PRIMEDIA INC
Form 10-Q
November 09, 2004

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-Q

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

**For the quarterly period ended: September 30, 2004**

**Commission file number: 1-11106**

# PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-3647573** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**745 Fifth Avenue, New York, New York**
(Address of principal executive offices)

**10151**
(Zip Code)

Registrant s telephone number, including area code **(212) 745-0100**

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

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

Yes ý No o

Number of shares of common stock, par value $.01 per share, of PRIMEDIA Inc. outstanding as of October 29, 2004: 260,641,303.

**PRIMEDIA Inc.**

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**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2004 (Unaudited) | December 31, 2003 |
|---|---|---|
| | (dollars in thousands, except per share amounts) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 20,033 | $ 8,685 |
| Accounts receivable, net | 183,242 | 194,080 |
| Inventories | 18,916 | 17,500 |
| Prepaid expenses and other | 33,031 | 36,059 |
| Assets held for sale | 40,017 | 31,879 |
| Total current assets | 295,239 | 288,203 |
| | | |
| Property and equipment (net of accumulated depreciation and amortization of $282,770 in 2004 and $280,612 in 2003) | 79,101 | 110,859 |
| Other intangible assets, net | 254,338 | 268,407 |
| Goodwill | 902,232 | 910,534 |
| Other non-current assets | 46,432 | 58,118 |
| Total Assets | $ 1,577,342 | $ 1,636,121 |
| | | |
| **LIABILITIES AND SHAREHOLDERS DEFICIENCY** | | |
| Current liabilities: | | |
| Accounts payable | $ 82,742 | $ 78,794 |
| Accrued expenses and other | 203,646 | 213,934 |
| Deferred revenues | 167,500 | 173,607 |
| Current maturities of long-term debt | 16,222 | 22,195 |
| Liabilities of businesses held for sale | 28,041 | 16,049 |
| Total current liabilities | 498,151 | 504,579 |
| | | |
| Long-term debt | 1,664,617 | 1,562,441 |
| Shares subject to mandatory redemption | 474,559 | 474,559 |
| Deferred revenues | 17,692 | 17,850 |
| Deferred income taxes | 74,288 | 61,364 |
| Other non-current liabilities | 11,195 | 28,583 |
| Total Liabilities | 2,740,502 | 2,649,376 |
| | | |
| Shareholders deficiency: | | |
| Series J convertible preferred stock ($.01 par value, 1,319,093 shares issued and outstanding, aggregate liquidation and redemption values of $164,887 at December 31, 2003) | | 164,533 |
| Common stock ($.01 par value, 350,000,000 shares authorized at September 30, 2004 and December 31, 2003 and 269,156,873 shares and 268,333,049 shares issued at September 30, 2004 and December 31, 2003, respectively) | 2,691 | 2,683 |
| Additional paid-in capital (including warrants of $31,690 at September 30, 2004 and December 31, 2003) | 2,350,754 | 2,345,152 |
| Accumulated deficit | (3,439,767) | (3,447,710) |
| Accumulated other comprehensive loss | (179) | (176) |
| Unearned compensation | | (175) |
| Common stock in treasury, at cost (8,520,409 shares at September 30, 2004 and 8,610,491 at December 31, 2003) | (76,659) | (77,562) |
| Total Shareholders Deficiency | (1,163,160) | (1,013,255) |

| | | | | |
|---|---|---|---|---|
| Total Liabilities and Shareholders Deficiency | $ | 1,577,342 | $ | 1,636,121 |

See notes to condensed consolidated financial statements (unaudited).

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)**

| | Three Months Ended September 30, 2004 | 2003 |
|---|---|---|
| | (dollars in thousands, except per share amounts) | |
| Revenues, net: | | |
| Advertising | $ 213,165 | $ 202,474 |
| Circulation | 70,233 | 72,679 |
| Other | 40,739 | 34,937 |
| Total revenues, net | 324,137 | 310,090 |
| Operating costs and expenses: | | |
| Cost of goods sold | 70,512 | 68,608 |
| Marketing and selling | 67,405 | 61,466 |
| Distribution, circulation and fulfillment | 53,306 | 56,842 |
| Editorial | 27,788 | 25,733 |
| Other general expenses | 38,177 | 36,898 |
| Corporate administrative expenses (excluding $1,344 and $770 of non-cash compensation in 2004 and 2003, respectively) | 6,980 | 6,615 |
| Depreciation of property and equipment | 8,819 | 13,763 |
| Amortization of intangible assets and other | 4,452 | 9,537 |
| Non-cash compensation | 1,344 | 770 |
| Provision for severance, closures and restructuring related costs | 1,926 | 448 |
| Gain on sale of businesses and other, net | (293) | (706) |
| Operating income | 43,721 | 30,116 |
| Other income (expense): | | |
| Provision for impairment of investments | | (1,248) |
| Interest expense | (32,289) | (29,884) |
| Interest on shares subject to mandatory redemption | (10,945) | (11,008) |
| Amortization of deferred financing costs | (1,334) | (1,116) |
| Other income, net | 17,680 | 519 |
| Income (loss) from continuing operations before income tax expense | 16,833 | (12,621) |
| Provision for deferred income taxes | (4,330) | (3,982) |
| Income (loss) from continuing operations | 12,503 | (16,603) |
| Discontinued operations (including gain on sale of businesses, net of $999 and $2,713 in 2004 and 2003, respectively) | (3,763) | (22,225) |
| Net income (loss) | 8,740 | (38,828) |
| Preferred stock dividends and related accretion, net | (2,551) | (4,845) |
| Income (loss) applicable to common shareholders | $ 6,189 | $ (43,673) |
| Basic and diluted income (loss) per common share: | | |
| Continuing operations | $ 0.04 | $ (0.08) |
| Discontinued operations | (0.02) | (0.09) |
| Income (loss) applicable to common shareholders | $ 0.02 | $ (0.17) |

| | | |
|---|---|---|
| Basic common shares outstanding | 260,496,328 | 259,343,692 |
| Diluted common shares outstanding | 264,365,201 | 259,343,692 |

See notes to condensed consolidated financial statements (unaudited).

