas are: (i) resale and new sales; (ii) rental and leasing; and (iii) remodeling and home improvement. The resale and sales area includes *TREB*, *New Home Finder*, *Unique Homes*, and *Enclave*. Our rental/leasing area includes *Apartment Finder*, *Mature Living Choices*, *Corporate Choices* and *Black's Guide*. Our remodeling and home improvement area includes all of our home and design publications.

**Three Periods Ended**

	December 4, 2005		December 5, 2004	
	Amount	%	Amount	%
Resale and new sales .....	\$ 27,217	62.7%	\$ 22,234	66.0%
Rental and leasing .....	12,141	28.0%	10,823	32.1%
Remodeling and home improvement .....	4,037	9.3%	644	1.9%
Total revenue .....	43,395	100.0%	33,701	100.0%
Cost and expenses:				
Operating (including production depreciation and software amortization) .....	30,883	71.2%	22,673	67.3%
Selling, general and administrative .....	5,167	11.9%	3,837	11.4%
Amortization of intangibles .....	3,529	8.1%	1,840	5.5%
Income from operations .....	\$ 3,816	8.8%	\$ 5,351	15.9%

For the three periods ended December 4, 2005, total revenue was \$43.4 million compared to \$33.7 million for fiscal 2005. This was an increase of \$9.7 million or 28.8%.

*TREB* posted revenue of \$22.4 million in fiscal year 2006 which was an increase of \$3.4 million, or 18.1%. The *TREB* ID sales channel had revenue of \$14.6 million compared to \$12.0 million in fiscal year 2005, an increase of \$2.6 million or 21.7%. The growth is primarily attributable to ad page growth both from our long established markets as well as from the 50 new markets that we have expanded to during the last two years. The *TREB* Direct sales channel had revenue growth of \$0.8 million or 11.6% from \$6.9 million in fiscal year 2005 to \$7.7 million in fiscal year 2006. The growth was the product of more ad pages and the contribution of \$0.2 million from the acquisition of Omni Communications. Unique Homes had revenue of \$2.8 million in fiscal year 2006 compared to \$2.2 million in fiscal year 2005. The revenue increase of \$0.6 million or 27.3% was the result of an increase in the volume of ad pages and growth of sales from custom publishing projects.

*Apartment Finder* revenue for the three periods ended December 4, 2005 was \$11.0 million compared to \$8.9 million during the same period in fiscal 2005, an increase of \$2.1 million or 23.6%. Despite a challenging apartment rental market that has been impacted by conversions of rental properties to condominiums, we have been able to increase ad pages in our existing markets and open three new markets during fiscal year 2006. We also gained \$0.6 million in revenue in the third quarter from our fiscal year 2006 acquisitions. *Black's Guide* revenue of \$1.4 million was flat compared to fiscal 2005. Our business has stabilized under a brand manager and we have been able to post issue-over-issue and year-over-year sales gains for several of our markets.

Our remodeling and home improvement area produced revenue of \$4.0 million in the three periods ended December 4, 2005 compared to \$0.6 million during the same period in fiscal 2005. We have one existing publication in this segment, *Kansas City Homes & Gardens*, and the remainder of our market position has been established in fiscal year 2006 with the acquisitions of Weisner Publishing, Atlanta Home Improvement, and At Home In Arkansas. In the case of *Kansas City Homes & Gardens*, we reported revenue of \$0.7 million, which was an increase of \$0.1 million or 16.7% compared to fiscal year 2005. The growth resulted from an increase in the volume of ad pages through local advertisers as well as an increase in yield per page. The remaining increase in revenue was a result of acquisitions.

*Cost of sales.* Cost of sales for the three periods ended December 4, 2005 was \$28.7 million, an increase of \$6.6 million, or 29.9%, from \$22.1 million during the same period in fiscal 2005. Labor expense, which is our largest cost component, was \$13.0 million in the three periods ended December 4, 2005 compared to \$10.8 million during the same period in fiscal 2005, an increase of \$2.2 million, or 20.4%. The biggest drivers of labor expense growth was the impact of new employees added through our fiscal year 2005 and 2006 acquisitions. The total year-over-year non-commission labor expense growth from the acquisitions was \$1.3 million. Total commission and bonus expense increased by \$0.8 million or 42.1% from \$1.9 million in fiscal year 2005 to \$2.7 million in fiscal year 2006 due to our revenue and EBITDA growth. Paper expense for the three periods ended December 4, 2005 was \$4.4 million, an increase of \$1.8 million or 69.2% from the prior year. The increase was the result of increased paper usage due to ad page growth, the impact of fiscal 2005 and 2006 acquisitions, higher paper prices, and a shift in

operations whereby we are purchasing paper and supplying it to our outside print partners. Distribution expense increased in the current fiscal quarter by approximately \$0.91 million during the three periods ended December 4, 2005 compared to the same period in the prior year. The increase was the result of establishing distribution operations in our start-up and acquisition markets as well as continuing to expand the number of distribution points in our existing markets. The Company also experienced increases in its equipment rental expense, utilities, postage and marketing costs of approximately \$1.7 million during the current quarter compared to the same period in the prior year due to revenue growth, new market start-ups and acquisitions.

*Production depreciation and software amortization expense.* Production depreciation and amortization expense in the three periods ended December 4, 2005 was \$2.2 million. This was an increase of \$1.6 million, or 267%, compared to an expense of \$0.6 million during the same period in fiscal 2005. In January 2005, computer equipment and software was revalued higher in conjunction with the purchase of NCI by CVC. We also made additional purchases of computer equipment and software totaling \$0.35 million in the three periods ended December 4, 2005 which contributed to the remaining increase in amortization expense.

