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

FORM 10-Q

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

For the quarterly period ended: June 18, 2006

Commission file number

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

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)**

	March 26, 2006	June 18, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 16,418,335	\$ 7,799,356
Accounts receivable, net of allowance for doubtful accounts of \$1,517,075 and \$1,653,793, respectively	17,702,681	15,725,139
Inventories	3,514,621	3,617,215
Prepaid expenses and deferred charges.....	2,923,030	2,427,228
Deferred tax assets.....	590,142	643,324
Income tax receivable.....	2,092,113	529,265
Other current assets	521,029	1,396,245
Total current assets	43,761,951	32,137,772
Property, equipment and computer software, net	28,001,751	25,248,305
Goodwill.....	283,159,664	284,305,019
Deferred financing costs, net.....	13,965,184	13,523,991
Intangible assets, net.....	146,084,373	145,249,973
Other assets.....	273,533	305,609
Total noncurrent assets	471,484,505	468,632,897
Total assets	\$ 515,246,456	\$ 500,770,669
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current liabilities		
Accounts payable.....	\$ 6,257,052	\$ 5,948,514
Accrued compensation, benefits and related taxes	5,676,556	4,358,208
Customer deposits.....	1,415,699	1,495,665
Unearned revenue	7,431,466	2,649,208
Accrued interest.....	6,797,466	1,572,492
Other accrued expenses	1,020,155	905,120
Current maturities of long-term debt	500,000	500,000
Current portion of capital lease obligations.....	676,103	681,486
Total current liabilities.....	29,774,497	18,110,693
Long-term debt, less current maturities	250,666,705	251,389,581
Capital lease obligations, less current portion	501,958	336,407
Deferred tax liabilities	54,232,211	51,982,371
Total liabilities	335,175,371	321,819,052
Commitments and contingencies (Note 11)		
Stockholder's Equity		
Common Stock, \$0.001 par value, 100 shares authorized issued and outstanding	—	—
Additional paid-in capital (including warrants of \$533,583 at March 26, 2006 and June 18, 2006).....	194,475,028	194,557,402
Accumulated deficit.....	(14,403,943)	(15,605,785)
Total stockholder's equity	180,071,085	178,951,617
Total liabilities and stockholder's equity.....	\$ 515,246,456	\$ 500,770,669

See notes to condensed consolidated financial statements.

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

	Three Periods Ended	
	June 19, 2005	June 18, 2006
Sales.....	\$ 39,892,026	\$ 47,663,826
Cost of sales (exclusive of production depreciation and software amortization expense shown separately below)	24,759,159	29,704,447
Production depreciation and software amortization	2,098,571	2,471,991
Gross profit	13,034,296	15,487,388
Selling, general and administrative expenses	5,968,645	6,496,446
Depreciation and software amortization	737,336	868,538
Amortization of intangibles	3,311,465	3,603,832
Operating income	3,016,850	4,518,572
Other income (expense)		
Interest and dividend income	26,825	127,616
Interest expense.....	(4,234,679)	(6,505,509)
Unrealized gain on derivatives.....	—	7,317
Other income (expense), net	7,147	(9,900)
Other expense	(4,200,707)	(6,380,476)
Loss before benefit for income taxes	(1,183,857)	(1,861,904)
Income tax benefit.....	(510,545)	(660,062)
Net loss	\$ (673,312)	\$ (1,201,842)

See notes to condensed consolidated financial statements.

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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>			
Balance at March 26, 2006	100	\$ —	\$194,475,028	\$(14,403,943)	\$180,071,085
Capitalization from parent	—	—	82,374	—	82,374
Net loss	—	—	—	(1,201,842)	(1,201,842)
Balance at June 18, 2006	<u>100</u>	<u>\$ —</u>	<u>\$194,557,402</u>	<u>\$(15,605,785)</u>	<u>\$178,951,617</u>

See notes to condensed consolidated financial statements.