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)**

| | Nine Months Ended September 30, 2004 | 2003 |
|---|---|---|
| | (dollars in thousands, except per share amounts) | |
| Revenues, net: | | |
| Advertising | $ 631,190 | $ 617,347 |
| Circulation | 208,785 | 214,445 |
| Other | 133,192 | 122,998 |
| Total revenues, net | 973,167 | 954,790 |
| Operating costs and expenses: | | |
| Cost of goods sold | 205,486 | 206,308 |
| Marketing and selling | 202,975 | 196,154 |
| Distribution, circulation and fulfillment | 165,993 | 168,703 |
| Editorial | 81,443 | 77,741 |
| Other general expenses | 120,593 | 117,034 |
| Corporate administrative expenses (excluding $4,830 and $2,793 of non-cash compensation in 2004 and 2003, respectively) | 20,566 | 20,842 |
| Depreciation of property and equipment | 27,653 | 35,116 |
| Amortization of intangible assets and other | 14,999 | 29,778 |
| Severance related to separated senior executives | 658 | 5,576 |
| Non-cash compensation | 4,830 | 2,793 |
| Provision for severance, closures and restructuring related costs | 8,719 | 3,348 |
| Provision for unclaimed property | 5,500 | |
| (Gain) loss on sale of businesses and other, net | (243) | 625 |
| Operating income | 113,995 | 90,772 |
| Other income (expense): | | |
| Provision for impairment of investments | (804) | (8,975) |
| Interest expense | (90,053) | (94,443) |
| Interest on shares subject to mandatory redemption | (32,835) | (11,008) |
| Amortization of deferred financing costs | (3,653) | (2,360) |
| Other income (expense), net | 17,793 | (3,283) |
| Income (loss) from continuing operations before income tax expense | 4,443 | (29,297) |
| Provision for deferred income taxes | (13,054) | (11,033) |
| Loss from continuing operations | (8,611) | (40,330) |
| Discontinued operations (including gain on sale of businesses, net of $43,299 and $105,310 in 2004 and 2003, respectively) | 30,576 | 70,160 |
| Net income | 21,965 | 29,830 |
| Preferred stock dividends and related accretion, net | (13,505) | (36,856) |
| Income (loss) applicable to common shareholders | $ 8,460 | $ (7,026) |
| Basic and diluted income (loss) per common share: | | |
| Continuing operations | $ (0.09) | $ (0.30) |
| Discontinued operations | 0.12 | 0.27 |

| | | | | |
|---|---|---|---|---|
| Income (loss) applicable to common shareholders | $ | 0.03 | $ | (0.03) |
| | | | | |
| Basic and diluted common shares outstanding | | 260,232,692 | | 259,078,166 |

See notes to condensed consolidated financial statements (unaudited).

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)**

| | Nine Months Ended September 30, 2004 | 2003 |
|---|---|---|
| | (dollars in thousands) | |
| **Operating activities:** | | |
| Net income | $ 21,965 | $ 29,830 |
| Adjustments to reconcile net income to net cash provided by operating activities | 11,333 | 41,172 |
| Changes in operating assets and liabilities | 3,034 | (27,031) |
| Net cash provided by operating activities | 36,332 | 43,971 |
| **Investing activities:** | | |
| Additions to property, equipment and other, net | (23,500) | (26,523) |
| Proceeds from sale of businesses and other | 70,277 | 183,741 |
| Payments for businesses acquired, net of cash acquired | (1,358) | (7,722) |
| Proceeds from sale of (payments for) other investments | 17,399 | (3,183) |
| Net cash provided by investing activities | 62,818 | 146,313 |
| **Financing activities:** | | |
| Borrowings under credit agreements | 386,700 | 329,400 |
| Repayments of borrowings under credit agreements | (461,700) | (382,312) |
| Payments for repurchases of senior notes | | (375,675) |
| Proceeds from issuance of Senior Floating Rate Notes | 175,000 | |
| Proceeds from issuance of 8% Senior Notes | | 300,000 |
| Proceeds from issuances of common stock | 1,028 | 1,120 |
| Purchases of common stock in connection with the exchange of exchangeable preferred stock | | (19,367) |
| Redemption of Series J Convertible Preferred Stock | (178,038) | |
| Dividends paid to preferred stock shareholders | | (33,928) |
| Deferred financing costs paid | (5,686) | (6,288) |
| Capital lease obligations | (4,920) | (3,173) |
| Other | (186) | (233) |
| Net cash used in financing activities | (87,802) | (190,456) |
| Increase (decrease) in cash and cash equivalents | 11,348 | (172) |
| Cash and cash equivalents, beginning of period | 8,685 | 18,553 |
| Cash and cash equivalents, end of period | $ 20,033 | $ 18,381 |
| **Supplemental information:** | | |
| Cash interest paid | $ 64,307 | $ 75,746 |
| Cash interest paid on shares subject to mandatory redemption | $ 32,835 | $ 11,008 |
| Cash taxes paid, net of refunds | $ 171 | $ 441 |
| Accretion in carrying value of exchangeable and convertible preferred stock | $ 353 | $ 781 |
| Payments of dividends-in-kind on Series J Convertible Preferred Stock | $ 13,152 | $ 14,099 |
| Carrying value of exchangeable preferred stock converted to common stock | $ | $ 16,066 |
| Fair value of common stock issued in connection with conversion of exchangeable preferred stock | $ | $ 15,122 |

See notes to condensed consolidated financial statements (unaudited).

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**PRIMEDIA Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**(dollars in thousands, except per share amounts)**

1. Summary of Significant Accounting Policies

Basis of Presentation

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either PRIMEDIA or the Company. In the opinion of the Company s management, the condensed consolidated financial statements present fairly the consolidated financial position of the Company as of September 30, 2004 and December 31, 2003 and the consolidated results of operations of the Company for the three and nine months ended September 30, 2004 and 2003, and consolidated cash flows of the Company for the nine month periods ended September 30, 2004 and 2003 and all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All intercompany accounts and transactions have been eliminated in consolidation. These statements should be read in conjunction with the Company s annual consolidated financial statements and related notes for the year ended December 31, 2003, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 (which was updated to reflect the reclassification of certain businesses as discontinued operations on a Current Report on Form 8-K dated September 13, 2004). The operating results for the three and nine month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for a full year. Certain amounts in the prior periods condensed consolidated financial statements and related notes have been reclassified to conform to the presentation as of and for the three and nine month periods ended September 30, 2004.

