

ORIGINAL

William B. Wilhelm, Jr.
Brett P. Ferenchak
Phone: (202) 373-6000
Fax: (202) 424-7647
william.wilhelm@bingham.com
brett.ferenchak@bingham.com

RECEIVED
2006 MAY 26 PM 12:53
T.R.A. DOCKET ROOM

May 24, 2006

Bingham McCutchen LLP
Suite 300
3000 K Street NW
Washington, DC
20007-5116
202.424.7500
202.424.7647 fax

bingham.com

Boston
Hartford
London
Los Angeles
New York
Orange County
San Francisco
Silicon Valley
Tokyo
Walnut Creek
Washington

By Overnight Mail

Chairman Ron Jones
Tennessee Regulatory Authority
c/o Sharla Dillon, Dockets and Record Manager
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

**Re: Application of Norlight Telecommunications, Inc. for Approval
of a Pro Forma Transfer of Control**

0600149

Dear Chairman Jones:

On behalf of Norlight Telecommunications, Inc., enclosed for filing are an original and thirteen (13) copies of the above-referenced Application. Also enclosed is a check in the amount of \$25.00 to cover the filing fee.

Please date stamp the extra copy of this filing and return it in the envelope provided. Should you have any questions regarding this Application, please do not hesitate to contact us at (202) 373-6000.

Respectfully submitted,

Brett P Ferenchak

William B. Wilhelm, Jr.
Brett P. Ferenchak

Enclosures

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**

Application of

Norlight Telecommunications, Inc.

For Approval of a *Pro Forma* Transfer of Control

Docket No. 06-00149

APPLICATION

Norlight Telecommunications, Inc. ("Norlight" or "Applicant"), through its undersigned counsel and pursuant to Tenn. Code Ann. § 65-4-12 and the Rules of the Tennessee Regulatory Authority ("Authority"), requests approval or such authority as may be necessary or required to enable Norlight to consummate a transaction whereby Norlight will be spun off from its indirect parent company, Journal Communications, Inc. ("Journal"), to Journal's stockholders. As a result of the proposed transaction, Journal's stockholders, which currently indirectly hold all of Norlight's equity, will become Norlight's direct owners and Journal will no longer indirectly control any equity interest in Norlight. Thus, the proposed transaction is *pro forma* in nature.

Norlight holds authority from the Authority to provide intrastate telecommunications services in Tennessee. As described in detail below, although the proposed transaction will result in a *pro forma* change in Norlight's ownership, the management and operation of Norlight will continue unchanged. This transaction does not involve any transfer of certificates, assets or customers and Norlight will retain its authorization to provide intrastate telecommunications services in Tennessee. Norlight will continue to provide service to its existing customers in Tennessee pursuant to its authorization under the same rates, terms and conditions. Accordingly, this transaction will be transparent to Norlight's customers.

In support of this Application, Norlight states as follows:

I. DESCRIPTION OF THE PARTIES

A. Norlight Telecommunications, Inc. ("Norlight")

Norlight is a corporation organized under the laws of the State of Wisconsin with principal offices located at 13935 Bishops Drive, Brookfield, Wisconsin 53005. Norlight is currently an indirect wholly-owned subsidiary of Journal, which is a publicly-traded company (NYSE:JRN). Norlight is a facilities-based communications company with more than 30 years of experience providing network and Internet Protocol and Enhanced services over its regional fiber network to 1400 wholesale and commercial customers in the upper Midwest.

Norlight is a non-dominant carrier that holds authority to provide intrastate interexchange telecommunications services in approximately 30 states and competitive local exchange telecommunications services in approximately six (6) states. In Tennessee, Norlight is authorized to provide operator services and/or resell telecommunications services pursuant to authority granted by the Authority in Docket No. 96-00890 on August 31, 1996 as amended in Docket No. 05-00333 on March 10, 2006.

Information concerning the legal, technical, managerial and financial qualifications of Norlight was submitted with the various applications filed with the Authority with respect to its operations in Tennessee, and is, therefore, already a matter of record with the Authority. Applicant requests that the Authority take official notice of these existing descriptions of Norlight's qualifications and incorporate them by reference herein. For the Authority reference, attached as Exhibit A are updated biographies for Norlight's key management personnel. In addition, recent financial statements for Norlight are attached as Exhibit B.

B. Journal Communications, Inc. ("Journal")

Journal is a Wisconsin corporation with principal offices located at 333 W. State St., Milwaukee, Wisconsin 53203-1309. Journal is a publicly-traded (NYSE:JRN) diversified media and communications company with operations in publishing, radio and television broadcasting, and printing services. Journal publishes the Milwaukee Journal Sentinel, which serves as the only major daily newspaper in the Milwaukee metropolitan area, and about 90 community newspapers and shoppers in eight (8) states. Journal owns and operates 37 radio stations and nine television stations in 12 states. Journal also provides a wide range of commercial and electronic printing services, and operates a direct marketing services business. Journal does not provide any intrastate telecommunications services and does not hold any certificates or authorizations from the Authority.

II. CONTACT INFORMATION

For the purposes of this Application, contacts for the Applicant are as follows:

For Applicant:

William B. Wilhelm, Jr.
Jeanne W. Stockman
Brett P. Ferenchak
Bingham McCutchen LLP
3000 K Street, NW, Suite 300
Washington, DC 20007-5116
Tel: (202) 373-6000
Fax: (202) 424-7643
Email: William.Wilhelm@bingham.com
Jeanne.Stockman@bingham.com
Brett.Ferenchak@bingham.com

With a copy to:

Tom Valentyn
Vice President and General Counsel
Norlight Telecommunications, Inc.
13935 Bishops Drive
Brookfield, WI 53005-6605
Tel: (262) 792-7604
Fax: (262) 792-4959
Email: tvalentyn@norlight.com

III. DESCRIPTION OF *PRO FORMA* TRANSFER OF CONTROL

Pursuant to the proposed transaction, Journal will spin-off its indirect wholly-owned subsidiary, Norlight, to Journal's shareholders. The spin-off will be accomplished through a pro-rata distribution of all of Norlight's shares to Journal's shareholders. Journal will announce the record date, the distribution date, and the distribution ratio at a later date. Because Norlight's indirect equity owners before the transaction will become Norlight's direct equity owners after the transaction, the transaction is *pro forma* in nature. After the spin-off, Norlight will be a widely-held public company, and each individual shareholder is expected to hold less than a 10% equity interest in Norlight. Following the transaction, Journal will not have any equity interest in Norlight. Post-transaction, Norlight is expected to apply for listing on the NASDAQ exchange. Completion of the spin-off is subject to various regulatory and other approvals. For the Authority's convenience, pre- and post-transaction organizational charts are provided as Exhibit C.

IV. PUBLIC INTEREST STATEMENT

Applicant respectfully submits that the *pro forma* transaction described herein will serve the public interest. The proposed transaction is expected to provide Norlight flexibility to compete more effectively in its target markets and to take advantage of strategic growth opportunities. Applicant expects that the proposed acquisition will enable Norlight to strengthen

its competitive position in Tennessee to the benefit of Tennessee consumers and the State's telecommunications marketplace.

After the *pro forma* transaction, Norlight will remain technically, managerially and financially qualified to provide intrastate telecommunications services in Tennessee. Norlight has over 30 years experience providing network and other services to its wholesale and commercial customers. Norlight has a state-of-the-art network management and data center, a wealth of experienced engineering and technical personnel, a recognizable distinct brand, and an excellent record of customer service. Norlight's key technical and managerial personnel, whose qualifications have already been passed upon by the Authority, are expected to remain with the company following the transaction. Their qualifications are provided in Exhibit A. In addition, as an established provider of telecommunications and other services, Norlight has a strong operating history and positive financial record. Norlight's recent financial statements are attached as Exhibit B. Thus, Norlight will remain well-qualified to continue providing intrastate telecommunications services in Tennessee following consummation of the proposed *pro forma* transaction.

Further, the transaction will be conducted in a manner that will be transparent to Norlight's customers. The *pro forma* transfer of control of Norlight will not result in a change of carrier for customers or any transfer of authorizations. Following consummation of the proposed transaction, Norlight will continue to provide high-quality communications services to its customers without interruption and without immediate change in rates, terms or conditions. The *pro forma* transfer of control of Norlight therefore will be seamless and transparent to consumers in the State of Tennessee, in terms of the services they receive.