*Selling, general and administrative expenses.* SG&A expenses for the three periods ended December 4, 2005 were \$5.2 million, which was an increase of \$1.4 million or 36.8% compared to expenses of \$3.8 million during the same period in fiscal 2005. Labor and related expense in the three periods ended December 4, 2005 was \$2.8 million, an increase of \$0.7 million, or 33.3%, from \$2.1 million during the same period in fiscal 2005. As a result of our refinancing that closed in November, 30 2005, we had an increase of \$0.3 million in our outside accounting fees for the three periods in fiscal year 2006, compared to fiscal year 2005. Lastly, there was an increase in depreciation expense of \$0.5 million or 250% from \$0.2 million in fiscal year 2005 to \$0.7 million in fiscal year 2006. This increase was the result of our assets being revalued in January 2005 in conjunction with CVC's acquisition of NCI.

*Amortization of intangibles.* Amortization expense was \$3.5 million in the three periods ended December 4, 2005, an increase of \$1.7 million or 94.4%, from \$1.8 million during the same period in fiscal 2005. The increase in amortization expense was primarily the result of the revaluation of intangible assets subject to amortization from \$106.1 million to \$148.0 million that took place in the fourth quarter of fiscal 2005 following the acquisition of our business by CVC. We also incurred amortization expense related to the amortizable intangible assets of \$16.4 million acquired in connection with our acquisitions of LWP, Wiesner, Omni Communications, *Atlanta Home Improvement*, *At Home In Arkansas*, and *Relocating In Las Vegas*.

*Net interest expense.* Net interest expense for the three periods ended December 4, 2005 was \$11.0 million, an increase of \$8.8 million, or 400% over the net interest expense during the same period in fiscal 2005. Several factors contributed to the increase in net interest expense. First, in connection with the financing related to CVC's acquisition of our business in the fourth quarter of fiscal 2005, we added \$55.0 million of senior subordinated notes to our capital structure, which increased our net debt by \$35.0 million. Second, we executed an incremental loan facility of \$30.0 million to fund the Weisner acquisition in May 2005 and accessed our revolver for \$10.0 million to fund our four subsequent acquisitions. As a result, interest expense for the three periods ended December 4, 2005 was calculated on a level of senior and subordinated debt that was approximately \$75.0 million larger than the debt base during the same period in fiscal 2005. Third, we refinanced our existing debt structure on November 30, 2005 and wrote off \$6.3 million of deferred financing costs that were charged to interest expense.

*Net income.* Due to the factors set forth above, we reported a net loss of \$4.9 million during the three periods ended December 4, 2005, a decrease of \$6.7 million from net income of \$1.8 million during the same period in fiscal 2005.

#### ***Nine Periods Ended December 4, 2005 Compared to Nine Periods Ended December 5, 2004***

### **Results of Operations**

*Revenue.* The following table sets forth our revenue (in thousands) for the nine periods ended December 4, 2005 and December 5, 2004 from our three key business areas and their percentages of total revenue for the periods indicated (dollars in thousands). These three key areas are: (i) resale and new sales; (ii) rental and leasing; and (iii) remodeling and home improvement. The resale and sales area includes *TREB*, *New Home Finder*, *Unique Homes*,

and *Enclave*. Our rental/leasing area includes *Apartment Finder*, *Mature Living Choices*, *Corporate Choices* and *Black's Guide*. Our remodeling and home improvement area includes all of our home and design publications.

	Nine Periods Ended			
	December 4, 2005		December 5, 2004	
	Amount	%	Amount	%
Resale and new sales .....	\$ 76,436	61.0%	\$ 63,858	65.0%
Rental and leasing.....	37,749	30.2%	32,447	33.0%
Remodeling and home improvement .....	11,026	8.8%	1,965	2.0%
Total revenue .....	<u>125,211</u>	<u>100.0%</u>	<u>98,270</u>	<u>100.0%</u>
Cost and expenses:				
Operating (including production depreciation and software amortization).....	86,685	69.2%	66,894	68.1%
Selling, general and administrative.....	17,326	13.8%	13,203	13.4%
Amortization of intangibles .....	10,256	8.2%	5,480	5.5%
Income (loss) from operations .....	<u>\$ 10,944</u>	<u>8.7%</u>	<u>\$ 12,693</u>	<u>12.9%</u>

For the nine periods ended December 4, 2005, total revenue was \$125.2 million compared to \$98.3 million for fiscal 2005. This was an increase of \$26.9 million or 27.4%.

*TREB* revenue for the nine periods ended December 4, 2005 was \$64.1 million, an increase of \$8.8 million, or 15.9%, from \$55.3 million during the same period in fiscal 2005. The main driver of this growth was a year-over-year revenue increase in the *TREB* ID channel of \$6.3 million, or 17.8%, from \$35.4 million in fiscal 2005 to \$41.7 million in fiscal 2006, resulting from advertising page growth in our existing publications and the contribution from 30 new independent distributor territories opened during the last two fiscal years. The *TREB* Direct channel produced revenue of \$22.4 million for the nine periods ended December 4, 2005, which was an increase of \$2.6 million, or 13.1%, over revenue of \$19.8 million during the same period in fiscal 2005. The year-to-year revenue gain for the *TREB* Direct channel was the result of advertising page growth in our existing publications and the contribution of \$1.1 million from fiscal 2005 and 2006 acquisitions. Our New Home Finder brand generated revenue of \$4.3 million in the nine periods ended December 4, 2005, growth of \$2.6 million or 152.9% compared to the comparable period in fiscal 2005. Drivers of the revenue increase were \$0.7 million from ad page growth in our established markets, \$0.6 million from our fiscal 2005 start-ups, and \$1.3 million from our 2005 acquisitions.