Stock Based Compensation

The Company has a stock-based employee compensation plan. Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 123, Accounting for Stock-Based Compensation , as amended by SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure , using the prospective method. Upon adoption, the Company began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. The adoption of SFAS 123 decreased the income from continuing operations for the three months ended September 30, 2004 by $604 and increased the loss from continuing operations for the nine months ended September 30, 2004 by $1,972, respectively. The impact of the adoption of SFAS 123 was not significant for the three and nine months ended September 30, 2003.

The following table illustrates the effect on net income (loss) applicable to common shareholders and basic and diluted income (loss) per common share if the Company had applied the fair value recognition provisions of SFAS 123 to all stock-based employee compensation grants:

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2004 | | 2003 | | 2004 | | 2003 |
| Reported net income (loss) applicable to common shareholders | $ | 6,189 | $ | (43,673) | $ | 8,460 | $ | (7,026) |
| Add: Stock-based employee compensation expense included in reported net income (loss) | | 604 | | 471 | | 2,147 | | 1,784 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards | | (3,015) | | (3,291) | | (9,453) | | (16,864) |
| Pro forma net income (loss) applicable to common shareholders | $ | 3,778 | $ | (46,493) | $ | 1,154 | $ | (22,106) |
| Per Common Share: | | | | | | | | |
| Reported basic and diluted income (loss) | $ | 0.02 | $ | (0.17) | $ | 0.03 | $ | (0.03) |
| Pro forma basic and diluted income (loss) | $ | 0.01 | $ | (0.18) | $ | 0.00 | $ | (0.09) |

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options granted on or before December 31, 2002 under the fair value method of SFAS 123. The fair value of these options was estimated at the date of grant using the Black-Scholes pricing model. For the three months ended September 30, 2004 and 2003, respectively, the following weighted-average assumptions were used: risk-free interest rates of 2.97 % and 4.61%; dividend yields of 0.0% and 0.0%; volatility factors of the expected market price of the Company s common stock of 82% and 79%, and a weighted-average expected life of the options of three and five years. The following weighted-average assumptions were used for options granted in the nine months ended September 30, 2004 and 2003, respectively: risk-free interest rates of 2.85% and 4.57%; dividend yields of 0.0% and 0.0%; volatility factors of the expected market price of the Company s common stock of 84% and 79%, and a weighted-average expected life of the options of three and five years. The estimated fair value of options granted during the three months ended September 30, 2004 and 2003 was $88 and $454, respectively, and $406 and $472 during the nine months ended September 30, 2004 and 2003, respectively.

The Black-Scholes pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

<u>Recent Accounting Pronouncement</u>

In accordance with the prospective adoption, effective July 1, 2003, of SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity , the Company classified as long-term liabilities its Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock (collectively the Exchangeable Preferred Stock ). Additionally, dividends from

this Exchangeable Preferred Stock are classified as interest expense.

As a result of the adoption of SFAS 150, the Exchangeable Preferred Stock are now collectively described as shares subject to mandatory redemption on the accompanying condensed consolidated balance sheets as of September 30, 2004 and December 31, 2003. Dividends on these shares, subsequent to the adoption of SFAS 150, are now described as interest on shares subject to mandatory redemption and are included in income (loss) from continuing operations, whereas previously they were presented below net income (loss) as preferred stock dividends. The adoption of SFAS 150 decreased the results from continuing operations for the three and nine months ended September 30, 2004 by $11,281 and $33,843, respectively, which represents interest on shares subject to mandatory redemption ($10,945 per quarter) and amortization of issuance costs ($336 per quarter) which is included in the amortization of deferred financing costs on the accompanying condensed statements of consolidated operations. As a result of SFAS 150 being adopted during the third quarter of 2003, loss from continuing operations increased $11,344 for the three and nine months ended September 30, 2003. If SFAS 150 was retroactively adopted on January 1, 2003, loss from continuing operations for the nine months ended September 30, 2003 would have increased by $22,670. This adoption did not have an impact on income (loss) applicable to common shareholders or basic and diluted income (loss) per common share for any of the periods presented on the accompanying condensed statements of consolidated operations.

## 2. Divestitures and Investment Sale

*Divestitures*

The Company has classified the results of certain divested entities as discontinued operations in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets .

In January 2004, the Company completed the sale of *New York* magazine, part of the Enthusiast Media segment, the results of which have been classified as discontinued operations for all periods presented. Proceeds from the sale of $55,000, subject to standard post-closing adjustments, were used to pay down the Company s revolving credit borrowings under its bank credit facilities with JPMorgan Chase Bank, Bank of America, N.A., The Bank of New York, and The Bank of Nova Scotia, as agents (the bank credit facilities ). Additionally, the Company finalized a working capital settlement with the purchaser of *Seventeen* and its companion teen properties, resulting in a payment to the purchaser of $3,379 in January 2004.

In February 2004, the Company completed the sale of Kagan World Media, part of the Business Information segment, the results of which have been classified as discontinued operations for all periods presented. Proceeds from the sale were approximately $2,200, subject to standard post-closing adjustments.

In April 2004, the Company sold About Web Services, the Web hosting business of About Inc., part of the Enthusiast Media segment, the results of which have been classified as discontinued operations for all periods presented. Proceeds from the sale were approximately $12,200, subject to standard post-closing adjustments.

Additionally, in the second quarter of 2004, the Company began evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties in the Business Information segment. In August 2004, *Folio* and *Circulation Management* were contributed to a venture with a third party, under which the Company will not have a significant continuing involvement in the operations and the Company s share of associated cash flows is not expected to be significant.  The operating results of these properties have been classified as discontinued operations for all periods presented.