V. CONCLUSION

For the reasons stated above, Norlight Telecommunications, Inc. respectfully submits that the public interest, convenience, and necessity would be furthered by a grant of this Application.

Respectfully submitted,

By: Brett P Ferenchak
William B. Wilhelm, Jr.
Jeanne W. Stockman
Brett P. Ferenchak
Bingham McCutchen LLP
3000 K Street, NW, Suite 300
Washington, DC 20007-5116
Tel: (202) 373-6000
Fax: (202) 424-7643
Email: William.Wilhelm@bingham.com
Jeanne.Stockman@bingham.com
Brett.Ferenchak@bingham.com

COUNSEL FOR APPLICANT

Dated: May 24, 2006

LIST OF EXHIBITS

Exhibit A	Management Biographies
Exhibit B	Norlight Telecommunications, Inc. Financial Statements
Exhibit C	Pre- and Post-Transaction Organizational Chart
Verification	

EXHIBIT A

Management Biographies

MANAGEMENT BIOGRAPHIES

James J. Ditter, President

James J. Ditter is President of Norlight. Ditter joined Norlight in August 1992 as its controller. As Norlight's controller, Ditter was responsible for all aspects of accounting, budgeting, tax work and internal controls. Ditter's affinity for long term planning, corporate strategy, and contract negotiation laid the groundwork for his quick rise within the organization.

Twenty months later, Ditter was promoted to Vice President – Finance. One year later, Ditter was promoted to the position of Vice President and General Manager, and became responsible for all aspects of Norlight Telecommunications. Ditter was promoted to President in September 1995 and elected to the Board of Directors of Journal Communications, Inc, at that time.

Ditter began his career in 1984, as an auditor for Ernst & Young. He would eventually become an audit manager for the company, before leaving in 1990. He held two different controllership positions for two different food industry companies before joining Norlight. Ditter holds a bachelor's degree in accounting from the University of Wisconsin-Oshkosh, and is a Certified Public Accountant.

Robert E. Rogers, Senior Vice President

Robert E. Rogers has been in the telecommunications industry for over 25 years. In 1972 he began his career with Midwestern Relay Company (the predecessor of Norlight) that provided video transmission services to the television networks throughout Wisconsin and Minnesota. Later in his career, Rogers became Manager of Video Field Operations – Pacific for Western Union, a provider of video transport via satellite communications. In this position, he was responsible for the management of Western Union's video field operations on the Pacific coast.

Returning to Norlight in 1977, Rogers has held the positions of Project Engineer, Engineering Manager, and Vice President of Engineering and Operations. Mr. Rogers was elected to be Norlight's Senior Vice President in August 1995. As the Senior Vice President, Rogers is responsible for the areas of transport engineering, operations, satellite and video services operation and engineering, as well as video and carrier sales.

Rogers holds a degree in broadcast technology and a bachelor's degree in engineering from Milwaukee School of Engineering (MSOE). He is a member of the IEEE, the Society of Broadcast Engineers (SBE), a member and former Vice President of the National Spectrum Managers Association (NSMA), and has served on the board of directors of the Competitive Telecommunications Association (CompTel).

Michael A. Briggs, Senior Vice President of Sales and Marketing

Michael A. Briggs is Norlight's Senior Vice President of Sales and Marketing, a position he was elected to in July 2004. Briggs joined Norlight in November of 1999 as the Vice President of Commercial Sales. One year later Briggs was promoted to Vice President, Commercial Sales and Marketing. Briggs' primary responsibilities are to maximize Norlight's ability to build brand awareness, grow Revenue and provide consultative solutions to customers. In addition, Briggs is responsible for training Norlight's sales professionals and providing them with the necessary tools to achieve team goals.

Before joining Norlight, Briggs worked at Appleton Papers as the Executive Director of Thermal Sales and Marketing. Briggs had been with Appleton Papers for almost ten years, working in a variety of sales and marketing roles.

Briggs received his undergraduate degree from the University of Wisconsin – Oshkosh, and received his MBA from the same institution.

Michael J. Garvey, Vice President and Chief Financial Officer

Michael J. Garvey has been Vice President and Chief Financial Officer since February 1997. In that position, Garvey works with other members of senior management to establish strategic direction for Norlight. He is responsible for the accounting and information systems groups.

Garvey came to Norlight from Rand McNally, where he was a Group Controller. He was in charge of the \$300 million Book Services Group for two years. Prior to joining Rand McNally, Garvey was the Corporate Controller at Johnsonville Foods for six years. He also spent eight years in various finance and accounting positions at General Mills.

Garvey is a graduate of the University of Wisconsin – Madison with a Bachelors degree in Finance, and is a Certified Public Accountant.

Michael S. Ulicki, Vice President and Chief Technology Officer

Michael S. Ulicki is a Norlight's Vice President and Chief Technology Officer, a position he was elected to in July 2000. He is currently responsible for all aspects of delivering high quality, state-of-the-art voice and data products, including Internet access, frame relay, ATM, and switched voice services.

Ulicki joined Norlight in 1985 as an engineer, where he was charged with overseeing the engineering of microwave based telecommunications systems for the delivery of voice and video applications. In 1987, he was promoted to Project Engineer and became involved in the integration of digital transmission equipment.

In 1991, as the company quickly expanded, Ulicki was promoted to Director of Engineering and was charged with leading the engineering and systems groups into the future. Accomplishments included: designing and implementing a state-of-the-art Network Management Center, implementation of the Midwest's largest SONET based fiber optic communications system, entry into the switched service market, design and implementation of a packet based network employing frame relay and ATM technology, and ultimately integration of IP services. Ulicki was promoted to Vice President, Engineering and Operations in 1995, which is the capacity that he served in until 2000 when he was promoted to his current position of Vice President and Chief Technology Officer.

Ulicki holds undergraduate degrees in Electronic Communications and Electrical Engineering from the Milwaukee School of Engineering and a Masters of Business Administration from the University of Wisconsin. He is a licensed Professional Engineer in the State of Wisconsin and an active amateur radio operator (KD9HR).

Thomas E. Valentyn, Vice President and General Counsel

Thomas E. Valentyn is a Vice President and General Counsel of Norlight, a position he was elected to in June 2003. Prior to this election, Mr. Valentyn was General Counsel between July 2000 and June 2003. As Norlight's General Counsel, Valentyn manages the delivery of all legal

services for the company, including Norlight's highly valued customer service contracts and strategic relationships. In addition, he monitors the telecommunications regulatory environment to determine its impact on Norlight's strategic direction.

Prior to joining Norlight, Mr. Valentyn held the position of Group Counsel for Johnson Controls, Inc. in Milwaukee. Before his employment with Johnson Controls, Mr. Valentyn was an associate at the Milwaukee litigation firm Borgelt, Powell, Peterson & Frauen, S.C.

Trina G. Jashinsky, Vice President of Human Resources

Trina G. Jashinsky is a Vice President of Human Resources of Norlight, a position she was elected to in 1998. Prior to joining Norlight, Jashinsky served as the Director of Human Resources for Villa Clement, Inc., St. Mary's Hill Hospital, and Peterson Health Care of Wisconsin, Inc. In addition, she worked for Beverly Enterprises and the Sauk County Health Care Center. Jashinsky earned her Bachelor of Arts degree in Public Administration/Personnel from the University of Wisconsin-Eau Claire in 1984 and obtained her Masters degree in Industrial and Labor Relations from the University of Wisconsin-Milwaukee.

EXHIBIT B

Norlight Telecommunications, Inc. Financial Statements

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

**PURSUANT TO SECTION 12(b) OR 12(g) OF
THE SECURITIES EXCHANGE ACT OF 1934**

NORLIGHT TELECOMMUNICATIONS, INC.