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

	Three Periods Ended	
	June 19, 2005	June 18, 2006
Cash flows from operating activities		
Net loss	\$ (673,312)	\$ (1,201,842)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and other assets	2,835,907	3,340,529
Amortization of intangible assets	3,311,465	3,603,832
Amortization of deferred financing costs	485,304	459,943
Amortization of debt discount for pay-in-kind Senior Subordinated Note	15,694	15,694
Amortization of debt discount for Senior Notes	—	66,079
Interest expense for pay-in-kind Senior Subordinated Note	700,000	766,103
Unrealized gain on derivatives	—	(7,317)
Deferred income taxes	(2,420,502)	(2,303,022)
Changes in operating assets and liabilities, net of acquired businesses:		
Accounts receivable	(1,513,053)	1,977,542
Inventories	(1,309,954)	(102,594)
Prepaid expenses and deferred charges	932,185	495,802
Income tax receivable/payable	1,118,810	1,562,848
Other current assets and other assets	22,692	44,454
Accounts payable	(609,137)	(308,538)
Accrued compensation, benefits and related taxes	889,714	(1,318,348)
Other current liabilities and other liabilities	(612,801)	(10,042,302)
Net cash provided by / (used in) operating activities	<u>3,173,012</u>	<u>(2,951,137)</u>
Cash flows from investing activities		
Purchase of property, equipment and computer software	(738,746)	(560,281)
Deposits on future equipment purchases	—	(944,429)
Acquisitions of businesses, net of cash acquired	(22,930,573)	(3,929,087)
Net cash used in investing activities	<u>(23,669,319)</u>	<u>(5,433,797)</u>
Cash flows from financing activities		
Net payments on revolver	(7,000,000)	—
Proceeds from term loans	30,000,000	—
Payments on term loans	(1,314,219)	(125,000)
Capitalization from parent	—	82,374
Payments on capital leases	(129,221)	(172,669)
Payment of debt issuance costs	(348,599)	(18,750)
Net cash provided by / (used in) financing activities	<u>21,207,961</u>	<u>(234,045)</u>
Net increase (decrease) in cash	711,654	(8,618,979)
Cash at beginning of period	4,090,960	16,418,335
Cash at end of period	<u>\$ 4,802,614</u>	<u>\$ 7,799,356</u>
Supplemental disclosure		
Acquisition of businesses:		
Fair value of assets acquired	\$ 25,725,931	\$ 3,929,087
Less liabilities assumed	2,795,358	—
Cash paid for acquisitions of businesses	<u>\$ 22,930,573</u>	<u>\$ 3,929,087</u>
Noncash investing and financing activities		
Assets acquired through capital lease	\$ 55,633	\$ 12,502

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 (“TREB”)*, which is distributed in 49 states, the District of Columbia, Puerto Rico, Virgin Islands and Canada. It also produces the *Apartment Finder*, *New Home Finder*, *Mature Living Choices*, *Unique Homes Magazine*, *Enclave Magazine*, *Black’s Guide*, *Kansas City Homes and Gardens*, regional Home and Lifestyle magazines, 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”). On January 7, 2005, the majority of GMHC stock was acquired by Citigroup Venture Capital Equity Partners, L.P. (“CVC”) for consideration of \$383.9 million in cash. As a result of their stock acquisition of GMHC, our ultimate parent, CVC and its affiliates, own approximately 88% of GMHC’s outstanding capital stock. By virtue of their stock ownership, CVC has significant influence over our management and will be able to determine the outcome of all matters required to be submitted to the stockholders for approval. 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 which is not tax deductible.

2. 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 condensed consolidated financial statements include the financial statements of the Company for the three periods ended June 19, 2005 and the three periods ended June 18, 2006. All significant intercompany balances and transactions have been eliminated in consolidation. For all periods presented other comprehensive income is equivalent to net income.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

The accompanying interim condensed consolidated financial statements for the three periods ended June 19, 2005 and June 18, 2006 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 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 condensed consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows for the periods indicated. Operating results for the three periods ended June 18, 2006 are not necessarily indicative of results that may be expected for any other future interim period or for the year ending March 25, 2007. You should read the unaudited condensed consolidated financial statements in conjunction with NCI’s consolidated financial statements and notes thereto in the Registration Statement on Form S-4/A filed with the Securities and Exchange Commission on July 12, 2006.

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

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 26, 2006 or June 18, 2006.

Trade Accounts Receivable

Accounts receivable consist primarily of amounts due from advertisers in Company-operated markets and Independent Distributors ("ID"). 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 26, 2006 or June 18, 2006.

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.

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

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	5 years

Leasehold improvements and leased assets are amortized over the shorter of their estimated useful lives or lease terms.

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.

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, as well as upgrades and enhancements that results in additional functionality are capitalized. The Company capitalized \$3.2 million as of March 26, 2006, and \$0.05 million during the three periods ended June 18, 2006. These capitalized software costs are included in "Property, equipment and computer software" in the condensed consolidated balance sheets. Computer software is amortized utilizing the straight-line method over two years, the expected period of benefit. The total net computer software costs capitalized were \$9.7 million and \$7.3 million at March 26, 2006 and June 18, 2006, 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 at \$0.50 million for the three periods ended June 19, 2005 and June 18, 2006.