In September 2004, the Company announced that it would explore strategic options regarding its Workplace Learning division and is actively pursuing the sale of this division, excluding the Interactive Medical Network ( IMN ), in the Education segment (formerly Education and Training, renamed to reflect the classification of

Workplace Learning as discontinued operations). The Company believes that there will not be a material loss relating to the sale of this division. Workplace Learning provides integrated learning solutions for more than eight million professionals in the industrial, healthcare, banking, automotive, fire and emergency, government and law, and security markets. The operating results of this division, excluding IMN, have been classified as discontinued operations for all periods presented and the related assets and liabilities have been classified as held for sale as of September 30, 2004.

The results of the Company s divestiture of certain properties in 2004 and 2003 have been included in discontinued operations on the accompanying condensed statements of consolidated operations. Discontinued operations include revenues of $10,002 and $35,166 for the three months ended September 30, 2004 and 2003, respectively, and $35,052 and $142,059 for the nine months ended September 30, 2004 and 2003, respectively.

*Balance Sheet-Held for Sale*

The assets and liabilities of businesses that have been sold or which the Company has initiated plans to sell as of September 30, 2004 and December 31, 2003 have been reclassified to held for sale on the accompanying condensed consolidated balance sheets as follows:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| **ASSETS** | | |
| Accounts receivable, net | $ 3,772 | $ 8,010 |
| Inventories | 1,803 | 391 |
| Prepaid expenses and other | 1,018 | 907 |
| Property and equipment, net | 19,097 | 297 |
| Other intangible assets, net | | 14,056 |
| Goodwill | | 6,747 |
| Other non-current assets. | 14,327 | 1,471 |
| Assets held for sale | $ 40,017 | $ 31,879 |
| **LIABILITIES** | | |
| Accounts payable | $ 1,963 | $ 3,115 |
| Accrued expenses and other | 6,129 | 11,791 |
| Deferred revenues-current | 5,855 | 1,110 |
| Other non-current liabilities | 14,094 | 33 |
| Liabilities of businesses held for sale | $ 28,041 | $ 16,049 |

Assets and liabilities classified as held for sale at December 31, 2003 have been sold as of September 30, 2004.

*Investment Sale*

In September 2004, the Company sold all of its equity investment in approximately 36% of the stock of All About Japan, Inc. for proceeds of approximately $16,700. The investment had no carrying value at the time of the sale due to the recording of historical losses as well as impairment charges recorded in 2001. The Company recognized a gain on the sale of approximately $16,700 recorded in other income (expense), net on the accompanying condensed statements of consolidated operations.

3. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Accounts receivable | $ 197,664 | $ 212,144 |
| Less: Allowance for doubtful accounts | 11,459 | 10,798 |
| Allowance for returns and rebates | 2,963 | 7,266 |
| | $ 183,242 | $ 194,080 |

4. Inventories

Inventories consisted of the following:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| Finished goods | $ 6,969 | $ 8,008 |
| Work in process | 118 | 230 |
| Raw materials | 11,829 | 9,262 |
| | $ 18,916 | $ 17,500 |

5. Goodwill, Other Intangible Assets and Other

As required under SFAS 142, Goodwill and Other Intangible Assets , the Company continues to assess goodwill and indefinite lived intangible assets for impairment at least annually since its initial adoption of SFAS 142 on January 1, 2002. The Company established October 31 as the annual impairment test date. In addition to the annual impairment test, an assessment is also required whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the nine months ended September 30, 2004, there were no events or changes in circumstances requiring the Company to perform an impairment test related to goodwill, intangible assets or other finite lived assets, and accordingly, there were no impairments recorded.

Historically, the Company did not need a valuation allowance for the portion of the tax effect of net operating losses equal to the amount of deferred tax liabilities related to tax-deductible goodwill and trademark amortization expected to occur during the carryforward period of the net operating losses based on the timing of the reversal of these taxable temporary differences. Upon adoption of SFAS 142, the Company recorded a valuation allowance in excess of its net deferred tax assets to the extent the difference between the book and tax basis of indefinite-lived intangible assets is not expected to reverse during the net operating loss carryforward period. With the adoption of SFAS 142, the Company no longer amortizes the book basis in the indefinite-lived intangibles, but will continue to amortize these intangibles for tax purposes. Income tax expense primarily consisted of deferred income taxes of $4,318 and $3,974 for the three months ended September 30, 2004 and 2003, respectively, and $12,924 and $10,624, for the nine months ended September 30, 2004 and 2003, respectively, related to the increase in the Company s net deferred tax liability for the tax effect of the net increase in the difference between the book and tax basis of the indefinite-lived intangible assets.

In addition, since amortization of tax-deductible goodwill and trademarks ceased on January 1, 2002, the Company will have deferred tax liabilities that will arise each quarter because the taxable temporary differences related to the amortization of these assets will not reverse prior to the expiration period of the Company s deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. The

Company expects that it will record a total of approximately $4,500 to increase deferred tax liabilities during the remaining three months of 2004.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2004, by operating segment, are as follows:

| | Enthusiast Media | Consumer Guides | Business Information | Total |
|---|---|---|---|---|
| Balance as of January 1, 2004 | $ 695,340 | $ 95,808 | $ 119,386 | $ 910,534 |
| Purchase price allocation adjustments per final valuation reports | | 193 | | 193 |
| Goodwill written off related to the sale of businesses | (6,776) | | (1,719) | (8,495) |
| Balance as of September 30, 2004 | $ 688,564 | $ 96,001 | $ 117,667 | $ 902,232 |