*Apartment Finder* revenue for the nine periods ended December 4, 2005 was \$32.0 million compared to \$26.5 million during the same period in fiscal 2005, an increase of \$5.5 million or 20.8%. The growth was the result of \$3.8 million of advertising page growth in existing markets, \$0.2 million from three new markets opened during fiscal 2006, and \$1.5 million from fiscal year 2005 acquisitions. *Black's Guide* revenue of \$3.9 million was flat compared to fiscal 2005. The *Black's Guide* business has stabilized and we have been able to post either issue-over-issue or year-over-year sales gains for several of our markets.

Our remodeling and home improvement area produced revenue of \$11.0 million in the nine periods ended December 4, 2005 compared to \$2.0 million during the same period in fiscal 2005. *Kansas City Homes & Gardens* has increased revenue from \$2.0 million in the first nine periods of fiscal 2005 to \$2.3 million in the first nine periods of fiscal 2006, an increase of \$0.3 million, or 15.0%. The growth was the result of increased advertising pages and improved yield per page, as well as the introduction of a new publication, *Kansas City Homes & Gardens Professional Sourcebook*. The nine periods ended December 4, 2005 also include revenues from our fiscal 2006 acquisitions of five titles from Wiesner Publishing, *Atlanta Home Improvement*, and *At Home In Arkansas* of \$8.1 million, \$0.4 million, and \$0.2 million, respectively.

*Cost of sales*. Cost of sales for the nine periods ended December 4, 2005 was \$80.3 million, an increase of \$16.4 million, or 25.7%, from \$63.9 million during the same period in fiscal 2005. Labor expense was \$37.3 million in the nine periods ended December 4, 2005 compared to \$31.5 million during the same period in fiscal 2005, an increase of \$5.8 million, or 18.4%. Key drivers of the growth in overall labor expense were the addition of

employees as a result of our fiscal 2005 and fiscal 2006 acquisitions, the sales resources added for new market start-ups, and growth in commissions which accounted for an incremental year-over-year expense of \$3.6 million, \$0.6 million and \$1.7 million, respectively. Paper expense for the nine periods ended December 4, 2005 was \$12.4 million compared to \$7.3 million during the same period in fiscal 2005, an increase of \$5.1 million or 69.9%. The paper expense increase was the result of increased volume usage, higher paper prices, and the fact that NCI in fiscal 2006 is supplying paper to its third party print partners. Distribution expense increased in the nine periods ended December 4, 2005 by approximately \$2.1 million compared with the same nine periods in the prior year. The increase was the result of establishing distribution operations in our start-up and acquisition markets as well as continuing to expand the number of distribution points in our existing markets. The Company also experienced increases in its equipment rent expense, utilities, postage and marketing costs during the current quarter compared to the same period in the prior year due to revenue growth, new market start-ups and acquisitions.

*Production depreciation and software amortization expense.* Production depreciation and amortization expense in the nine periods ended December 4, 2005 was \$6.4 million. This was an increase of \$3.4 million, or 113%, compared to an expense of \$3.0 million during the same period in fiscal 2005. In January 2005, computer equipment and software was revalued in conjunction with the purchase of NCI by CVC. We also made additional purchases of computer equipment and software totaling \$1.8 million in the nine periods ended December 4, 2005 which contributed to the remaining increase in amortization expense.

*Selling, general and administrative expenses.* SG&A expenses for the nine periods ended December 4, 2005 were \$17.3 million, which was an increase of \$4.1 million or 31.1% compared to expenses of \$13.2 million during the same period in fiscal 2005. Labor and related expense in the nine periods ended December 4, 2005 was \$9.5 million, an increase of \$2.5 million, or 35.7%, from \$7.0 million during the same period in fiscal 2005. Our outside accounting fees increased from \$0.2 million in fiscal 2005 to \$0.5 million in fiscal year 2006 as a result of the extra work associated with our November 2005 refinancing. Depreciation expense in fiscal 2006 of \$2.2 million was an increase of \$1.2 million compared to prior year.

*Amortization of intangibles.* Amortization expense was \$10.3 million in the nine periods ended December 4, 2005, an increase of \$4.8 million or 87.3%, from \$5.5 million during the same period in fiscal 2005. The increase in amortization expense was primarily the result of the revaluation of intangible assets subject to amortization from \$106.1 million to \$148.0 million that took place in the fourth quarter of fiscal 2005 following the acquisition of our business by CVC. We also incurred amortization expense related to the amortizable intangible assets of \$16.4 million acquired in connection with our acquisitions of LWP, Wiesner, Omni Communications, *Atlanta Home Improvement*, *At Home In Arkansas*, and *Relocating In Las Vegas*.

*Net interest expense.* Net interest expense for the nine periods ended December 4, 2005 was \$19.9 million, an increase of \$13.7 million, or 221% over the net interest expense during the same period in fiscal 2005. The increase in interest expense was the result of several factors. First, was the recapitalization consummated in the second quarter of fiscal 2005, which increased our senior debt from approximately \$86.0 million to \$150.0 million. Second, was the financing related to CVC's acquisition of our business in the fourth quarter of fiscal 2005 which added \$55.0 million of senior subordinated notes to our capital structure, an increase of \$35.0 million. Third, we executed an incremental loan facility of \$30.0 million to fund the Wiesner acquisition in May 2005. As a result of these factors, interest expense for the nine periods ended December 4, 2005 was calculated on a level of senior and subordinated debt that was approximately \$75.0 million larger than the debt base during the same period in fiscal 2005. Lastly, we wrote-off and charged to interest expense \$6.3 million of deferred financing costs in conjunction with the Refinancing that we completed on November 30, 2005.

*Net income.* Due to the factors set forth above, we reported a net loss of \$5.8 million during the nine periods ended December 4, 2005, a decrease of \$9.9 million from net income of \$4.1 million during the same period in fiscal 2005.