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. The value and expected useful lives of our intangible assets were determined by an independent third party valuation specialist at the close of the CVC acquisition. The valuation and lives of our larger intangible assets (trademarks, trade names, independent distributors and advertiser lists) were determined by identifying the remaining useful life of the components of each asset combined with a reasonable attrition rate and a reasonable expectation for increase in revenue by each component. Certain markets experience a lower attrition rate. This has contributed to intangible lives in excess of 15 years. Amortization of intangible assets is provided utilizing the straight-line method over the following estimated useful lives.

Advertiser lists	8 – 22 years
Consumer databases	4-17 years
Distribution network	10 years
Independent distributor agreements	15 years
Noncompete agreements	1-5 years
Trademarks/Trade names	5 - 15 years
Subscriber lists	4 – 6 years
Domain names	5 years

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

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 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 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 June 19, 2005 and June 18, 2006 were \$0.25 million and \$0.31 million, respectively.

Advertising Barter Transactions

The Company trades advertisements in its print magazines in exchange for rent, trade show advertising and other services. Revenue and related expenses from barter transactions are recorded at fair value in accordance with APB No. 29, “*Accounting for Nonmonetary Transactions*”, EITF No. 93-11 “*Accounting for Barter Transactions Involving Barter Credits*”, EITF No. 99-17, “*Accounting for Advertising Barter Transactions*”, and EITF 01-2, “*Interpretations of APB No. 29*”. Revenue from barter transactions is recognized in accordance with the Company’s revenue recognition policies. Expense from barter transactions is generally recognized as incurred. Revenue from barter transactions for the three periods ended June 19, 2005 and June 18, 2006, was approximately \$0.04 million and \$0.43 million respectively, with approximately equal related expense amounts in each quarter.

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. The company’s results of operations are translated at average currency rates. Aggregate foreign remeasurement adjustments included in operations totaled \$(0.002) million and \$0.054 million, for the three periods ended June 19, 2005 and June 18, 2006, respectively.

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

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. Independent Distributors are contracted to manage certain distribution territories on behalf of NCI. The Company maintains ownership of all magazines and distribution territories. Revenue recognition for print and online products are consistently applied within Company-managed and ID-managed distribution territories as described below. 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*. Subscriptions are recorded as deferred revenue when received and recognized as revenue over the term of the subscription.

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 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. The Company did not elect to use hedge accounting for the derivative instruments entered into during fiscal 2006 and the first quarter of fiscal 2007. Accordingly, the Company recognizes the change in fair value of the instruments in the condensed consolidated statements of operations.

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

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 accounting principles generally accepted in the United States 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. 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

In November 2004, the FASB issued Statement No. 151, *Inventory Costs*, which is an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This standard is effective for inventory costs incurred for fiscal years beginning after June 15, 2005. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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 adopted SFAS 154 at March 27, 2006 with no material impact to its operating results.

3. Prepaid expenses and deferred charges

Prepaid expenses and deferred charges consist of the following:

	March 26, 2006	June 18, 2006
Prepaid expenses	\$ 1,643,122	\$ 1,001,889
Deferred charges	1,279,908	1,425,339
	\$ 2,923,030	\$ 2,427,228

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

4. Inventories

Inventories consist of the following:

	March 26, 2006	June 18, 2006
Distribution products and marketing aids for resale.....	\$ 505,159	\$ 571,225
Production, paper and ink.....	2,174,130	2,149,453
Work-in-process.....	835,332	896,537
	\$ 3,514,621	\$ 3,617,215

5. Acquisitions

During the first three periods of fiscal 2007, the Company completed certain acquisitions as part of our overall strategy to expand our product offerings and geographical presence. NCI generally pays 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. The majority of our transactions are asset based in which we acquire the publishing assets associated with magazines that fit our predetermined criteria as an expansion of our geographical footprint or addition to market share in certain areas. We evaluate each magazine on an individual basis for fit with our organization based on its historical performance along with our expectations for growth. The strength of each criteria and the expected return on our investment is evaluated in developing the purchase price. The purchase price allocation is aggregated below for small business combinations in accordance with SFAS 141.

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; comparative analysis with similar organizations within the industry; historical experience with customer relationships; 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. Goodwill resulting from the acquisitions discussed below was assigned to the Company's one business segment.

During the first quarter of fiscal 2007, the Company acquired the publishing assets of three magazines. *Kansas City New Homes Journal* is a new home publication. *The Apartment Community Guide* and *Pittsburgh Apartment Source* are apartment directories that serve the south-eastern coast of Florida and Pittsburgh areas, respectively.