Intangible assets subject to amortization in accordance with SFAS 142 consist of the following:

| | | September 30, 2004 | | | December 31, 2003 | | |
|---|---|---|---|---|---|---|---|
| | Range of Lives | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Trademarks | 3 | $ 20,449 | $ 20,449 | $ | $ 21,013 | $ 19,845 | $ 1,168 |
| Membership, subscriber and customer lists | 2-20 | 346,660 | 321,326 | 25,334 | 348,346 | 315,860 | 32,486 |
| Non-compete agreements | 1-10 | 136,226 | 134,689 | 1,537 | 137,829 | 134,093 | 3,736 |
| Trademark license agreements | 2-15 | 2,984 | 2,913 | 71 | 2,984 | 2,899 | 85 |
| Copyrights | 3-20 | 17,940 | 17,267 | 673 | 20,550 | 19,609 | 941 |
| Databases | 2-12 | 9,353 | 8,921 | 432 | 9,353 | 8,627 | 726 |
| Advertiser lists | 5-20 | 135,978 | 125,728 | 10,250 | 135,978 | 122,852 | 13,126 |
| Distribution agreements | 1-7 | 10,410 | 10,410 | | 10,410 | 10,410 | |
| Other | 1-5 | 9,804 | 9,804 | | 9,804 | 9,804 | |
| | | $ 689,804 | $ 651,507 | $ 38,297 | $ 696,267 | $ 643,999 | $ 52,268 |

Intangible assets not subject to amortization had a carrying value of $216,041 and $216,139 at September 30, 2004 and December 31, 2003, respectively, and consisted primarily of trademarks. Amortization expense for intangible assets still subject to amortization was $4,098 and $7,603 for the three months ended September 30, 2004 and 2003, respectively, and $14,104 and $24,161 for the nine months ended September 30, 2004 and 2003, respectively.  Amortization of deferred wiring costs of $354 and $1,934 for the three months ended September 30, 2004 and 2003, respectively, and $895 and $5,617 for the nine months ended September 30, 2004 and 2003, respectively, has also been included in amortization of intangible assets and other on the accompanying condensed statements of consolidated operations. At September 30, 2004, estimated future amortization expense of intangible assets still subject to amortization, excluding deferred wiring costs, is as follows: approximately $4,000 for the remaining three months of 2004 and approximately $11,000, $7,000, $5,000 and $4,000 for 2005, 2006, 2007 and 2008, respectively.

6.  Long-term Debt

Long-term debt consisted of the following:

| | | **September 30, 2004** | | **December 31, 2003** |
|---|---|---|---|---|
| Borrowings under bank credit facilities | $ | 484,906 | $ | 559,906 |
| $7^{5}/_{8}$% Senior Notes Due 2008 | | 225,545 | | 225,443 |
| $8^{7}/_{8}$% Senior Notes Due 2011 | | 470,245 | | 469,820 |
| 8% Senior Notes Due 2013 | | 300,000 | | 300,000 |
| Senior Floating Rate Notes Due 2010 | | 175,000 | | |
| | | 1,655,696 | | 1,555,169 |
| Obligation under capital leases | | 25,143 | | 29,467 |
| | | 1,680,839 | | 1,584,636 |
| Less: Current maturities of long-term debt | | 16,222 | | 22,195 |
| | $ | 1,664,617 | $ | 1,562,441 |

*$175,000 Senior Floating Rate Notes Due 2010 and $100,000 Term Loan C Credit Facility Offerings*

On May 14, 2004, the Company issued $175,000 principal amount of Senior Floating Rate Notes Due 2010 (the   Senior Floating Rate Notes   ), and entered into a new $100,000 term loan C credit facility with a maturity date of December 31, 2009.  The Senior Floating Rate Notes bear interest equal to the three-month LIBOR plus 5.375% per year and the term loan C at LIBOR plus 4.375% per year.  The Company applied the combined net proceeds from the Senior Floating Rate Notes offering and the term loan C credit facility to prepay $30,000 of outstanding term loan A commitments and $120,000 of term loan B commitments, with the remainder used to temporarily pay down all outstanding advances under the revolving credit facility.  The purpose of these borrowings was to redeem the Company   s Series J Convertible Preferred Stock (see Note 7 for further discussion).

*Offering and Amendment to the Company   s Bank Credit Facilities*

In connection with the offering of the Senior Floating Rate Notes, the Company entered into an amendment to its bank credit facilities that changed the terms of certain of the Company   s financial covenants and repayment obligations. The maximum allowable debt leverage ratio, as defined in the bank credit facilities, was amended to 6.25 to 1 through September 30, 2005 and decreases to 6.00 to 1, 5.75 to 1, 5.50 to 1, 5.25 to 1, 5.00 to 1, 4.75 to 1, and 4.50 to 1 on October 1, 2005, July 1, 2006, October 1, 2006, April 1, 2007, October 1, 2007, April 1, 2008 and July

1, 2008, respectively. The amendment to the bank credit facilities also set the minimum interest coverage ratio, as defined in the bank credit facilities, at 2.25 to 1 through maturity. The minimum fixed charge coverage ratio, as defined, remains unchanged at 1.05 to 1 through maturity. The Company is in compliance with all of the financial and operating covenants of its financing arrangements.

With the exception of the term loan B and the term loan C, the amounts borrowed bear interest, at the Company s option, at either the base rate plus an applicable margin ranging from 0.125% to 1.5% or LIBOR plus an applicable margin ranging from 1.125% to 2.5%. The term loan B bears interest at the base rate plus 1.75% or LIBOR plus 2.75%. The term loan C bears interest at the base rate plus 3.375% or LIBOR plus 4.375%. At September 30, 2004 and December 31, 2003, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 4.3% and 3.6%, respectively.

**7.** Series J Convertible Preferred Stock

On July 7, 2004, the Company redeemed all of its outstanding Series J Convertible Preferred Stock, representing an aggregate of 1,424,306 shares for approximately $178,000, using cash on hand of approximately $33,000 and $145,000 of advances under its revolving credit facility.

As of December 31, 2003, the Company had $164,533 of Series J Convertible Preferred Stock outstanding. The Company paid dividends in kind of 17,584 and 105,213 shares of Series J Convertible Preferred Stock valued at $2,198 and $13,152 during the three and nine months ended September 30, 2004, respectively, and 38,761 and 112,796 shares of Series J Convertible Preferred Stock valued at $4,845 and $14,099 during the three and nine months ended September 30, 2003, respectively.