## **Liquidity and Capital Resources**

Historically, our primary source of liquidity has been cash flow from operations. We also have the ability to incur indebtedness under our senior secured revolving credit facility.

*Cash.* At the end of fiscal 2005, our cash on hand was \$4.1 million. As of December 4, 2005, our cash on hand was \$8.3 million, as compared to \$4.3 million at December 5, 2004.

The following table summarizes our net (decrease)/increase in cash and cash equivalents:

	<b>Nine Periods Ended December 5, 2004</b>	<b>Nine Periods Ended December 4, 2005</b>
Net cash provided by operating activities .....	\$ 11,923	\$ 10,961
Net cash provided by/ (used in) investing activities.....	(7,754)	(34,018)
Net cash (used in) / provided by financing activities.....	(2,373)	27,249
Net (decrease) / increase in cash & cash equivalents.....	<u>\$ 1,796</u>	<u>\$ 4,192</u>

Our net cash provided by operating activities in the nine periods ended fiscal 2006 decreased by \$1.0 million compared to fiscal 2005, due to an increase in interest payments of \$6.0 million resulting from the change in our capital structure. Our change in operating assets and liabilities was a use of \$5.7 million in cash for fiscal 2006 versus a use of \$0.5 million in cash in fiscal 2005 due mainly to timing of tax payments and a reduction in accrued interest as a result of our November 30, 2005 Refinancing.

In fiscal 2006, net cash used by investing activities was \$34.0 million, consisting of \$2.4 million for the purchase of property, equipment and software, and \$31.6 million for the add-on acquisitions made during fiscal 2006. In fiscal 2005, net cash used in investing activities was \$7.8 million, consisting of \$4.3 million for the purchase of property, equipment and software and \$3.5 million for acquisitions consummated during fiscal 2005.

In fiscal 2006, the net cash provided from financing activities was \$27.2 million which was principally due to the add-on facility of \$30 million that we did to fund the Lone Wolf and Wiesner acquisitions, as well as our recent refinancing with Senior Notes.

*Capital expenditures.* For fiscal 2006, cash capital expenditures were \$2.4 million. The principal items were \$1.4 million for software development and \$0.5 million for furniture and office build outs.

In the nine periods ended December 4, 2005, capital expenditures were \$4.3 million which consisted primarily of software development and the expansion of our bindery facility.

*Prior senior credit facility.* On February 11, 2005, we entered into a \$173.7 million senior credit facility with The Toronto-Dominion Bank (“Toronto Dominion”). On May 2, 2005 we entered into a \$30.0 million incremental credit facility with Toronto Dominion to fund the Wiesner acquisition. These credit facilities were retired on November 30, 2005 as part of our refinancing.

### ***Refinancing***

On November 30, 2005, the Company refinanced its existing capital structure. The objective of the refinancing was to provide the Company with a long-term capital structure that is consistent with its strategy and preserves acquisition flexibility. The refinancing was completed through an offering of \$175 million of Senior Notes and a new senior secured credit facility comprised of a \$50 million senior credit term loan facility, a new revolving credit facility with an availability of \$35 million and an additional \$75 million in uncommitted incremental term loans. The transactions described in this paragraph are collectively referred to herein as the “Refinancing”. The proceeds of the Refinancing were used to repay the outstanding balances under the Term A, Term B, Term C, the revolving facility and \$30 million of the senior subordinated debt.

*New senior credit facility.* On November 30, 2005, the Company retired its existing credit facility through the sale of \$175 million of Senior Notes and a new term loan agreement in the amount of \$50 million.

Our new senior secured credit facilities consists of a \$50.0 million senior secured term loan facility maturing in 2012, the full amount of which was drawn at the closing on November 30, 2005. Additional borrowings are available under a \$35.0 million committed senior secured revolving credit facility maturing in 2010.

Borrowings under our new senior secured credit facilities bear interest, at our option, at either adjusted LIBOR plus an applicable margin or the alternate base rate plus an applicable margin. The applicable margin with respect to borrowings under our new senior secured revolving credit facility is subject to adjustments based upon a leverage-based pricing grid. Our new senior secured revolving credit facility requires us to meet maximum leverage ratios and minimum interest coverage ratios and will include a maximum capital expenditures limitation. In addition, the new senior secured revolving credit facility contains certain restrictive covenants which, among other things, limit our ability to incur additional indebtedness, pay dividends, incur liens, prepay subordinated debt, make loans and investments, merge or consolidate, sell assets, change our business, amend the terms of our subordinated debt and engage in certain other activities customarily restricted in such agreements. It will also contain certain customary events of defaults, subject to grace periods, as appropriate.

The loan agreement contains certain restrictive provisions which include, but are not limited to, requiring the Company to maintain certain financial ratios and limits upon the Company's ability to incur additional indebtedness, make certain acquisitions or investments, sell assets or make other restricted payments, including dividends (as defined in the term loan credit agreement). As of December 4, 2005, the Company was in compliance with all debt covenant requirements.

The Senior Notes will mature in 2013. Interest is payable semi-annually. The notes will be redeemable in the circumstances and at the redemption prices described in the Senior Notes. The indenture governing the notes and the senior secured term loan facility also contain numerous covenants including, among other things, restrictions on our ability to: incur or guarantee additional indebtedness or issue disqualified or preferred stock; pay dividends or make other equity distributions; repurchase or redeem capital stock; make investments or other restricted payments; sell assets or consolidate or merge with or into other companies; incur liens; enter into sale/leaseback transactions; create limitations on the ability of our restricted subsidiaries to make dividends or distributions to us; and engage in transactions with affiliates.