The aggregate purchase price for these acquisitions including transaction costs was \$3.9 million. The acquisitions were 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. Goodwill associated with these transactions will be deductible for tax purposes. The aggregate purchase price for the acquisitions was allocated as follows:

	Fair Value at Purchase Price	Weighted-Average Amortization Period
<small>(In thousands of dollars)</small>		
Tangible assets		
Fixed assets	\$ 14	
Total tangible assets	14	
Intangible assets		
Advertiser list.....	1,917	6 years

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Distribution Network.....	150	10 years
Trade name.....	321	5 years
Non-compete.....	352	5 years
Other intangibles.....	30	
Goodwill.....	1,145	
Total intangible assets.....	<u>3,915</u>	
Total purchase price.....	<u>\$ 3,929</u>	

Unaudited pro forma results of operations data for the three periods ended June 19, 2005 and June 18, 2006, as if NCI and the entities described above had been combined as of March 28, 2005, 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 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.

	Unaudited Pro Forma Results of			
	Operations			
	Three Periods Ended			
	June 19, 2005		June 18, 2006	
	(in thousands)			
Sales.....	\$	42,473	\$	50,245
Loss before benefit for income taxes.....		(835)		(1,500)
Net loss.....	\$	(448)	\$	(970)

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 dates.

6. Goodwill

The total amount of goodwill on the Company's books at March 26, 2006 and June 18, 2006 is \$283.2 million and \$284.3 million, respectively. The Company performed an impairment test of its goodwill at March 26, 2006 and determined that no impairment of goodwill existed.

Balance, March 26, 2006.....	\$ 283,159,664
Additions.....	<u>1,145,355</u>
Balance, June 18, 2006.....	<u>\$ 284,305,019</u>

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

7. Intangible Assets

Intangible assets consist of the following:

	March 26, 2006	June 18, 2006
Carrying Amount		
Independent distributor agreements	\$ 68,000,000	\$ 68,000,000
Advertiser lists	23,146,900	25,064,000
Distribution network	5,425,346	5,575,047
Trademarks/trade names	46,679,047	47,000,095
Consumer databases	13,715,000	13,715,000
Noncompete agreements	7,162,754	7,514,337
Subscriber list	283,016	283,016
Domain names	—	30,000
	\$ 164,412,063	\$ 167,181,495
Accumulated Amortization		
Independent distributor agreements	(5,666,643)	(6,712,790)
Advertiser lists	(2,629,808)	(3,253,001)
Distribution network	(657,751)	(784,220)
Trademarks/trade names	(3,851,800)	(4,601,416)
Consumer databases	(2,136,775)	(2,531,254)
Noncompete agreements	(3,342,550)	(3,994,746)
Subscriber list	(42,363)	(53,595)
Domain names	—	(500)
	(18,327,690)	(21,931,522)
Intangible assets, net	\$ 146,084,373	\$ 145,249,973

Amortization expense was \$3.3 million and \$3.6 million for the three periods ended June 19, 2005 and June 18, 2006, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense is expected to be approximately \$12.5 million for each of the fiscal years 2008 through 2012. As acquisitions and dispositions occur in the future, these amounts may vary.

8. Accrued Compensation, Benefits and Related Taxes

Accrued expenses consist of the following:

	March 26, 2006	June 18, 2006
Accrued salaries	\$ 1,960,637	\$ 2,065,457
Accrued commissions/bonuses	900,550	872,071
Accrued profit sharing	1,639,333	575,000
Other	1,176,036	845,680
	\$ 5,676,556	\$ 4,358,208

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

9. Long Term Debt

Long-term debt consists of the following:

	<u>March 26, 2006</u>	<u>June 18, 2006</u>
10 ³ / ₄ % Senior Notes, due December 1, 2013	\$ 175,000,000	\$ 175,000,000
New Senior Term loan	50,000,000	49,875,000
Revolver	—	—
Senior Subordinated Note	28,840,984	29,607,087
	<u>253,840,984</u>	<u>254,482,087</u>
Less:		
Unamortized discount on noncurrent Senior Notes and Senior Subordinated Note	(2,674,279)	(2,592,506)
Current portion.....	(500,000)	(500,000)
	<u>\$ 250,666,705</u>	<u>\$ 251,389,581</u>

Senior Subordinated Debt

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.

During the first quarter of fiscal 2007, \$0.77 million was added to principal for interest on the Parent Mezzanine Debt. As of June 18, 2006 the total principal added to the Parent Mezzanine Debt was \$4.61 million on a cumulative basis.

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 585,926.7 Class A common shares 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*, an independent valuation analysis was performed to determine the debt proceeds allocated to the warrants issued in connection with the senior subordinated debt. The valuation was based on market and financial data from comparable companies that were publicly traded. Revenue, EBITDA and total assets were compared to arrive at a base and a reasonable multiple for each measure. A liquidity discount was applied to arrive at NCI's business enterprise valuation and subsequently, a fair market value for the total equity. The per share warrant value was indicated at \$0.91 per share resulting in a total valuation of \$0.53 million. 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.