8. Common Stock and Related Options

The following table summarizes information about stock options outstanding and exercisable at September 30, 2004:

| Range of Exercise Prices | Number Outstanding at 9/30/04 | Number Exercisable at 9/30/04 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price of Outstanding Options | Weighted Average Exercise Price of Exercisable Options |
|---|---|---|---|---|---|
| $0.08 - $0.43 | 61,391 | 61,391 | 3 | $ 0.28 | $ 0.28 |
| $1.01 - $1.80 | 4,520 | 3,645 | 6 | 1.45 | 1.48 |
| $1.85 - $1.98 | 953,236 | 539,368 | 6 | 1.85 | 1.85 |
| $2.02 - $2.99 | 2,698,500 | 747,875 | 5 | 2.82 | 2.77 |
| $3.09 - $3.65 | 2,072,750 | 36,375 | 7 | 3.09 | 3.19 |
| $4.00 - $5.95 | 7,156,077 | 5,601,265 | 6 | 4.73 | 4.77 |
| $6.00 - $9.83 | 4,206,545 | 2,809,206 | 6 | 6.82 | 7.05 |
| $10.13 - $19.81 | 9,079,154 | 8,762,380 | 5 | 13.40 | 13.29 |
| $20.00 - $27.13 | 147,198 | 146,613 | 5 | 25.39 | 25.40 |
| $34.17 - $36.52 | 11,194 | 11,194 | 5 | 34.55 | 34.55 |
| Total | 26,390,565 | 18,719,312 | 6 | 7.74 | 9.10 |

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9. Non-Cash Compensation

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Restricted stock (1) | $ 740 | $ 41 | $ 2,683 | $ 88 |
| Stock options (2) | 604 | | 1,972 | |
| Amortization of the intrinsic value of unvested in-the-money options issued in connection with the About acquisition (3) | | 259 | 175 | 1,025 |
| Restricted stock and stock options-About (4) | | 470 | | 1,680 |
| Total | $ 1,344 | $ 770 | $ 4,830 | $ 2,793 |

(1) The Company recognized non-cash compensation charges related to the Company s grant of shares of restricted common stock to certain executives during 2003, as well as grants of shares of restricted common stock to certain employees in 2003 and 2004 in exchange for their options in the Company s Internet subsidiaries of $740 and $41 during the three months ended September 30, 2004 and 2003, respectively, and $2,683 and $88 during the nine months ended September 30, 2004 and 2003, respectively. These grants were valued at the date of grant and are being expensed ratably over their related vesting periods.

(2) As a result of the adoption of SFAS 123 effective January 1, 2003, the Company recorded a non-cash compensation charge of $604 and $1,972 for the three and nine months ended September 30, 2004, respectively, relating to stock options and the PRIMEDIA Employee Stock Purchase Plan. The impact of the adoption of SFAS 123 was not significant for the three and nine months ended September 30, 2003.

(3) In connection with the acquisition of About in 2001, the Company recorded charges related to the amortization of the intrinsic value of unvested in the money options of $259 for the three months ended September 30, 2003 and $175 and $1,025 for the nine months ended September 30, 2004 and 2003, respectively. As of March 31, 2004, these options were fully vested.

(4) The Company recorded charges related to the vesting of certain restricted stock and stock options granted in connection with the acquisition of About in 2001 of $470 and $1,680 for the three and nine months ended September 30, 2003, respectively.

10. Senior Executives Severance and Provision for Severance, Closures and Restructuring Related Costs

*Senior Executives Severance*

Severance related to the finalization of the separation agreements of the former Chief Executive Officer and the former President and Interim Chief Executive Officer were $0 and $658 for the three and nine months ended September 30, 2004, respectively, and $0 and $5,576 for the three and nine months ended September 30, 2003, respectively.

*Provision for Severance, Closures and Restructuring Related Costs*

Through the third quarter of 2004, the Company continued cost reduction initiatives previously announced to streamline operations, reduce layers of management and consolidate real estate.

Details of the initiatives implemented and the payments made in furtherance of these plans during the nine-months ended September 30, 2004 and 2003 are presented in the following tables:

| | Liability as of January 1, 2004 | Net Provision for the Nine Months Ended September 30, 2004 | Payments during the Nine Months Ended September 30, 2004 | Liability as of September 30, 2004 |
|---|---|---|---|---|
| Severance and closures: | | | | |
| Employee-related termination costs | $ 4,913 | $ 1,885 | $ (4,155) | $ 2,643 |
| Termination of leases related to office closures | 37,056 | 6,834 | (6,445) | 37,445 |
| Total severance and closures | $ 41,969(1) | $ 8,719(2) | $ (10,600) | $ 40,088 |

| | Liability as of January 1, 2003 | Net Provision for the Nine Months Ended September 30, 2003 | Payments during the Nine Months Ended September 30, 2003 | Liability as of September 30, 2003 |
|---|---|---|---|---|
| Severance and closures: | | | | |
| Employee-related termination costs | $ 5,100 | $ 3,061 | $ (5,257) | $ 2,904 |
| Termination of contracts | 617 | 16 | (114) | 519 |
| Termination of leases related to office closures | 41,626 | 271 | (5,614) | 36,283 |
| Total severance and closures | $ 47,343(1) | $ 3,348(2) | $ (10,985) | $ 39,706 |

(1) Reduced for liabilities relating to discontinued operations totaling $1,256 and $2,091 at January 1, 2004 and 2003, respectively.

(2) Adjusted to exclude net provisions related to discontinued operations totaling $388 and $883 for the nine months ended September 30, 2004 and 2003, respectively.

The remaining costs, comprised primarily of real estate lease commitments for space that the Company no longer occupies, are expected to be paid through 2015.  To reduce the lease related costs, the Company is aggressively pursuing subleases of its available office space, and most have been sublet. These leases have been recorded at their net present value amounts and are net of estimated sublease income amounts.  If the Company is successful in subleasing the restructured office space at a different rate, or is unable to sublease the space by the prescribed date used in the initial calculation, the reserve will be adjusted accordingly. The Company evaluates the appropriateness of its reserves on a quarterly basis.

As a result of the implementation of these plans, the Company has closed and consolidated, to date, 23 office locations and has notified a total of 2,042 individuals that they would be terminated under these plans.  As of September 30, 2004, all of these individuals have been terminated.