Future principal debt payments are expected to be paid out of cash flows from operations, borrowings under our new revolving credit facility and the proceeds of future refinancing of our debt.

Our ability to make scheduled payments of principal, or to pay the interest or additional interest, if any, on, or to refinance our indebtedness, or to fund planned capital expenditures will depend on our future performance, which, to a certain extent, is subject to general economic, financial, competitive legislative, regulatory and other factors that are beyond our control. Based upon the current level of operations, we believe that cash flow from operations and available cash, together with borrowings available under our new senior secured credit facilities, will be adequate to meet our future liquidity needs throughout fiscal 2006. Our assumptions with respect to future costs may not be correct, and funds available to us from the sources discussed above may not be sufficient to enable us to service our indebtedness, including the notes, or cover any shortfall in funding for any unanticipated expenses. In addition, to the extent we make future acquisitions, we may require new sources of funding including additional debt, equity financing or some combination thereof. We may not be able to secure additional sources of funding on favorable terms or at all.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations is based upon financial statements that have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent liabilities. On an ongoing basis, we evaluate our estimates, including those related to allowance for bad debts, the recoverability of long-term assets such as franchises and intangible assets, depreciation and amortization periods, income taxes, commitments and contingencies. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial statements.

### ***Principles of Consolidation and Fiscal Year End***

We and our consolidated entities report on a 52-53 week accounting year. The consolidated financial statements included elsewhere in this document include our financial statements and our wholly-owned subsidiaries for the period from January 7, 2005 through March 27, 2005 and predecessor financials for the period from March 29, 2004 to January 6, 2005 for comparative purposes. All significant intercompany balances and transactions have been eliminated in consolidation.

### ***Revenue Recognition***

Our principal revenue earning activity is related to the sale of online and print advertising by both independent distributors as well as direct sales to customers through the distribution territories managed by us. These revenue arrangements are typically sold as a bundled product to customers and include a print advertisement in a publication as well as an online advertisement. We bill the customer a single negotiated price for both elements. In accordance with EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, we separate our deliverables into units of accounting and allocate consideration to each unit based on relative fair values. We recognize revenue for each unit of accounting in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*.

#### ***Print***

Print revenues are derived from sale of advertising pages in our publications. We sell a bundled product to our customers that includes print advertisement as well as a standard online advertisement. The customer can also purchase premium placement advertising pages such as front cover and back cover. Revenue for print advertisement sales, including the premium placement advertising pages, is recognized when the publications are delivered and available for consumer access.

#### ***Online***

Online revenues are derived from the sale of advertising on our various websites. We sell a bundled product to our customers that includes a print advertisement in our publications as well as a standard online advertisement. The customer is permitted to purchase premium online advertisements whereby it can include additional data items such as floor plans, multiple photos and neighborhood information, and also secure premium placement in search results. Revenue for online sales, including the premium online advertisements, is recognized ratably over the period the online advertisements are maintained on the website.

#### ***Unearned revenue***

Our billings may occur one to four days prior to the shipment of the related publication and final upload of online advertising. At both interim and fiscal year end, we record unearned revenue to properly account for the timing differences and properly match revenue recognition to the proper period. We receive cash deposits from customers for certain publications prior to printing and upload of online advertising. These deposits are recorded as a liability and reflected accordingly in the consolidated financial statements.

### ***Trade Accounts Receivable***

Accounts receivable consist primarily of amounts due from advertisers in our operated markets, commercial printing customers, and independent distributors.

We grant credit without collateral to many of our customers. Substantially all trade accounts receivable are comprised of accounts related to advertising displayed in various real estate publications. Management believes credit risk with respect to those receivables is limited due to the large number of customers and their dispersion across geographic areas, as well as the distribution of those receivables among our various publication products.

We use the allowance method of reserving for accounts receivable estimated to be uncollectible. The allowance is calculated by applying a risk factor to each aging category.

### ***Goodwill***

We have recorded goodwill for the excess of cost of GMH's acquisition of NCI and other businesses over the amounts assigned to assets acquired and liabilities assumed. In accordance with Statement of Financial Accounting Standard ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, we test goodwill for impairment at the end of the fiscal year, and will test for impairment between annual tests if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Impairment testing for goodwill is performed at a reporting unit level.

An impairment loss would generally be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. The estimated fair value of a reporting unit is determined using various valuation techniques. We have not recognized any impairment of goodwill in the periods presented.

### ***Impairment of Long Lived Assets***

We assess the recoverability of long-lived assets whenever adverse events or changes in circumstances indicate that impairment may have occurred. If the future, undiscounted cash flows expected to result from the use of the related assets are less than the carrying value of such assets, an impairment has been incurred and a loss is recognized to reduce the carrying value of the long-lived assets to fair value, which is determined by discounting estimated future cash flows.

We have not recognized an impairment loss in the periods presented.

### ***Intangible Assets***

Intangible assets consist of the values assigned to a consumer database, independent distributor agreements ("IDA"), advertising lists, trade names, trademarks, and other intangible assets.

Amortization of intangible assets is provided utilizing the straight-line method over the estimated useful lives.

### **Recent Accounting Pronouncements**

On June 1, 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3. The Statement applies to all voluntary changes in accounting principles. We will adopt FAS 154 at March 27, 2006 and do not anticipate any material change to our operating results as a result of the adoption.

### ***Interest Rates***

Currently, we hedge exposure on 100% of our variable rate term loan debt from interest rate fluctuations through the use of an interest rate cap. We expect to continue to hedge a portion of our variable rate debt in the future.