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

The Senior Subordinated Note agreement contains 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 a debt leverage ratio and interest coverage 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. As of June 18, 2006, the Company had an interest rate cap of \$50.0 million on its outstanding senior credit facility.

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 \$175.0 million of Senior Notes and a new senior secured credit facility comprised of a \$50.0 million senior credit term loan facility, a new revolving credit facility with an availability of \$35.0 million and an additional \$75.0 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 \$30.0 million of the senior subordinated debt resulting in no extinguishment gain or loss.

10 3/4% Senior Notes

In November 2005, the Company completed the sale of \$175.0 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 3/4%.

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 prior to December 1, 2009 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 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 redemption prices expressed as a percentage of the principal amount, plus accrued and unpaid interest to the redemption date for the 12-month period commencing on December 1 follow:

<u>Period</u>	<u>Optional Redemption Percentage</u>
2009.....	105.375%
2010.....	102.688%
2011 and thereafter.....	100.000%

The Senior Notes were issued at a discount of \$2.29 million, which is being amortized as interest expense over the life of the Senior Notes. The unamortized discount was \$2.15 million at June 18, 2006.

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

The Company has filed an Exchange Offer Registration Statement with the SEC on June 2, 2006 and will 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 \$50.0 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 secured leverage ratio, which is calculated quarterly.

The Company had \$50.0 million outstanding under the term facility with no availability to borrow at June 18, 2006. Also, as of June 18, 2006, 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 June 18, 2006. The interest rate at June 18, 2006 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 7.39% at June 18, 2006.

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 million 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 \$75.0 million. As of June 18, 2006, 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 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.

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

10. Stockholder's Equity

On January 7, 2005, NCI's parent, GMH, a wholly-owned subsidiary of GMHC, was acquired in a stock transaction by CVC for cash consideration of \$383.9 million. GMHC was subsequently recapitalized to reflect 17,524,091 shares of series L common stock in the amount of \$192.7 million, 1,079,863 shares of series A common stock in the amount of \$1.1 million, term loans of \$148.7 million and senior subordinated debt of \$55.0 million. GMH recapitalized NCI with the proceeds from its common equity in the amount of \$194.4 million, including the value allocated to the warrants as well as the debt obligations associated with the transaction. The funds received for capitalization have been recorded in the accompanying financial statements as Additional Paid-In Capital ("APIC").

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 \$5.2 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 two contract payments during fiscal 2006 and fiscal 2007 in the amount of \$1.42 million. The remaining balance of \$3.8 million will be paid during fiscal 2007.

Operating Leases

The Company is obligated under noncancellable operating leases and leases for office space which expire at various dates through 2013. 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.

Other

The Company is involved in various claims and lawsuits which arise in the normal course of its business. Management does not believe that any of these actions will have a material adverse effect on the Company's financial position or results of operations.

12. Related Party Transaction

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. The Company paid \$0.19 million under this agreement as of March 26, 2006 and no payments were made under this agreement for the three periods ended June 18, 2006. The amount accrued under this agreement as of March 26, 2006 and June 18, 2006 was \$0.07 million and \$0.12 million, respectively.

The Company retained TMG Public Relations ("TMG") to perform public relations and marketing services on its behalf on a project-by-project basis. TMG is owned by the spouse of Dan McCarthy, NCI's Chairman and Chief Executive Officer. We made payments to TMG of \$0.04 million and \$0.12 million during the three periods ended June 19, 2005 and June 18, 2006 respectively. The Company accrued \$0.028 million and \$0.018 million for

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

services rendered as of March 26, 2006 and June 18, 2006, respectively. We expect to continue to use the services of TMG during fiscal 2007.

13. Subsequent Events

On a June 29, 2006, the Company acquired *Accent Homes and Garden*, a home and design magazine for Northern New England, and *Accent on Lifestyle*, a lifestyle magazine for the same community. The acquisition of these magazines provides us an opportunity to enter the home improvement and design market in the New England area.

On June 26, 2006, the company acquired the publishing assets of *Dallas Home Improvement* magazine from Design Guide Publishing, Ltd.

The aggregate purchase price of these acquisitions was \$1.1 million.

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 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 June 19, 2005 to the three periods ended June 18, 2006.

On January 7, 2005, we were acquired by CVC in a stock transaction. In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 141, our acquired assets and assumed liabilities were revalued to reflect fair value as of the date of the acquisition. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: future expected cash flow; comparative analysis with similar organizations within the industry; historical experience with customer relationship; current replacement costs for similar capacity for certain fixed assets; market assumptions for contractual obligations; settlement plans for litigation and contingencies; and appropriate discount rates and growth rates. The revaluation created a difference in the basis of accounting specifically for our property, equipment, software, all intangible assets and debt obligations. The change in basis of accounting is noted throughout this document, as applicable.