(Exact name of Registrant as specified in its charter)

Wisconsin

(State or Other Jurisdiction of
Incorporation or Organization)

39-1712867

(I.R.S. Employer
Identification Number)

13935 Bishops Drive
Brookfield, WI 53005-6605
(Address of Principal Executive Offices)

(262) 792-9700

(Registrant's Telephone Number, Including Area Code)

with copies to:

Steven J. Smith
Chairman and Chief Executive
Officer
Journal Communications, Inc.
333 West State Street
Milwaukee, Wisconsin 53203
(414) 224-2425

Benjamin F. Garmer, III
Russell E. Ryba

Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
(414) 271-2400

Securities registered pursuant to Section 12(b) of the Securities Exchange Act
of 1934: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act
of 1934:

Common Stock, \$1.00 par value (Title of Class)

Common Stock Purchase Rights
(Title of Class)

INDEX TO FINANCIAL STATEMENTS

Page Number F-2 Report of Independent Registered Public Accounting Firm

F-3 Balance Sheets as of December 25, 2005 and December 26, 2004

F-4 Statements of Earnings for the years ended December 25, 2005, December 26, 2004 and December 31, 2003

F-5 Statements of Cash Flows for the years ended December 25, 2005, December 26, 2004 and December 31, 2003

F-6 Statements of Changes in Invested Capital for the years ended December 25, 2005, December 26, 2004 and December 31, 2003

F-7 Notes to Financial Statements

F-20 Schedule II -Valuation and Qualifying Accounts

All other schedules are omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors
of Journal Communications, Inc.

We have audited the accompanying balance sheets of the communications operations of Norlight Telecommunications, Inc. (the Company), a wholly owned subsidiary of Journal Communications, Inc., as of December 25, 2005 and December 26, 2004, and the related statements of earnings, changes in invested capital and cash flows for each of the three years in the period ended December 25, 2005. Our audits also included the financial statement schedule listed in the index to financial statements. These financial statements and schedule are the responsibility of management of Journal Communications, Inc. and the Company. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the communications operations of Norlight Telecommunications, Inc., a wholly owned subsidiary of Journal Communications, Inc., at December 25, 2005 and December 26, 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Ernst & Young LLP

Milwaukee, Wisconsin April 17, 2006

BALANCE SHEETS
December 25, 2005 and December 26, 2004 (in thousands)

	2005	2004
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 550	\$ 526
Receivables, net	4,119	3,221
Inventories, net	728	838
Prepaid expenses	2,368	2,336
Deferred income taxes	4,530	3,445
	-----	-----
TOTAL CURRENT ASSETS	12,295	10,366
	86,289	89,561
Property and equipment, net		
Goodwill	188	188
Other intangible asset, net	1,416	1,814
Prepaid pension costs	643	1,212
Other assets	1,327	709
	-----	-----
TOTAL ASSETS	\$ 102,158	\$ 103,850
	-----	-----
LIABILITIES AND INVESTED CAPITAL		
Current liabilities:		
Accounts payable	\$ 5,881	\$ 5,868
Accrued compensation	2,493	2,482
Accrued employee benefits	357	335
Accrued income taxes	5,752	4,879
Deferred revenue	4,747	5,695
Related party notes payable to parent	3,571	968
Other current liabilities	1,963	1,633
	-----	-----
TOTAL CURRENT LIABILITIES	24,764	21,860
Accrued employee benefits	1,889	1,662
Deferred revenue	6,147	6,430
Deferred income taxes	8,455	10,934
Other long-term liabilities	2,143	2,655
	-----	-----
TOTAL LIABILITIES	43,398	43,541
	58,760	60,309
Invested capital		
	-----	-----
TOTAL LIABILITIES AND INVESTED CAPITAL	\$ 102,158	\$ 103,850
	-----	-----

See accompanying notes.

STATEMENTS OF EARNINGS
Years Ended December 25, 2005, December 26, 2004 and December 31, 2003
(in thousands)

	2005	2004	2003
	-----	-----	-----
Revenue:			
Wholesale services	\$ 76,545	\$ 82,325	\$ 91,870
Commercial services			
Network services	49,416	51,677	48,960
IP&E services	15,241	10,407	8,764
	-----	-----	-----
Total commercial services	64,657	62,084	57,724
	-----	-----	-----
Total revenue	141,202	144,409	149,594
	-----	-----	-----
Direct cost of delivering service:			
Wholesale services	17,452	18,393	19,544
Commercial services	30,536	29,927	29,229
	-----	-----	-----
Total direct cost of delivering service	47,988	48,320	48,773
Operating costs	24,641	20,707	21,442
Selling and administrative expenses	26,433	22,938	22,597
Depreciation and amortization	18,305	17,666	17,807
	-----	-----	-----
Total cost of delivering service, operating costs, selling and administrative expenses and depreciation and amortization	117,367	109,631	110,619
	-----	-----	-----
Operating earnings	23,835	34,778	38,975
	-----	-----	-----
Other income and expense:			
Interest income on past due receivables	156	112	36
Interest income (expense) on related party notes receivable from (payable to) parent	(32)	97	58
	-----	-----	-----
Total other income and expense	124	209	94
	-----	-----	-----
Earnings before income taxes	23,959	34,987	39,069
	9,208	13,844	15,866
Provision for income taxes			
	-----	-----	-----
Net earnings	\$ 14,751	\$ 21,143	\$ 23,203
	-----	-----	-----

See accompanying notes.

STATEMENTS OF CASH FLOWS
Years Ended December 25, 2005, December 26, 2004 and December 31, 2003
(in thousands)

	2005	2004	2003
	-----	-----	-----
Cash flow from operating activities:			
Net earnings	\$ 14,751	\$ 21,143	\$ 23,203
Adjustments for non-cash items:			
Depreciation	17,948	17,642	17,807
Amortization	357	24	--
Provision for doubtful accounts	(206)	(236)	183
Deferred income taxes	(3,564)	83	199
Net loss (gain) from disposal of property and equipment	213	44	(460)
Net changes in operating assets and liabilities, excluding effect of acquisition:			
Receivables	(692)	(606)	350
Inventories	110	33	120
Accounts payable	13	100	(695)
Other assets and liabilities	(495)	(976)	3,619
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,435	37,250	44,326
Cash flow from investing activities:			
Capital expenditures for property and equipment	(14,795)	(6,672)	(9,738)
Proceeds from sales of property and equipment	40	44	1,168
Acquisition of business, net of cash	41	(1,132)	--
NET CASH USED FOR INVESTING ACTIVITIES	(14,714)	(7,760)	(8,570)
Cash flow from financing activities:			
Net increase (decrease) in related party notes payable to parent	2,603	185	(904)
Dividends paid to parent	(16,300)	(30,500)	(35,500)
NET CASH USED FOR FINANCING ACTIVITIES	(13,697)	(30,315)	(36,404)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24	(825)	(648)
Cash and cash equivalents			
Beginning of year	526	1,351	1,999
End of year	\$ 550	\$ 526	\$ 1,351
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for income taxes	\$ 11,899	\$ 12,823	\$ 14,725
Cash (received) paid for interest on related party notes (receivable from) payable to parent	\$ 27	\$ (95)	\$ (63)

See accompanying notes.

STATEMENTS OF CHANGES IN INVESTED CAPITAL
Years Ended December 25, 2005, December 26, 2004 and December 31, 2003
(in thousands)

	Invested Capital -----
Balance at December 31, 2002	\$ 81,963
Net earnings	23,203
Dividends paid to parent	(35,500)

Balance at December 31, 2003	69,666
Net earnings	21,143
Dividends paid to parent	(30,500)

Balance at December 26, 2004	60,309
Net earnings	14,751
Dividends paid to parent	(16,300)

Balance at December 25, 2005	\$ 58,760

NOTES TO FINANCIAL STATEMENTS
December 25, 2005 (in thousands)

1 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The accompanying financial statements include the communications operations of Norlight Telecommunications, Inc. (Norlight). We are a wholly owned subsidiary of Journal Communications, Inc. (Journal Communications or our parent company). Journal Communications, Inc. has decided to spin-off Norlight such that we become an independent public company by distributing all of the shares of our common stock to Journal Communications, Inc.'s shareholders in the form of a dividend. We are a facilities-based communications company that provides network and Internet Protocol and Enhanced (IP&E) managed services solutions to wholesale and commercial customers (which we and Journal Communications previously referred to as enterprise customers). We are currently reported as the telecommunications segment in Journal Communications' consolidated financial statements.