The liabilities representing the provision for severance, closures and restructuring related costs are included in accrued expenses and other on the condensed consolidated balance sheets as of September 30, 2004 and December 31, 2003.

## 11. Provision for Unclaimed Property

Based on an initial assessment at the end of 2003, the Company believed that certain business units may have had unclaimed property that should have been remitted to one or more states under their respective escheatment requirements. The property in question related primarily to unused advertising credits and outstanding accounts payable checks for which the Company had an accrual recorded in the amount of $3,600 as of December 31, 2003. The Company hired an outside consultant to assist in estimating the potential risk. It was premature to estimate the extent of the financial risk at the end of 2003, but the Company believed that the risk would not have a material impact on its results of operations or financial position. Upon completion of the initial phase of this assessment, the Company recorded an estimated provision for unclaimed property of $5,500 in the three months ended March 31, 2004, which increased the accrual to $9,100. The calculation of this provision represents the recording of a correction of an error for unclaimed property transactions which occurred during the years 1991 to 2003; however, the amount of the provision, applicable to any year within this period, is not material to the results of operations for each of the respective years, nor is the total provision in relation to the estimated results of operations for 2004 considered material.

The Company has entered the next phase of the assessment whereby the consultant will assist in refining the estimated provision and in negotiating settlements under voluntary compliance agreements with the relevant states.

## 12. Comprehensive Income (loss)

Comprehensive income (loss) for the three and nine months ended September 30, 2004 and 2003 is presented in the following table:

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| Net Income (loss) | $ | 8,740 | $ | (38,828) |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | | 13 | | |
| Total comprehensive income (loss) | $ | 8,753 | $ | (38,828) |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| Net income | $ | 21,965 | $ | 29,830 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | | (3) | | 24 |
| Total comprehensive income | $ | 21,962 | $ | 29,854 |

13. Basic and diluted income (loss) per Common Share

Basic and diluted income (loss) per share have been computed as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Basic income (loss) per share computation: | | | | |
| Net income (loss) | $ 8,740 | $ (38,828) | $ 21,965 | $ 29,830 |
| Less: Preferred stock dividends and related accretion, net | 2,551 | 4,845 | 13,505 | 36,856 |
| Income (loss) applicable to common shareholders | $ 6,189 | $ (43,673) | $ 8,460 | $ (7,026) |
| Basic common shares outstanding | 260,496,328 | 259,343,692 | 260,232,692 | 259,078,166 |
| Basic income (loss) per share | $ 0.02 | $ (0.17) | $ 0.03 | $ (0.03) |
| Diluted income (loss) per share computation: | | | | |
| Net income (loss) | $ 8,740 | $ (38,828) | $ 21,965 | $ 29,830 |
| Less: Preferred stock dividends and related accretion, net | 2,551 | 4,845 | 13,505 | 36,856 |
| Income (loss) applicable to common shareholders | $ 6,189 | $ (43,673) | $ 8,460 | $ (7,026) |
| Basic common shares outstanding | 260,496,328 | 259,343,692 | 260,232,692 | 259,078,166 |
| Incremental shares for assumed exercise of securities | 839,237 | | | |
| Unvested restricted stock | 3,029,636 | | | |
| Diluted common shares outstanding | 264,365,201 | 259,343,692 | 260,232,692 | 259,078,166 |
| Diluted income (loss) per share | $ 0.02 | $ (0.17) | $ 0.03 | $ (0.03) |

Stock options and warrants with exercise prices that exceeded the fair market value of the Company s common stock had an antidilutive effect and, therefore, were excluded from the computation of diluted earnings per share. These securities that could potentially dilute basic EPS in the future consisted of approximately 36 million and 53 million stock options and warrants for the three and nine months ended September 30, 2004 and 2003, respectively.

14. Contingencies

The Company is involved in ordinary and routine litigation incidental to its business. In the opinion of management, there is no pending legal proceeding that would have a material adverse affect on the condensed consolidated financial statements of the Company.

15. Business Segment Information

The Company s strategy is to focus on its core businesses and grow through leveraging and expanding its market leading brands. This organic growth strategy requires a segment structure that best aligns the Company s businesses and provides a clear sense of its strategic focus and operating performance. Accordingly, the Company adopted this structure, effective in the fourth quarter of 2003, and has reclassified prior year results to reflect this operating structure into four reportable segments. The Company s four principal segments are Enthusiast Media, Consumer Guides, Business Information and Education (formerly Education and Training, renamed to reflect the classification of the Workplace Learning division as discontinued operations).

The Enthusiast Media segment produces and distributes content through magazines and via the Internet to consumers in various niche and enthusiast markets. It includes the Company s consumer magazine brands, including Performance Automotive and International Automotive (formerly Enthusiast Automotive), Consumer Automotive, Outdoors, Action Sports, Lifestyles and Home Technology magazine groups, their related Web sites, events, licensing and merchandising, as well as About.com.

The Consumer Guides segment is the nation s largest publisher and distributor of free publications, including *Apartment Guide, New Home Guide* and *Auto Guide,* the first of which was launched in the first quarter of 2004, their related Web sites and the DistribuTech distribution business.

The Business Information segment includes the Company s trade magazines, their related Web sites, events, directories and data products with a focus on bringing sellers together with qualified buyers in numerous industries.

The Education segment consists of the businesses that provide content to schools, universities, government and other public institutions. It includes Channel One, a proprietary network to secondary schools, Films Media Group, a leading source in educational videos, and Interactive Medical Network, a continuing medical education business.

Information regarding the operations of the Company by business segment is set forth below based primarily on the nature of the targeted audience. Corporate represents items not allocated to other business segments. PRIMEDIA evaluates performance for each segment based on several factors, of which the primary financial measure is earnings before interest, taxes, depreciation, amortization and other (income) charges ( Segment EBITDA ). Other (income) charges include severance related to separated senior executives, non-cash compensation, provision for severance, closures and restructuring related costs, provision for unclaimed property and (gain) loss on sale of businesses and other, net.