We have 13 reporting periods in each fiscal year. Our fiscal year refers to the fifty two or fifty three week accounting year ended on the last Sunday of March of that year. The first, second and third quarters each contain three periods, or twelve weeks each, and the fourth quarter contains four periods, or sixteen weeks.

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 real estate agents, property management companies, new home builders and home renovation products and service providers. In fiscal 2006, we believe that we generated over ten million leads for our advertisers. Approximately 70% 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 650 targeted markets which may overlap geographically across the U.S. and Canada, and have a monthly print and online reach of over 13 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, *The Real Estate Book (“TREB”)*, is the largest real estate advertising publication in North America. In the leasing market, we provide residential and commercial leasing listings, 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 1.8 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 to more than ten online distribution partners, including RealEstate.com, BobVila.com and Lycos.com with a monthly reach of over 47 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 June 18, 2006, we had 1,042 employees, approximately 565 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.
- per unit cost to produce our publications

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 over 23% 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 5% to 10% during fiscal 2007. Based on our paper expense in fiscal 2006 of over \$18.1 million, a 10% increase in paper prices will increase our paper costs by over \$1.8 million for the fiscal year. We also expect at least an approximate 5% increase in ink prices, or over \$0.06 million, for the fiscal year 2007.

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 or purchased, as well as property, plant and equipment. 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 June 19, 2005 and June 18, 2006 were \$2.10 million and \$2.47 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 the determination of gross profit for the three periods ended June 19, 2005 and June 18, 2006 were \$0.74 million and \$0.87 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 the related 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. The value and expected useful lives of our intangible assets were determined by an independent third party valuation specialist at the close of the CVC acquisition. The valuation and lives of our larger intangible assets (trademarks, trade names, independent distributors and advertiser lists) were determined by identifying the remaining useful life of the components of each asset combined with a reasonable attrition rate and a reasonable expectation for increase in revenue by each component. Certain markets experience a lower attrition rate. This has contributed to intangible lives in excess of 15 years. Amortization is calculated on a straight-line basis over the expected useful life of the asset.

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 and deferred income taxes. The effective income tax rate for the three periods ended June 18, 2006 of 35.5% compares to an effective income tax rate of 43.1% for the three periods ended June 19, 2005. The change in effective income tax rate is due primarily to the impact of nondeductible expenses relative to the level of net income before taxes between the two periods. The Company has non-deductible expenses related to meals and entertainment and certain interest expenses related to senior subordinated debt. We are subject to taxation in the United States (for federal and state) and Canada.

Results of Operations

The following table sets forth a summary of our operations and its percentages of total revenue for the periods indicated (in thousands) for our first quarter ended June 19, 2005 and June 18, 2006. 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			
	June 19, 2005		June 18, 2006	
	Amount	%	Amount	%
Resale and new sales	\$ 24,745	62.0%	\$ 29,054	61.0%
Rental and leasing.....	12,185	30.5%	12,923	27.1%
Remodeling and home improvement	2,962	7.5%	5,687	11.9%
Total revenue	39,892	100.0%	47,664	100.0%
Cost and expenses:				
Operating (including production depreciation and software amortization).....	26,858	67.3%	32,176	67.5%
Selling, general and administrative (including non-production depreciation and software amortization).....	6,706	16.8%	7,365	15.4%
Amortization of intangibles	3,311	8.3%	3,604	7.6%
Income from operations	\$ 3,017	7.6%	\$ 4,519	9.5%

Three Periods Ended June 18, 2006 Compared to Three Periods Ended June 19, 2005

Revenue. For the three periods ended June 18, 2006, total revenue was \$47.7 million compared to \$39.9 million for the three periods ended June 19, 2005. This was an increase of \$7.8 million or 19.5%.

TREB posted revenue of \$23.7 million in the first quarter of fiscal year 2007 compared to \$20.1 million during the same period in fiscal 2006 which was an increase of \$3.6 million, or 17.9%. The *TREB* ID sales channel had revenue of \$15.6 million compared to \$12.9 million in fiscal year 2006, an increase of \$2.7 million or 20.9%. The growth is primarily attributable to ad page growth both from our long established markets as well as from the new markets that we have expanded to during the last two years. The *TREB* Direct sales channel had revenue growth of \$0.9 million or 12.5% from \$7.2 million in fiscal year 2006 to \$8.1 million in fiscal year 2007. The growth was the product of more ad pages and the contribution of fully integrated acquisitions from fiscal 2005 and fiscal 2006. *Unique Homes* had revenue of \$2.3 million in the first quarter of fiscal year 2007 compared to \$2.2 million in the same period of fiscal year 2006, an increase of \$0.1 million or 4.5%.