The vast majority of our historical business consists of wholesale and commercial services provided through a high speed fiber optic telecommunications network that covers more than 4,450 route miles in seven states, of which we operate about 4,150 route miles with 300 route miles available for future network expansion, and leased network from other communications providers. Our IP&E services element, which comprises a small portion of our historical business and will be the focus of our future growth initiatives, consists of Voice over Internet Protocol (VoIP) offerings and the consultative services, such as managed security, premise-based phone systems, business continuance (consulting, data center, and workspace recovery), and other enhanced managed services.

Our financial statements have been presented using the historical results of operations and historical basis of assets and liabilities of our business. All significant intercompany balances and transactions have been eliminated.

The historical cost basis of the assets and liabilities included in our financial statements herein may differ from those of Norlight as an independent public company upon completion of the spin-off to our parent company's shareholders based on the specific terms of definitive agreements between us and our parent company. Management believes that all historical costs of operations have been reflected in the accompanying financial statements.

As of January 1, 2004, our parent company adopted a 52-53 week fiscal year ending on the last Sunday of December in each year. In addition, we have four quarterly reporting periods, each consisting of thirteen weeks and ending on a Sunday, provided that once every six years, starting in 2006, the fourth quarterly reporting period will be fourteen weeks.

Cash and centralized management systems - Our parent company uses a centralized cash management program, whereby it advances funds required by and receives excess funds from its subsidiaries. Our parent company's advance to us bears interest at a rate equal to the interest rate at which our parent borrows from its lenders. The advance payable to our parent company is due on demand.

Allocated costs of parent company - Our parent company provides certain corporate and administrative services to its subsidiaries, including Norlight. Our parent company primarily allocates these costs based on the percentage the revenue that each subsidiary bears to our parent company's consolidated revenue. This allocation method has been consistently applied in the historical financial statements. In the opinion of management, the method for allocating these costs are reasonable. However, the financial information in these financial statements does not necessarily include all of the expenses that would have been incurred had Norlight been a separate, stand-alone entity and may not necessarily reflect Norlight's results of operations, financial position and cash flows had Norlight been a stand-alone company during the periods presented. Corporate and administrative expenses consist primarily of wages and employee benefits for executive management, corporate accounting, internal audit, tax, treasury, human resources management, legal, investor relations, risk management and communications, corporate insurance, various fees for professional services, external audit costs, director fees and legal expenses. Our allocated charges from our parent company were \$2,965, \$2,861 and \$2,150 in 2005, 2004 and 2003, respectively. It is not practicable to estimate any additional costs that we would have incurred had we operated on a stand-alone basis during this period. Amounts payable to our parent resulting from the allocation of corporate and administrative service costs are included in related party notes payable to parent in the accompanying balance sheets.

Revenue recognition - We generate recurring revenue from service contracts with defined terms with our customers and non-recurring revenue from non-repeating activities such as service installation. We recognize revenue when earned. Revenue derived from network services and other services of a recurring nature are billed monthly in advance and are recorded as deferred revenue until earned. Revenue derived from other services which are typically usage-sensitive, including long distance, are recognized monthly as services are provided and billed in arrears. Revenue derived from customer installation and activation, which represents less than 1% of total revenue in 2005, 2004 and 2003, is recognized ratably over the term of the underlying service contract. Installation and activation costs are deferred and amortized on a straight line basis over the service contract. Current deferred installation costs recorded in prepaid expenses in the accompanying balance sheets total \$555 and \$838 as of December 25, 2005 and December 26, 2004, respectively. Long-term deferred installation costs recorded in other assets in the accompanying balance sheets total \$276 and \$250 as of December 25, 2005 and December 26, 2004, respectively. Current deferred installation revenue recorded in current deferred revenue in the accompanying balance sheets total \$366 and \$571 as of December 25, 2005 and December 26, 2004, respectively. Long-term deferred installation revenue recorded in long-term deferred revenue in the accompanying balance sheets total \$518 and \$428 as of December 25, 2005 and December 26, 2004, respectively.

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from early termination of contracts is billed and recognized as revenue upon the customer's termination of service and is calculated according to specific contract language. Revenue from equipment sales and communications system installations is recognized upon completion of the installation and acceptance by the customer. Revenue from equipment maintenance is billed in advance and recognized ratably over the term of the agreement. We enter into certain IRU agreements to grant rights to use specific fiber to others. In those agreements, we are paid in a manner ranging from a single payment (lump sum) to payments throughout the term of the agreement. In all cases, because we do not transfer legal title to the specific fiber with the right of use, we account for these agreements as operating leases and recognize revenue ratably over the term of the agreement.

Revenue from affiliates We provide services to our parent company and our affiliated companies. Total revenue includes revenue from affiliates of \$637, \$786, and \$993 in 2005, 2004 and 2003, respectively. Amounts due from our affiliated companies are included in receivables, net in the accompanying balance sheets and total \$49 and \$41 as of December 25, 2005 and December 26, 2004, respectively.

Advertising expense We expense our advertising costs as incurred. Advertising expense totaled \$939, \$909 and \$1,393 in 2005, 2004 and 2003, respectively.

Interest income (expense) We earn interest income and incur interest expense on our related party notes receivable from and payable to our parent company. The interest rate on such receivable or payable is the rate at which our parent borrows from its lenders but not below the minimum applicable Federal short-term rate for such month (as defined at Section 1274(d), or any successor section, of the Internal Revenue Code of 1986, as amended). In addition, we assess finance charges of 1.5% per month on past due accounts receivable balances at our discretion. These finance charges are recorded as interest income and we record a reserve for these charges when collection is doubtful.

Income taxes We account for income taxes in accordance with Financial Accounting Standards Board (FASB) Statement No. 109, Accounting for Income Taxes. In accordance with Statement No. 109, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Valuation allowances are established where management determines that it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Our share of our parent company's consolidated federal and state income tax provision is determined using the standalone method. Under the separate return method, tax expense or benefit is calculated as if we were required to file our own tax returns.

Stock-based compensation We account for stock-based compensation by using the intrinsic value-based method in accordance with Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Under APB No. 25, we do not recognize compensation expense for the stock options granted to our employees by Journal Communications because the exercise price equals the market price of the underlying stock on the grant date. We recognize compensation expense related to restricted stock granted to our employees by Journal Communications over the vesting period. As permitted, we have elected to adopt the disclosure only provisions of Statement No. 123, Accounting for Stock-Based Compensation and Statement No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123".

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES continued

Statement No. 123, as amended by Statement No. 148, establishes a fair value-based method of accounting for employee stock-based compensation plans and encourages companies to adopt that method. However, it also allows companies to continue to apply the intrinsic value-based method currently prescribed under APB No. 25. We have chosen to continue to report stock-based compensation in accordance with APB No. 25, and provide the following pro forma disclosure of the effects of applying the fair value method to all applicable awards granted to our employees by our parent company. The following table illustrates the effect on net earnings if we had applied the fair value recognition provisions of Statement No. 123:

2005	2004	2003	-----	-----	-----	Years ended December 25, December 26 and December 31	Net earnings as reported
\$ 14,751	\$ 21,143	\$ 23,203	Add compensation cost of restricted stock, net of related tax effects, included in the determination of net earnings as reported	23	--	--	Deduct stock based compensation determined under fair value-based method, net of related tax effects: Stock options (4) (3) -- Employee stock purchase plan
(5)	(2)	--	Restricted stock	(23)	--	--	
-----	-----	-----	Pro forma net earnings				\$ 14,742 \$ 21,138 \$ 23,203
-----	-----	-----					

Fair value was calculated using the Black-Scholes option pricing model, with the following weighted-average assumptions for options granted in 2004. There were no options granted in 2005 or 2003.

	2004
Dividend yield	1.30%
Expected volatility	29.90%
Risk-free rate of return	3.54%
Expected life of options (in years)	7
Weighted average fair value of options granted	\$6.61

Segment reporting We operate our business as a single segment, engaging in the provision of communications services. Our management reviews operating results, assesses performance and allocates resources on a company-wide, single segment basis.

Significant customer We have a customer that accounted for 11.6%, 12.0% and 12.7% of revenue during 2005, 2004 and 2003, respectively.