The following table estimates the increase (or decrease) to cash flow from operations if interest rates were to fluctuate by 100 or 50 basis points, or BPS (where 100 basis points represents one percentage point), for a twelve-month period. The analysis is based on our variable rate debt, as of December 4, 2005, which consists of \$50.0 million in term loans and a \$35.0 million revolver. For purposes of this analysis, we have assumed that the revolver is fully drawn and we have not hedged any interest rate risk. The Senior Notes have a fixed rate and, therefore, have been excluded from this analysis.

	Interest Rate Decrease		Interest Rate Increase	
	100 BPS	50 BPS	50 BPS	100 BPS
Senior secured credit facilities .....	\$ 850	\$ 425	\$ (425)	\$ (850)

(Dollars in thousands)

### ***Inflation***

Inflation had no material impact on our operations during fiscal 2005. In fiscal 2006, we have experienced increases in the cost of paper and fuel. We anticipate that by the end of fiscal 2006, we will have absorbed an increase of approximately 20% in our paper pricing, which equates to an increase of over \$2.0 million in our annual paper expense. The increase in fuel prices impacts the amount we spend to run our fleet of trucks, the pricing from outside freight companies that we use and the amounts that we pay independent contractors in local markets to distribute our publications. During fiscal 2005 we spent \$0.6 million, \$1.4 million and \$2.9 million, respectively, on these functions. An increase of 20% in these costs due to higher fuel prices would result in an additional \$1.0 million in annual operating costs.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART I – FINANCIAL INFORMATION**

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The principal market risk (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed is fluctuation in interest rates on debt. We had no material foreign currency option contracts or any market risk contracts solely for trading purposes at December 4, 2005.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the normal course of business, we are a party to various claims and legal proceedings. We record a reserve for these matters when an adverse outcome is probable and we can reasonably estimate our potential liability. Although the ultimate outcome of these matters is currently not determinable, we do not believe that the resolution of these matters in a manner adverse to their interest will have a material effect upon our financial condition, results of operations or cash flows for an interim or annual period.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 3. Defaults upon Senior Securities**

None

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 5. Risk Factors**

**Risks Relating to Our Business**

***We depend on individual agents in the residential market for existing home sales for substantially all of our revenues in TREB and any industry downturn and consequential decrease in real estate prices in the residential market for existing home sales could adversely impact our financial results.***

We generate substantially all of our revenues from the residential and commercial real estate market, especially existing home sales, and thus depend on large real estate transaction volume and a stable supply of and demand for residential housing. The real estate market has been historically cyclical and is influenced by three key factors: interest rates, employment and consumer confidence. To the extent that interest rates rise significantly above their current levels, unemployment increases significantly or consumer confidence declines due to economic uncertainty or some other factors then the real estate market could decline and our business would be negatively impacted. Such economic downturn may adversely impact the relatively stable real estate advertising market.

Existing home sales were significantly affected by the most recent recession and the events of September 11, 2001, and are generally affected by the condition of the U.S. national and regional economies. Existing home sales have remained relatively flat for the past five years and, although the sector has recently shown improvement, there is no assurance that this improvement will continue in the near or long term. If the existing home sales market declines, our results of operations and financial condition could be adversely impacted.

Moreover, the ROI for our advertisers depends on the success rate of actual sales that are closed in comparison to the advertising expenses paid. Whether a real estate sale will actually close depends on factors beyond our control, such as (in addition to factors mentioned above) the market conditions and preferences, the personal choices of the people actually making the sale or purchase and other social and economic considerations. If our advertisers experience lowering ROI because actual sales decline for reasons beyond our control, they may choose to decrease the level of advertising which would adversely affect our revenues.

Although we believe that the key drivers of advertising and marketing expenditures are the number of home sales per year, rather than dollar volume, which provides us with a stable revenue base regardless of upward or downward movements of sale prices in each local real estate market, we cannot guarantee that this will remain true in the future. We cannot guarantee that downward movements of sale prices in local real estate markets will not cause corresponding downward movements in advertising and marketing expenditures, and that our results of operations and financial condition will not be adversely impacted as a result.

***We rely on our proprietary distribution network as a competitive advantage to effectively and efficiently distribute our publications. Any material hindrance to our ability to distribute our publications effectively and efficiently may materially reduce the market appeal of our publications for advertising.***

Our customers look for an efficient and wide distribution network when placing advertisements. Unlike our major direct print competitors that have entered into several multi-year, non-cancelable and long-term contracts that yield relatively high fixed costs and less flexibility to alter their distribution network, we have various low-cost, flexible agreements and arrangements with retail stores, restaurants and other public commercial locations to set up our distribution boxes. In addition, we have arrangements with some of our competitors to use their distribution outlets for our publications. If these various public commercial locations or our competitors do not allow us to set up our distribution network, or significantly raise the costs for us, our ability to effectively and efficiently distribute our publications may be materially impaired. Such impairment may materially reduce the demand from our customers and could have a material adverse effect on our business, results of operations and financial condition.

***If we are unable to meet rapid changes in technology, our services and proprietary technology and systems may become obsolete.***

The internet and e-commerce are constantly changing. Due to the costs and management time required to introduce new services and enhancements, we may not be able to respond in a timely manner to competitive innovations. To remain competitive, we must continue to enhance and improve the functionality and features of our

online commerce business. Further, to remain competitive, we must meet the challenges of the introduction by our competitors of new services using new technologies or the introduction of new industry standards and practices. In addition, the vendors we use to support our technology may not provide the level of service we expect or may not continue to provide their product or service on commercially reasonable terms or at all. If we fail to meet any of these potential changes or our vendors fail to provide the necessary support to our technology, our results of operations and financial condition could be negatively impacted.

***The market for our products and services is highly competitive.***

The market for our products and services is dispersed throughout North America. Generally, newspapers, the yellow pages and free guides dominate the local print market and represent our main competitors. Many of these publishers have a strong local distribution base and traditional readership.