Apartment Finder revenue for the three periods ended June 18, 2006 was \$11.2 million compared to \$10.3 million during the same period in fiscal 2006, an increase of \$0.9 million or 8.7%. 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 the majority of our existing markets and open three new markets during fiscal year 2006. We also gained \$0.18 million in revenue in the first quarter from our fiscal year 2006 acquisitions. *Black's Guide* revenue decreased \$0.1 million or 7.7% from \$1.3 million in fiscal 2006 to \$1.2 million in fiscal year 2007 due to competitive pressures.

Our remodeling and home improvement area produced revenue of \$5.7 million in the three periods ended June 18, 2006 compared to \$3.0 million during the same period in fiscal 2006, an increase of \$2.7 million or 90%. The increase is attributable to a full quarter of revenue during 2007, generated by our homes and lifestyle magazines acquired throughout fiscal 2006. Our existing publications in this area are: *Kansas City Homes & Gardens*, *At Home In Arkansas*, *Relocating in Las Vegas*, *Atlanta Home Improvement*, and the *Homes & Lifestyles* magazines.

Cost of sales. Cost of sales for the three periods ended June 18, 2006 was \$29.7 million, an increase of \$4.9 million, or 19.8%, from \$24.8 million during the same period in fiscal 2006. Labor expense, which is our largest cost component, was \$13.9 million in the three periods ended June 18, 2006 compared to \$11.9 million during the same period in fiscal 2006, an increase of \$2.0 million, or 16.8%. A significant driver of labor expense growth was the impact of new employees added through our fiscal year 2006 and fiscal year 2007 acquisitions. The total year-over-year non-commission labor expense growth from the acquisitions was \$0.6 million. Total commission and bonus expense increased by \$0.7 million or 36.8% from \$1.9 million in fiscal year 2006 to \$2.6 million in fiscal year 2007 due to our revenue and EBITDA growth. Paper expense for the three periods ended June 18, 2006 was \$4.7 million compared to \$4.3 million for the same period of the prior year, that is an increase of \$0.4 million or 9.3% from the prior year. The increase was the result of increased internal paper usage due to ad page growth, the impact of our acquisitions, higher paper prices, and a shift in paper purchase volume whereby we procure paper and supply it to our outside print partners. Distribution expense increased in the current fiscal quarter by approximately \$0.9 million during the three periods ended June 18, 2006 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 \$0.3 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 June 18, 2006 was \$2.5 million. This was an increase of \$0.4 million, or 19.0%, compared to an expense of \$2.1 million for the three periods ended June 19, 2005. The increase is due to our investment of over \$5.0 million during the past 12 months to support our growth and new markets.

Selling, general and administrative expenses ("SG&A"). SG&A expenses for the three periods ended June 18, 2006 were \$6.5 million, which was an increase of \$0.5 million or 8.3% compared to expenses of \$6.0 million during the same period in fiscal 2006. Labor and related expense in the three periods ended June 18, 2006 was \$3.7 million, a decrease of \$0.4 million, or 9.8%, from \$4.1 million during the same period in fiscal 2006 due to the

change in the Company's vacation policy during the first quarter of fiscal 2006. We experienced an increase of \$0.7 million in professional fees as part of our effort to comply with Rule 144A reporting requirements associated with our 10 3/4% Senior Notes as well as acquisition related activities.

Non-production depreciation and software amortization expense There was an increase in depreciation expense of \$0.2 million or 28.6% from \$0.7 million in fiscal year 2006 to \$0.9 million in fiscal year 2007. This increase was the result of the asset investments during the last 12 months.

Amortization of intangibles. Amortization expense was \$3.6 million in the three periods ended June 18, 2006, an increase of \$0.3 million or 9.1%, from \$3.3 million during the same period in fiscal 2006. The increase in amortization expense was related to the amortizable intangible assets of \$14.3 million acquired in connection with our acquisitions of the Homes & Lifestyle magazines, Omni Communications, *Atlanta Home Improvement*, *At Home In Arkansas*, *Relocating In Las Vegas*, *Kansas City New Homes Journal*, *The Apartment Community Guide*, and *Pittsburgh Apartment Source*.

Net interest expense. Net interest expense for the three periods ended June 18, 2006 was \$6.4 million, an increase of \$2.2 million, or 52.4% over the net interest expense of \$4.2 million during the same period in fiscal 2006. The refinancing of our debt on November 30, 2005 contributed to the increase of interest expense as we shifted from a predominantly variable rate to a fixed rate with the fixed rate set higher than the prior variable rate. As a result, interest expense for the three periods ended June 18, 2006 was calculated on a level of senior and subordinated debt that was approximately \$20.8 million larger than the debt base during the same period in fiscal 2006.