Fair values The carrying amount of cash, receivables, accounts payable and long-term related party notes payable to parent approximates fair value as of December 25, 2005 and December 26, 2004.

Receivables, net We evaluate the collectibility of our accounts receivable based on a combination of factors. We specifically review historical write-off activity by market, large customer concentrations, customer creditworthiness and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (such as bankruptcy filings, credit history, etc.), we record a specific reserve for bad debts against amounts due us to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past loss history, the length of time the receivables are past due and the current business environment. We write off uncollectible accounts against the allowance for doubtful accounts after collection efforts have been exhausted. The allowance for doubtful accounts at December 25, 2005 and December 26, 2004 was \$1,499 and \$1,327, respectively.

Inventories Inventories are stated at the lower of cost (first in, first out method) or market. A summary of inventories follows:

	2005	2004
	-----	-----
December 25 and December 26		
Materials	\$ 703	\$ 544
Work in process	180	461
Less obsolescence reserve	(155)	(167)
	-----	-----
Inventories, net	\$ 728	\$ 838
	-----	-----

NOTES TO FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment Property and equipment are recorded at cost. Depreciation of property and equipment is provided, using the straight-line method, over the estimated useful lives, which are as follows:

	Years

Buildings	10 - 30
Leasehold improvements	Lesser of 10 or lease term
Fiber optic cables	20
IRUs	Lesser of 20 or agreement term
Transmission and switching equipment	3 - 10
Furniture, fixtures and other equipment	3 - 7

Indefeasible Rights of Use (IRUs) We have acquired the use of specific fiber in various segments of our network via IRU agreements. Engaging in IRUs as a means of acquiring the operating rights to specific fiber owned by telecommunications companies is a common industry practice. IRUs are long-term (typically 20 years in length with additional renewal options) leases of capacity that allow the lessee to utilize the specific fiber covered by the agreement as if owned. We record IRUs that we have entered into to secure capacity from others as either capital or operating leases. Those that are classified as capital leases are recorded as a fixed asset and depreciated over the term of the agreement.

Goodwill and intangible asset, net Goodwill is not amortized but instead is reviewed at least annually for impairment. We amortize our definite-lived intangible asset, a customer list, on a straight-line basis over a period of five years.

Impairment of long-lived assets Property and equipment and our definite-lived intangible asset are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an asset is considered impaired, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve significant judgment.

Other assets Other assets primarily consists of the long-term portion of maintenance contracts.

Concentration of credit risk - We generally bill customers in advance of providing services. Most customers are required to pay before services are provided. Credit losses are provided for in the financial statements and have been within management's expectations.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

New accounting standards In May 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3, which requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the basis of the new accounting principle, unless it is impracticable to do so. Statement No. 154 also provides that (i) a change in method of depreciating or amortizing a long-lived nonfinancial asset be accounted for as a change in estimate (prospectively) that was affected by a change in accounting principle, and (ii) correction of errors in previously issued financial statements should be termed a restatement. In accordance with the new rule, we will adopt Statement No. 154 in the first quarter of 2006. We do not believe the effect of adopting Statement No. 154 will have a material impact on our financial statements.

In December 2004, the FASB issued Statement No. 123R, Share-Based Payment, which requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. In April 2005, the U.S. Securities and Exchange Commission (SEC) adopted a rule amending the compliance dates for Statement No. 123R. We will adopt Statement No. 123R in the first quarter of 2006. We do not believe the effect of adopting Statement No. 123R will have a material impact on our financial statements.

NOTES TO FINANCIAL STATEMENTS

2 RELATED PARTY NOTES PAYABLE TO PARENT

We have a promissory note that allows us to borrow, repay and re-borrow funds from our parent company. The defined rate of interest is adjusted periodically. The interest rate on borrowings is equal to the interest rate at which our parent company borrows from its lenders but not below the minimum applicable Federal short-term rate for such month (as defined at Section 1274(d), or any successor section, of the Internal Revenue Code of 1986, as amended). As of December 25, 2005 and December 26, 2004, we had borrowings of \$3,571 and \$968, respectively, under the note at a weighted average rate of 6.36% and 3.14%, respectively.

3 EMPLOYEE BENEFIT PLANS

Our parent company has a defined benefit pension plan covering all of our employees. The plan provides benefits based on years of service and the average compensation for the employee's last five years of employment. Plan assets consist primarily of listed stocks and government and other bonds. The U.S. Congress is considering changes to existing laws governing employer funding of defined benefit pension plans and insurance premiums payable to the Pension Benefit Guarantee Corporation (PBGC). While the ultimate timing and outcome of such deliberations cannot be determined with any degree of certainty, our parent company does not expect that any changes in such laws, based on pending legislation, will require a significant change in funding to its plans from current assumptions. Our parent company also expects that its PBGC insurance premiums will increase in future years.

In addition, our parent company provides health benefits to certain of our retirees and their eligible spouses. The plan for postretirement benefits has no plan assets and is closed to new employees as of January 1, 2002. They have elected to amortize the related unfunded postretirement health care obligation at January 1, 1993, over a period of 20 years. FASB Staff Position 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, (the Act) was issued on May 19, 2004 and was effective as of the first interim or annual period beginning after June 15, 2004. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent (as that term is defined in the Act) to Medicare Part D. They concluded that the plan qualifies for the subsidy under the Act since the prescription drug benefits provided under the postretirement health care plan generally require lower premiums from covered retirees and have lower deductibles than the benefits provided in Medicare Part D and accordingly, are actuarially equivalent to or better than, the benefits provided under the Act.

Our parent company also sponsors an unfunded non-qualified pension plan for employees whose benefits under the pension plan may be restricted due to limitations imposed by the Internal Revenue Service. The disclosure for this plan for all years presented is combined with the defined benefit pension plan.

NOTES TO FINANCIAL STATEMENTS

3 EMPLOYEE BENEFIT PLANS continued

The following tables provide a reconciliation of the changes in the plans benefit obligations, the fair value of assets, a statement of the funded status and the classification of amounts recognized in the accompanying balance sheets actuarially determined and allocated for our employees.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Years ended December 25 and December 26				
Change in benefit obligations				
Benefit obligation at beginning of year	\$ 5,042	\$ 4,007	\$ 898	\$ 578
Service cost	596	547	76	60
Interest cost	290	251	54	36
Change in plan provisions	--	(212)	--	--
Actuarial (gain) loss	(387)	449	378	224
Benefit obligation at end of year	\$ 5,541	\$ 5,042	\$ 1,406	\$ 898
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 4,426	\$ 3,984	\$ --	\$ --
Actual return on plan assets	457	442	--	--
Fair value of plan assets at end of year	\$ 4,883	\$ 4,426	\$ --	\$ --
Funded status of the plan				
Underfunded status of the plan	\$ (658)	\$ (616)	\$ (1,406)	\$ (898)
Unrecognized net actuarial (gain) loss	1,302	1,881	(166)	(508)
Unrecognized prior service cost	(176)	(193)	--	--
Prepaid (accrued) net benefit cost	\$ 468	\$ 1,072	\$ (1,572)	\$ (1,406)
Prepaid (accrued) benefit cost				
Prepaid pension cost	\$ 643	\$ 1,212	\$ --	\$ --
Accrued benefit cost	(175)	(140)	(1,572)	(1,406)
Prepaid (accrued) benefit cost	\$ 468	\$ 1,072	\$ (1,572)	\$ (1,406)

The accrued benefit cost is included in accrued employee benefits in the accompanying balance sheets. The accumulated benefit obligation for our allocation of our parent company pension plans was \$3,404 and \$2,807 at December 25, 2005 and December 26, 2004, respectively.