Another class of competitors that have a potentially significant distribution base are various websites that focus on real estate sales. Since the cost of entry into our business is relatively low, we may face increased competition from other publications, whether paper or online. In addition, our current and potential competitors may have greater financial, technical, operational and marketing resources. Competitive pressures may also force prices for our service to go down which may adversely affect us.

***Any significant increase in paper, ink or printing plate costs would cause our expenses to increase significantly.***

Because of our print products, direct mail solicitations and product distributions, we incur substantial costs for paper, ink and printing plates, which are aluminum plates that capture the images that are transferred to our printing press. We do not currently use forward contracts to purchase paper and, therefore, we are not protected against fluctuations in paper prices. In addition, we currently have a contract that satisfies our ink requirements through April 2007. We expect to begin negotiations to extend this contract in December 2006. Although we expect to renew this agreement based on past experiences and thereby satisfy our ink requirement for 1-3 years, we cannot guarantee that we will be able to do so. In any event, due to increased energy costs that have increased the cost of ink production in general, we expect at least a 4% increase in ink prices, regardless of the supplier. Finally, we currently have a contract that satisfies our printing plates requirements through June 2008. However, this contract was recently assigned to Eastman Kodak Company, or Kodak. Although we believe that Kodak will honor this agreement and that we will be able to renew it in the future, we cannot guarantee that this agreement will be honored by Kodak or that we will be able to renew this agreement in the future. If we cannot renew our existing agreements and/or pass increased costs for paper, ink or printing plates through to our customers, our financial condition and results of operations could be adversely affected.

***An economic downturn or unexpected macroeconomic event could adversely affect our advertising revenue, a substantial portion of which is derived from our free publications.***

Our customers typically reduce their marketing and advertising budgets during a general economic downturn or a recession in the United States. The longer a recession or economic downturn continues, the more likely it becomes that our customers may significantly reduce their marketing and advertising budgets. Any material decrease in our customers' marketing and advertising budgets would likely reduce the demand for advertising in our publications and on our websites. Despite our efforts to diversify our publications, a substantial portion of our revenue is generated from the sale of advertising in our free publications, which include *TREB* and *Apartment Finder*. An unexpected event such as a terrorist attack, labor strike, natural catastrophe or general economic weakness can adversely affect the advertising demand for these publications and, in turn, could adversely impact our results of operations and financial condition.

***Our success and growth depend to a significant degree upon the protection of our intellectual property rights.***

As a media company we have a significant intellectual property portfolio, especially copyrights and trademarks, and have allocated considerable resources toward intellectual property maintenance, prosecution and enforcement. For example, we hold and maintain or have pending applications for numerous copyrights and trademarks in connection with our various publications, such as *TREB*. We also hold the design patents for the bird

house design of our distribution boxes that we place in various retail and other sites for our publications. In addition, we also continuously develop and create proprietary software to enhance our ability to effectively and efficiently update the listings in our online and print publications. For example, our advertising management system, or AMS, technology was developed by us to easily track new and updated listings. We may be unable to deter infringement or misappropriation of our data and other proprietary information, detect unauthorized use or take appropriate steps to enforce our intellectual property rights. Any unauthorized use of our intellectual property could make it more expensive for us to do business and consequently harm our business.

***A loss of production capacity at our in-house printing facilities could adversely impact our results of operations and financial condition.***

We produce the vast majority of our products at our printing facilities located at our headquarters in Lawrenceville, Georgia. We generally house approximately a one-month supply of paper, five printing presses and other materials necessary to produce our publications at these facilities. To the extent that an unexpected event such as a fire, explosion or natural catastrophe occurs at our in-house printing facilities, we could experience significant delays in the production and delivery of our products to our customers. In addition, we may be forced to engage an independent third-party publisher to produce our publications at higher costs. The engagement of an independent third-party publisher would reduce our revenues and require an additional expenditure of capital by us and would negatively impact our margins. As a result, our results of operations and financial condition could be adversely impacted.

***Loss of key personnel could impair our success.***

We benefit from the leadership, experience and business relationships of our senior management team, and we depend on their continued services in order to successfully implement our business strategy. Although we have entered into employment agreements with our Chief Executive Officer and Chief Financial Officer, they and other key personnel may not remain in our employment. The loss of key personnel or our inability to attract new personnel could have a material adverse effect on our business, results of operations and financial condition.

We also employ approximately 330 people in our sales force and depend on their ability to generate advertising for our publications and websites. A significant loss of such sales force may adversely affect our revenue.

***We are subject to state use taxes. If our distribution arrangements with our independent distributors are characterized as a sale of publications as opposed to a distribution arrangement, we could be subject to higher use taxes from the state tax authorities.***

We sell advertising space through our independent distributors and distribute our publications to the distribution boxes in various states through such independent distributors. Based on this arrangement, we pay certain state use taxes on the production costs of our publications, because we do not view our arrangement with the independent distributors as a sale of our publications to such independent distributors. We cannot guarantee that state tax authorities will agree with our view on the arrangements with our independent distributors in the future. If state tax authorities were successful in characterizing our arrangements as a sale of the publications to the independent distributors for tax purposes, we may be subject to significantly higher state use taxes. Such higher taxes may have a material adverse impact on our results of operations and financial condition.

***Our arrangement with our independent distributors may become subject to various additional federal and state regulatory laws that do not affect the current operations.***

Currently, certain federal and state regulatory laws, including laws related to antitrust, franchises, employment and tax, do not regulate our arrangements with our independent distributors. We do not believe our arrangements should be regulated under such federal and state regulatory schemes. However, we cannot guarantee that the federal and state regulatory authorities will continue to agree that such regulatory scheme is not applicable to our arrangements with the independent distributors. If we are subject to various other burdensome federal or state regulatory schemes (such as certain registration or filing requirements), such additional costs and efforts may negatively impact our results of operations and financial condition.