Net income. Due to the factors set forth above, we reported a net loss of \$1.2 million during the three periods ended June 18, 2006, a decrease of \$0.53 million from net loss of \$0.67 million during the same period in fiscal 2006.

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 2006, our cash on hand was \$16.4 million. As of June 18, 2006, our cash on hand was \$7.8 million compared to \$4.8 million at June 19, 2005.

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

	<u>Three periods Ended June 19, 2005</u>	<u>Three periods Ended June 18, 2006</u>
	(in thousands)	
Net cash provided by / (used in) operating activities	\$ 3,173	\$ (2,951)
Net cash used in investing activities.....	(23,669)	(5,434)
Net cash provided by / (used in) financing activities.....	21,208	(234)
Net increase / (decrease) in cash & cash equivalents.....	<u>\$ 712</u>	<u>\$ (8,619)</u>

Our net cash provided by operating activities in the three periods ended fiscal June 19, 2005 decreased by \$6.1 million compared to the same period ended June 18, 2006, due to a use of cash to meet interest payments of \$8.4 million resulting from the change in our capital structure on November 30, 2005.

During the three periods ended June 18, 2006, net cash used by investing activities was \$5.4 million, consisting of \$0.6 million for the purchase of property, equipment and software, \$0.9 million for a deposit on future equipment, and \$3.9 million for acquisitions made during the first quarter of fiscal 2007. During the first quarter of fiscal 2006, net cash used in investing activities was a use of \$23.7 million, consisting of \$0.8 million for the purchase of property, equipment and software and \$22.9 million for acquisitions consummated during the first quarter of fiscal 2006.

For the three periods ended June 18, 2006, the net cash used by financing activities was \$0.2 million versus a source of cash of \$21.2 million for the three periods ended June 19, 2005 which was principally due to proceeds obtained through additional draws on our credit facility of \$30 million for the Wiesner acquisition in May 2005.

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 \$175.0 million of Senior Notes and a new senior secured credit facility comprised of a \$50.0 million senior credit term loan facility, a new revolving credit facility with an availability of \$35.0 million and an additional \$75.0 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 \$30.0 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 \$175.0 million of Senior Notes and a new term loan agreement in the amount of \$50.0 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. Additionally, we have the ability to obtain \$75.0 million under our uncommitted incremental term loans. Borrowings are also 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 includes a maximum annual 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 June 18, 2006, 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 indenture. The indenture governing the notes and the senior secured term loan facility also contains 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.

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 2007. 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 Senior 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 independent distributor agreements 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 March 27, 2006 through June 18, 2006, and for the period from March 28, 2005 to June 19, 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*. Subscriptions are recorded as deferred revenue when received and recognized as revenue over the term of the subscription.

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 Company operated markets 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

In November 2004, the FASB issued Statement No. 151, *Inventory Costs*, which is an amendment of Accounting Research bulletin ("ARB") No. 43, Chapter 4. SFAS 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This standard is effective for inventory costs incurred for fiscal years beginning after June 15, 2005. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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 adopted FAS 154 at March 27, 2006 with no material impact on our operating results.

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 June 18, 2006, which consists of \$50.0 million in term loans and a \$35.0 million undrawn 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 and Senior Subordinated Note 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
	(Dollars in thousands)			
Senior secured credit facilities	\$ 850	\$ 425	\$ (425)	\$ (850)

Inflation

In fiscal 2006, we have experienced increases in the cost of paper and fuel. In fiscal 2006, we absorbed an increase of almost 20% in our paper pricing, which equated to an increase of over \$2.2 million in our annual paper expense. We anticipate that we will experience increases in our paper prices of 5% to 10% during fiscal 2007. Based on our paper expense in fiscal 2006, a 10% increase in paper prices could increase our paper costs by over \$1.8 million for the current fiscal year. We also expect an approximate 5% increase in ink prices, or over \$0.06 million, during fiscal 2007. 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 2006 we spent \$0.8 million, \$1.6 million and \$4.0 million, respectively, on these functions. An increase of 10% in these costs due to higher fuel prices would result in an additional \$0.6 million in annual operating costs.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

Please see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations" in our Registration Statement on Form S-4/A for the year ended March 26, 2006.

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 June 18, 2006.

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

Item 4. Controls and Procedures

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting that occurred during the quarter ended June 18, 2006 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 our 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 1A. Risk Factors

There are no material changes to the risk factors included in our Registration Statement on Form S-4/A filed with the Securities and Exchange Commission on July 12, 2006.

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.

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: July 28, 2006

/s/ DANIEL McCARTHY

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

Date: July 28, 2006

/s/ GERARD P. PARKER

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