	Pension Benefits		
	2005	2004	2003
Years ended December 25, December 26 and December 31			
Components of net periodic benefit cost			
Service cost	\$ 596	\$ 547	\$ 466
Interest cost	290	251	206
Expected return on plan assets	(362)	(347)	(330)
Amortization of:			
Unrecognized prior service cost	(17)	9	9
Unrecognized net transition obligation	--	3	3
Unrecognized net loss	97	65	22
Net periodic benefit cost included in selling and administrative expenses	\$ 604	\$ 528	\$ 376

NOTES TO FINANCIAL STATEMENTS

3 EMPLOYEE BENEFIT PLANS continued

	Other Postretirement Benefits		
	2005	2004	2003
Years ended December 25, December 26 and December 31			
Components of net periodic benefit cost			
Service cost	\$ 76	\$ 60	\$ 60
Interest cost	54	36	67
Amortization of unrecognized net loss	36	56	3
Net periodic benefit cost included in selling and administrative expenses	\$ 166	\$ 152	\$ 130

The costs for our allocated pension benefits and other postretirement benefits are actuarially determined. Key assumptions utilized at the measurement dates of December 25, 2005 and December 26, 2004 for pension benefits and September 30 for other postretirement benefits include the following:

Weighted-average assumptions used to determine benefit obligations

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Discount rate	5.95%	5.75%	5.50%	6.00%
Rate of compensation increases	4.00	4.50	--	--

Weighted-average assumptions used to determine net periodic benefit cost

Discount rate	5.75%	6.25%	6.00%	6.25%
Expected return on plan assets	8.50	8.50	--	--
Rate of compensation increases	4.50	4.50	--	--

To determine the discount rate assumptions for the pension and the postretirement benefit plans, our parent company studied the plans specific discount rate by matching projected benefit payments to a yield curve developed from high grade corporate bonds. The results of those studies were used as the benchmark to determine the discount rate assumptions. In addition, they used the Moody's Aa Corporate bonds, as of the measurement dates, as another reference point to support their decision.

To determine the long-term rate of return assumption for plan assets, our parent company studied historical markets and preserved the long-term historical relationships between equities and fixed-income securities consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. They evaluate current market factors such as inflation and interest rates before they determine long-term capital market assumptions. They review peer data and historical returns to check for reasonability and appropriateness.

The assumed health care cost trend rate used in measuring the postretirement benefit obligation for retirees for 2006 is 11.0%, grading down to 5.0% in the year 2011 and thereafter. The assumed health care cost trend rates have a significant effect on the amounts reported for other postretirement benefits. A 1% change in the assumed health care cost trend rate would have the following effects:

1% Increase	Effect on total of service and interest cost	\$ 7	\$ (7)
1% Decrease	Effect on postretirement benefit obligation as of December 25, 2005	\$ 42	\$ (40)

NOTES TO FINANCIAL STATEMENTS

3 EMPLOYEE BENEFIT PLANS continued

Plan Assets

The weighted average asset allocations at December 25, 2005 and December 26, 2004, by asset category of our parent company pension plan are as follows:

Plan Assets	
	2005
	2004
Equity securities	71.3 %
Fixed-income securities	28.1
Other	0.6
Total	100.0 %

Our parent company employs a total return investment approach whereby a mix of equity and fixed-income investment funds are used to maximize the long-term return of plan assets for a prudent level of risk. They establish a risk tolerance through careful consideration of plan liabilities, plan funded status, and their financial condition. The investment portfolio contains a diversified blend of equity and debt investments. The equity component is diversified across U.S. and non-U. S. stocks, as well as growth, value and small and large capitalization stocks. The fixed-income component is diversified across the maturity, quality and sector spectrum. The portfolio may also hold cash equivalents. Fund managers may use derivatives only if the vehicle is deemed by the manager to be more attractive than a similar direct investment in the underlying cash market, or if the vehicle is being used to manage risk of the portfolio. Derivatives, however, may not be used in a speculative manner or to leverage the portfolio. They measure and monitor investment risk on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability allocation studies. The asset mix guidelines for our parent company pension plan are as follows:

Percent of Total Portfolio		Minimum	Target	Maximum	Large capitalization U.S. stocks
30.0%	35.0%	40.0%	Small capitalization U.S. stocks	15.0	20.0
10.0	15.0	20.0	Fixed-income securities	20.0	25.0
5.0			Cash equivalents	--	5.0

Contributions

We do not expect to contribute to our parent company pension plan or their unfunded non-qualified pension plan in 2006.

Benefit Payments

The following benefit payments to our employees, which reflect expected future service, as appropriate, are expected to be paid with future contributions to our parent company pension plan or directly from our parent company pension plan assets, as follows:

	Pension Benefits	Other Postretirement Benefits		
		Gross Payments	Less Medicare Part D Subsidy	Net Payments
2006	\$ 5	\$ 1	\$ --	\$ 1
2007	20	2	--	2
2008	35	4	--	4
2009	50	9	--	9
2010	80	18	--	18
2011-2015	1,100	288	--	288

NOTES TO FINANCIAL STATEMENTS

3 EMPLOYEE BENEFIT PLANS continued

Our parent company sponsors the Investment Savings Plan, a defined contribution benefit plan that covers all of our employees. The plan allows employees to defer up to 50% of their eligible wages, up to the IRS limit, on a pre-tax basis. In addition, our employees can contribute up to 50% of their eligible wages after taxes. The maximum combined total contribution may not exceed 50% of their eligible wages. Each of our employees who elect to participate is eligible to receive matching contributions from us of \$0.50 for each dollar contributed by the participant, up to 5% of eligible wages as defined by the plan. The matching contributions, recorded as an operating expense, were \$258, \$290 and \$253 in 2005, 2004 and 2003, respectively.

4 INCOME TAXES

The components of the provision for income taxes consist of the following:

	2005	2004	2003
	-----	-----	-----
Years ended December 25, December 26 and December 31			
Current:			
Federal	\$ 11,042	\$ 11,246	\$ 12,358
State	1,730	2,515	3,309
	-----	-----	-----
	12,772	13,761	15,667
Deferred	(3,564)	83	199
	-----	-----	-----
Total	\$ 9,208	\$ 13,844	\$ 15,866
	-----	-----	-----

The significant differences between the statutory federal income tax rate and the effective income tax rate are as follows:

	2005	2004	2003
	-----	-----	-----
Years ended December 25, December 26 and December 31			
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	4.2	4.5	5.0
Other	(0.8)	0.1	0.6
	-----	-----	-----
Effective income tax rate	38.4 %	39.6 %	40.6 %
	-----	-----	-----

Temporary differences that give rise to the deferred tax assets and liabilities at December 25, 2005 and December 26, 2004 are as follows:

	2005	2004
	-----	-----
Current assets		
Receivables	\$ 2,360	\$ 1,029
Inventories	54	58
Other assets	1,711	1,965
Accrued compensation	374	361
Accrued employee benefits	31	32
	-----	-----
Total current deferred tax assets	\$ 4,530	\$ 3,445
	-----	-----
Non-current assets		
Accrued employee benefits	\$ 518	\$ 242
State net operating loss	136	108
Other assets	166	96
	-----	-----
Total non-current deferred tax assets	\$ 820	\$ 446
	-----	-----
Non-current liabilities		
Property and equipment	\$ (8,631)	\$ (10,202)
Other liabilities	(644)	(1,178)
	-----	-----
Total non-current deferred tax liabilities	(9,275)	(11,380)
	-----	-----
Total net non-current deferred tax liabilities	\$ (8,455)	\$ (10,934)
	-----	-----

NOTES TO FINANCIAL STATEMENTS

4 INCOME TAXES continued

We also maintain a liability to cover the cost of additional tax exposure items on the filing of the federal and state income tax returns. As of December 25, 2005 and December 26, 2004, this liability amounted to \$167 and \$146, respectively.

5 PROPERTY AND EQUIPMENT

Gross property and equipment as of December 25, 2005 and December 26, 2004 consists of the following:

	2005	2004
	-----	-----
December 25 and December 26		
Land and land improvements	\$ 1,207	\$ 1,230
Buildings	5,113	5,133
Leasehold improvements	5,625	5,100
Fiber optic cables	60,940	60,217
IRUs	11,165	10,642
Transmission and switching equipment	119,476	116,297
Furniture, fixtures and other equipment	20,172	17,727
Construction in progress	4,868	2,633
	-----	-----
Property and equipment	228,566	218,979
Less accumulated depreciation	142,277	129,418
	-----	-----
Property and equipment, net	\$ 86,289	\$ 89,561
	-----	-----

6 COMMITMENTS

We lease office space, buildings, equipment and fiber under both short-term and long-term leases accounted for as operating leases. Some of the lease agreements contain renewal options and rental escalation clauses, as well as provisions for the payment of utilities, maintenance and taxes. As of December 25, 2005, our future minimum rental payments due under noncancellable operating lease agreements consist of the following:

2006	\$ 3,065
2007	2,599
2008	2,367
2009	2,044
2010	1,735
Thereafter	4,716

	\$ 16,526

Rent expense charged to operations for 2005, 2004 and 2003 was \$10,213, \$10,945 and \$11,907, respectively.