***To the extent we consummate acquisitions in the future, there will be integration risk.***

The process of integrating acquired businesses into our existing operations may result in unforeseen difficulties and liabilities and may require a disproportionate amount of resources and management attention. Difficulties that we may encounter in integrating the operations of acquired businesses could have a material adverse effect on our results of operations and financial condition. Moreover, we may not realize any of the anticipated benefits of an acquisition and integration costs may exceed anticipated amounts. In addition, acquisitions of businesses may require us to assume or incur additional debt financing, resulting in additional leverage.

***We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes- Oxley Act of 2002.***

Following the Refinancing, we will begin evaluating our internal control systems to allow management to report on, and our independent auditors to attest to, our internal control over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Upon consummation of the exchange offer required pursuant to the registration rights agreement, we will be required to comply with Section 404 by no later than March 28, 2008. However, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity under applicable SEC and Public Company Accounting Oversight Board rules and regulations. We will be required to report, among other things, control deficiencies that constitute a “material weakness” or changes in internal controls that, or are reasonably likely to, materially affect our internal control over financial reporting. A “material weakness” is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we might be subject to sanctions or investigation by regulatory authorities such as the SEC, and if we fail to remedy any material weakness, our financial statements may be inaccurate, and could result in negative market reaction.

***We are controlled by principal equity holders who will be able to make important decisions about our business and capital structure.***

CVC and its affiliates control us and have the power to elect a majority of the members of our board of directors, appoint new management and approve any action requiring the approval of the holders of GMH’s, our parent’s, membership interests, including approving acquisitions or sales of all or substantially all of our assets. CVC and its affiliates will beneficially own securities representing approximately 88% of our voting equity interests and, therefore, will have the ability to control decisions affecting our capital structure, including the issuance of additional capital stock, the implementation of stock repurchase programs and the declaration of dividends. If we encounter financial difficulties or we are unable to pay our debts as they mature, the interests of our equity holders might conflict with those of the holders of the notes. In that situation, for example, the holders of the notes might want us to raise additional equity from our equity holders or other investors to reduce our leverage and pay our debts, while our equity holders might not want to increase their investment in us or have their ownership diluted and instead choose to take other actions, such as selling our assets. Our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments. In addition, our equity holders may pursue acquisition opportunities through companies other than us, even if such opportunities may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

**Risks related to Controls and Procedures**

***Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business or operating results.***

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial reports. If we are unable to achieve and maintain adequate internal controls, our business and operating results could be adversely affected.

As more fully described in Note 2 to our consolidated financial statements included elsewhere in this document, we have restated our 2003, 2004 and 2005 consolidated financial statements to correct errors in our accounting for advertising revenue. A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. In connection with the restatement described above, we have concluded that we did not maintain effective controls over the completeness and accuracy of revenue and deferred revenue. Specifically, we did not have adequate controls over the supervision and review of the application of GAAP for revenue recognition. This control deficiency resulted in the restatement of our annual financial statements described above. Additionally, this control deficiency could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly our management determined that the above described control deficiency constitutes a material weakness in our internal control over financial reporting.

Management concluded that our growth and our plans to register the notes offered hereby would require additional resources in our accounting and finance staff. In response to that need we hired our controller who has expertise and experience in GAAP and financial reporting. In addition, we have taken and continue to take steps to supplement and train our accounting and finance staff including adopting and implementing the guidance for revenue recognition set forth in SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, and EITF 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The remediation of our material weakness is currently ongoing. The actions we have taken and continue to take are subject to continued management review as well as audit committee oversight. As a result, we expect that actions taken to date will fully remediate this material weakness. If we are unable to remediate this material weakness, we may not be able to accurately and timely report our financial position, results of operations or cash flows as a public company. There can be no assurance that we will be able to do so, which could impair our ability to accurately and timely report our financial position, results of operations or cash flows and cause a negative market reaction.

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Item 6. Exhibits**

None

**NETWORK COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**PART II – OTHER INFORMATION**

**Forward Looking Statement**

Our disclosure and analysis in this document include some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. All statements other than statements of current or historical fact contained in this document, including statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “estimate,” “expect,” “intend,” “may,” “plan,” “will” and similar expressions, as they relate to us, are intended to identify forward-looking statements. In particular, these include, among other things, statements relating to:

- our significant indebtednesses and ability to incur substantially more debt;
- our future cash flow and earnings;
- our ability to meet our debt obligations;
- our ability to increase our market share;
- our ability to retain our customers;
- our ability to identify suitable acquisition candidates for expansion, to consummate these transactions on favorable terms and to achieve satisfactory operating results from the acquired businesses;
- our ability to avoid unforeseen material liabilities as a result of acquiring new companies;
- our ability to manage business growth and diversification and the effectiveness of our information systems;
- our ability to compete with competitors in our industry;
- possible litigation;
- the effects of increased costs of insurance;
- our ability to attract and retain qualified management personnel; and
- the effects of general industry and economic conditions.

We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They can be affected by inaccurate assumptions we might make or by known or unknown risks, uncertainties and assumptions, including the risks, uncertainties and assumptions described in “Risk Factors.” In light of these risks, uncertainties and assumptions, the forward-looking statements in this document may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements. When you consider these forward-looking statements, you should keep in mind these risk factors and other cautionary statements in this document.

Our forward-looking statements speak only as of the date made. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Network Communications, Inc.

Date: January 18, 2006

/s/ DANIEL McCARTHY

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(Signature)  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: January 18, 2006

/s/ GERARD P. PARKER

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(Signature)  
*Senior Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*