We have entered into agreements (collocation agreements) that allow us to locate equipment in facilities owned by telecommunication providers. The use of this space enables us to extend the effective capability of the physical infrastructure comprising our network. Typically these agreements involve locating multiplexing/muxing equipment (a rack) in local exchange carrier (LEC) central offices. These agreements have specified beginning and ending dates. However, absent the required notification from either party of the intent to end the agreement, the term automatically converts to a month-to-month arrangement with no specified ending date. Absent a regulatory change eliminating the LEC's responsibility to open their facilities to competing carriers, these agreements have been assumed to exist in near perpetuity and are considered to have put in place permanent components of our network. The agreements require rental payments for the use of the space. Should we elect to exit such an agreement, the terms of the agreements provide that we are responsible for both the removal of our equipment and fiber as well as the cost of returning the space to its original condition, if any physical alterations had taken place.

NOTES TO FINANCIAL STATEMENTS

6 COMMITMENTS continued

According to Statement No. 143, Accounting for Asset Retirement Obligations, and FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, the fair value of an asset retirement obligation (ARO) liability should be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable. Upon initial recognition of the ARO liability, the related asset retirement cost is capitalized, therefore increasing the carrying amount of the related long-lived asset.

We believe that we have legal obligations under the collocation agreements to remove our equipment and restore the facilities to their original condition upon terminating the agreements. However, we do not have a reasonable basis by which to assign probabilities to the timing of the potential settlement dates and accordingly, we cannot reasonable estimate the fair value of the asset retirement obligation.

As a subsidiary of Journal Communications, Inc., we are a guarantor, along with all of their other subsidiaries, of their obligations under their unsecured revolving credit facility. As of December 25, 2005, our parent company had outstanding borrowings under their revolving credit facility of \$274,545.

7 EQUITY INCENTIVE AND EMPLOYEE STOCK PURCHASE PLANS

Certain of our employees currently participate in the Journal Communications, Inc. 2003 Equity Incentive Plan and the Journal Communications, Inc. 2003 Employee Stock Purchase Plan.

The 2003 Equity Incentive Plan rewards key employees for achieving designated corporate and individual performance goals. Awards may be granted in any one or a combination of stock grants, non-statutory stock options, incentive stock options, performance unit grants and stock unit grants.

Stock grants Each stock grant may be accompanied by restrictions, or may be made without any restrictions, as the compensation committee of our parent company's board of directors determines. Such restrictions may include requirements that the participant remain in our continuous employment for a specified period of time, or that our parent company, or the participant, meet designated performance goals. In 2005, certain of our employees were granted 8,250 shares of restricted stock at a weighted average fair value of \$16.25. These shares vest over three years. Unearned compensation, which is being amortized to expense over the vesting period, was recorded at the date of the restricted stock grant awards based on the market value of the shares. During 2005, we recognized expense of \$37 related to the restricted stock granted in 2005. No stock grants were issued to our employees in 2004 or 2003.

Non-statutory stock options The compensation committee of our parent company's board of directors may grant non-statutory stock options to employees and directors at a purchase price equal to at least the fair market value of its class B common stock on the grant date for an exercise term determined by the committee, but not more than ten years from the grant date. In 2004, certain of our employees were granted 2,750 options to purchase our parent company's class B common stock at an exercise price of \$19.95. These options become exercisable three years from the grant date for a period of up to seven years. These options are outstanding but not exercisable as of December 25, 2005. No stock options were granted to our employees in 2005 or 2003.

Incentive stock options The compensation committee of our parent company's board of directors may grant incentive stock options to employees at a purchase price not less than 100% of the fair market value of its class B common stock on the grant date for an exercise term determined by the committee, but not more than ten years from the grant date. There are no incentive stock options outstanding and no incentive stock options were granted to our employees during 2005, 2004 and 2003.

Performance unit grants or stock unit grants - Each stock unit entitles the participant to a cash payment equal to the fair market value of one share of our parent company's class B common stock and will have a value established by the compensation committee of our parent company's board of directors. Each performance unit grant and stock unit grant will be accompanied by restrictions as may be determined in the discretion of the committee. Such restrictions may include, without limitation, requirements that the participant remain in our continuous employment for a specified period of time or meet designated performance goals. There were 1,837 performance units granted to one of our employees in 2005. The number of performance units granted is determined by multiplying the participant's base salary by his or her target percentage of salary, which target ranges by participant from 100% to 50%, then dividing by the initial performance unit value of \$100 per unit. A Total Shareholder Return calculation is performed at the end of the performance period to determine the value of each performance unit. Each participant will receive an amount payable that ranges between \$0 and \$150 per performance unit. There were no stock units granted during 2005, 2004 or 2003 and no performance units or stock units were granted in 2004 and 2003.

NOTES TO FINANCIAL STATEMENTS

7 EQUITY INCENTIVE AND EMPLOYEE STOCK PURCHASE PLANS continued

Employee stock purchase plan - The 2003 Employee Stock Purchase Plan permits eligible employees to purchase our parent company's class B common stock at 90% of the fair market value of the stock on the day of purchase. Our only expense related to this plan is for its administration. During fiscal 2005, 2004 and 2003, 4,325, 1,662 and 635 class B common shares, respectively, were sold to our employees under this plan at a weighted average fair value of \$15.57 in 2005, \$16.95 in 2004 and \$16.68 in 2003.

8 GOODWILL AND OTHER INTANGIBLE ASSETS

Definite-lived Intangible Asset

Our definite-lived intangible asset consists of a customer list. We amortize the customer list on a straight line basis over a period of five years. Amortization expense was \$357 for the year ended December 25, 2005. Estimated amortization expense is \$360 for 2006, 2007 and 2008 and \$336 for 2009.

The gross carrying amount, accumulated amortization and net carrying amount of our customer list as of December 25, 2005 and December 26, 2004 is as follows:

	Gross Carrying Amount -----	Accumulated Amortization -----	Net Carrying Amount -----
December 25, 2005	\$ 1,797	\$ (381)	\$ 1,416
December 26, 2004	\$ 1,838	\$ (24)	\$ 1,814

Goodwill

We had \$188 of goodwill as of December 25, 2005 and December 26, 2004. There were no changes in the carrying amount of goodwill for the years ended December 25, 2005 and December 26, 2004.

We perform impairment tests each year on goodwill, or more frequently if indicators of impairment are present. We cannot be certain that future impairment tests will not result in a charge to earnings. With the assistance of independent, professional appraisers, we performed the 2005 and 2004 annual impairment tests as of the beginning of the fourth quarter. No impairment resulted from our annual impairment tests in 2005 or 2004.

We have not recognized a deferred tax liability for the basis difference of goodwill between financial reporting and income tax reporting as our goodwill is not tax-deductible.

9 LITIGATION

We are subject to various legal actions, administrative proceedings and claims arising out of the ordinary course of business. We believe that such unresolved legal actions and claims will not materially adversely affect our results of operations, financial condition or cash flows.

Merit Network Litigation. In January 2004, Merit Network, Inc., a non-profit corporation that provides internet services to Michigan research and educational institutions, filed a breach of contract action against us. Merit claims that we failed to adjust the monthly charge for certain telecommunications services that Merit Network ordered from us. We believe that Merit Network's interpretation of the contract is incorrect and that no adjustment in the monthly charge was due at the time. In March 2006, with leave from the court, Merit Network added a count to its complaint seeking to further apply the rate adjustment to the calculation of a cancellation charge due under the contract for services that Merit cancelled prior to the expiration of the service term. We have amended our answer to include a counterclaim seeking payment from Merit Network for the early termination charge, calculated at approximately \$4 million using the applicable termination rates. We are in the discovery phase of this case and if a settlement is not reached, the case could go to trial by late 2006 or early 2007. No litigation reserve has been recorded for this matter.

NOTES TO FINANCIAL STATEMENTS

10 ACQUISITIONS

On December 3, 2004, we acquired the customer base and certain assets of Executone of Western Michigan, Inc. (d/b/a Netcom Group), a provider of networking, business telephone system, and carrier services solutions, in Grand Rapids, MI. The final cash purchase price was \$1,091. This acquisition was accounted for using the purchase method. Accordingly, the results of operations and cash flows of Netcom Group since the date of acquisition are included in our financial statements.

During 2005, the final purchase price allocation for the acquisition of Netcom Group resulted in a reduction of \$41 in the gross carrying amount of the customer list.

The final purchase price allocation for this acquisition is as follows:

Accounts receivable	\$ 475
Inventories	522
Property and equipment	112
Other assets	80
Customer list	1,797
Current liabilities	(1,895)

Total purchase price	\$ 1,091

Had this acquisition occurred on January 1, 2004, the effect of the acquisition on our results of operations for 2004 would not have been material.

11 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	2005 Quarters				
	First	Second	Third	Fourth	Total
Revenue	\$ 37,484	\$ 36,152	\$ 33,855	\$ 33,711	\$ 141,202
Gross profit	14,339	13,377	11,550	11,359	50,625
Net earnings	4,792	4,166	2,994	2,799	14,751

	2004 Quarters				
	First	Second	Third	Fourth	Total
Revenue	\$ 35,654	\$ 36,901	\$ 35,863	\$ 35,991	\$ 144,409
Gross profit	14,425	15,061	14,160	14,094	57,740
Net earnings	5,324	5,547	5,271	5,001	21,143

Gross profit is defined as revenue less total direct cost of delivering service, operating costs and depreciation.

As of January 1, 2004, we adopted a 52-53 week fiscal year ending on the last Sunday of December in each year. In addition, we have four quarterly reporting periods, each consisting of thirteen weeks and ending on a Sunday, provided that once every six years, starting in 2006, the fourth quarterly reporting period will be fourteen weeks.

The first quarter of 2005 contained 91 days, while the first quarter of 2004 contained 88 days. The second, third and fourth quarters of 2005 and 2004 each contained 91 days.

NORLIGHT TELECOMMUNICATIONS, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Years ended December 25, 2005, December 26, 2004 and December 31, 2003						
(dollars in thousands)						
Description	Balance at	Additions	Other	Deductions	Balance at	
-----	Beginning	Charged to	Additions	-----	End	
	of Year	Costs	(Deductions)		of Year	
	-----	and Expense	-----		-----	
Allowance for doubtful accounts:						
2005 (1) (2)	\$ 1,327	\$ (206)	\$ 578	\$ 200	\$ 1,499	
2004 (1) (2) (3)	\$ 1,610	\$ (236)	\$ 153	\$ 200	\$ 1,327	
2003 (1) (2)	\$ 2,062	\$ 183	\$ --	\$ 635	\$ 1,610	

(1) Deductions from the allowance for doubtful accounts represent accounts receivable written off, less recoveries, against the allowance.

(2) Other additions (deductions) include reserves for finance charges, sales allowances and miscellaneous accounts receivable.

(3) During 2004, \$217 was added to the allowance for doubtful accounts due to our purchase of Executone of Western Michigan, Inc. (d/b/a Netcom Group).

<original-page F-20 >

(GIF document is not included)

(GIF document is not included)

(GIF document is not included)

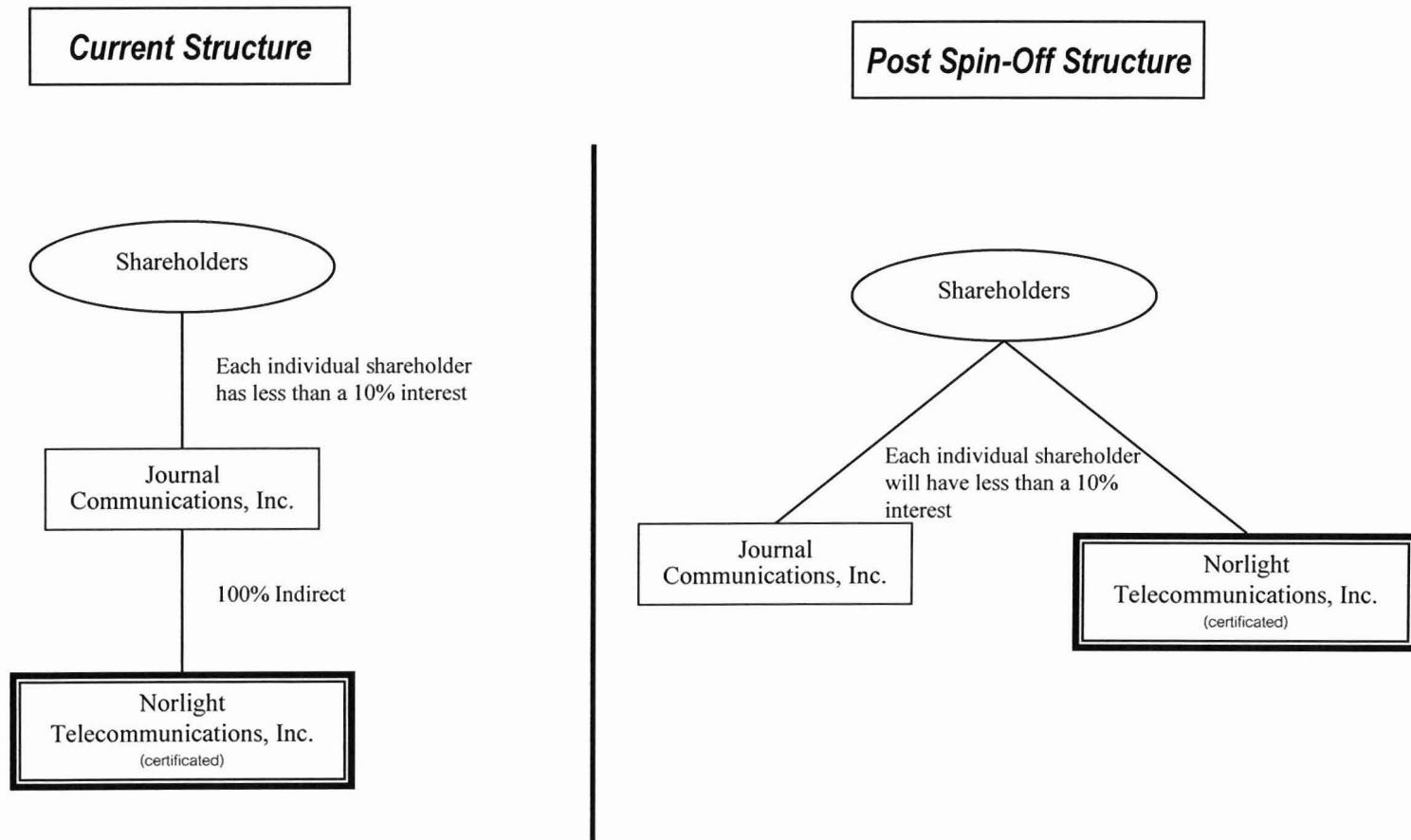
(GIF document is not included)

EXHIBIT C

Pre- and Post-Transaction Organizational Chart

EXHIBIT C

Pre- and Post-Transaction Organizational Chart



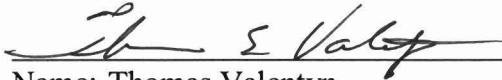
Verification

VERIFICATION

STATE OF WISCONSIN §

COUNTY OF WAUKESHA §

I, Thomas Valentyn, state that I am Vice President and General Counsel for Norlight Telecommunications, Inc., a party to this filing; that I am authorized to make this Verification on behalf of Norlight Telecommunications, Inc.; that the foregoing filing was prepared under my direction and supervision; and that the statements in the foregoing document are true and correct to the best of my knowledge, information, and belief.



Name: Thomas Valentyn
Title: Vice President and General Counsel
Norlight Telecommunications, Inc.

SWORN TO AND SUBSCRIBED before me on the 17 day of May, 2006.


Notary Public

My commission expires: 8-23-09