The information presented below includes certain intersegment transactions and is, therefore, not necessarily indicative of the results had the operations existed as stand-alone businesses. Intersegment transactions represent intercompany advertising and other services, which are billed at what management believes are prevailing market rates. These intersegment transactions, which represent transactions between operating units in different business segments, are eliminated in consolidation.

| | Three Months Ended September 30, 2004 | Three Months Ended September 30, 2003 | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---|---|---|---|---|
| Revenues, net: | | | | |
| Enthusiast Media | $ 190,884 | $ 181,136 | $ 551,398 | $ 536,191 |
| Consumer Guides | 71,739 | 69,240 | 214,210 | 206,567 |
| Business Information | 48,641 | 47,281 | 161,651 | 161,326 |
| Education | 13,198 | 13,243 | 46,953 | 55,490 |
| Intersegment Eliminations | (325) | (810) | (1,045) | (4,784) |
| Total | $ 324,137 | $ 310,090 | $ 973,167 | $ 954,790 |
| | | | | |
| Segment EBITDA (1): | | | | |
| Enthusiast Media | $ 42,560 | $ 36,580 | $ 114,823 | $ 102,748 |
| Consumer Guides | 19,747 | 20,805 | 59,901 | 59,376 |
| Business Information | 5,432 | 4,972 | 20,744 | 18,029 |
| Education | (778) | (1,798) | 1,332 | 8,784 |
| Corporate Overhead | (6,992) | (6,631) | (20,689) | (20,929) |
| Total | $ 59,969 | $ 53,928 | $ 176,111 | $ 168,008 |

Below is a reconciliation of the Company s Segment EBITDA to operating income:

| | Three Months Ended September 30, 2004 | Three Months Ended September 30, 2003 | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---|---|---|---|---|
| Segment EBITDA (1): | $ 59,969 | $ 53,928 | $ 176,111 | $ 168,008 |
| Depreciation of property and equipment | 8,819 | 13,763 | 27,653 | 35,116 |
| Amortization of intangible assets and other | 4,452 | 9,537 | 14,999 | 29,778 |
| Severance related to separated senior executives | | | 658 | 5,576 |
| Non-cash compensation | 1,344 | 770 | 4,830 | 2,793 |
| Provision for severance, closures and restructuring related costs | 1,926 | 448 | 8,719 | 3,348 |
| Provision for unclaimed property | | | 5,500 | |
| (Gain) loss on sale of businesses and other, net | (293) | (706) | (243) | 625 |
| | | | | |
| Operating income | $ 43,721 | $ 30,116 | $ 113,995 | $ 90,772 |

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(1) Segment EBITDA represents the segments earnings before interest, taxes, depreciation, amortization and other (income) charges. Other (income) charges include severance related to separated senior executives, non-cash compensation, provision for severance, closures and restructuring related costs, provision for unclaimed property and (gain) loss on sale of businesses and other, net. Segment EBITDA is not intended to represent cash flows from operating activities and should not be considered as an alternative to net income (as determined in conformity with accounting principles generally accepted in the United States of America), as an indicator of the Company s operating performance or to cash flows as a measure of liquidity. Segment EBITDA is presented herein because the Company s chief operating decision maker, who is the President and CEO, and the executive team evaluate and measure each business unit s performance based on its Segment EBITDA results. PRIMEDIA believes that Segment EBITDA is the

most accurate indicator of its segments results, because it focuses on revenue and operating cost items driven by each operating managers performance, and excludes items largely outside of the operating managers control. Segment EBITDA may not be available for the Company s discretionary use as there are requirements to redeem preferred stock and repay debt, among other commitments. Segment EBITDA as presented may not be comparable to similarly titled measures reported by other companies since not all companies calculate Segment EBITDA in an identical manner, and therefore, is not necessarily an accurate measure of comparison between companies.

16. Financial Information for Guarantors of the Company s Debt

The information that follows presents condensed consolidating financial information as of September 30, 2004 and December 31, 2003 and for the nine months ended September 30, 2004 and 2003 for a) PRIMEDIA Inc. (as the Issuer), b) the guarantor subsidiaries, which are with limited exceptions, the restricted subsidiaries, represent the core PRIMEDIA businesses and exclude investment and other development properties included in the unrestricted category, c) the non-guarantor subsidiaries (primarily representing Internet assets and businesses, new launches and other properties under evaluation for turnaround or shutdown and foreign subsidiaries), which are with limited exceptions, the unrestricted subsidiaries, d) elimination entries and e) the Company on a consolidated basis. During the nine months ended September 30, 2004, certain businesses have been reclassified between restricted and unrestricted subsidiaries. These reclassifications are in compliance with our debt agreements and have not had a material effect on our debt covenant ratios as defined in the bank credit facilities.

The condensed consolidating financial information includes certain allocations of revenues, expenses, assets and liabilities based on management s best estimates which are not necessarily indicative of the financial position, results of operations and cash flows that these entities would have achieved on a stand-alone basis and should be read in conjunction with the consolidated financial statements of the Company. The intercompany balances in the accompanying condensed consolidating financial statements include cash management activities, management fees, cross promotional activities and other intercompany charges between Corporate and the business units and among the business units. The non-guarantor subsidiary results of operations include: Internet operations, foreign operations, certain distribution operations, certain start-up magazine businesses, revenues and related expenses derived from the licensing of certain products of guarantor subsidiaries and expenses associated with the cross promotion by the guarantor subsidiaries of the activities of the non-guarantor subsidiaries. The transactions described above are billed, by the Company, at what the Company believes are prevailing market rates. All intercompany related activities are eliminated in consolidation.

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATING BALANCE SHEET**

**(UNAUDITED)**

September 30, 2004

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 7,850 | $ 12,161 | $ 22 | $ | $ 20,033 |
| Accounts receivable, net | | 174,673 | 8,569 | | 183,242 |
| Intercompany receivables | 1,508,014 | 87,903 | 127,593 | (1,723,510) | |
| Inventories | | 18,242 | 674 | | 18,916 |
| Prepaid expenses and other | 3,569 | 23,802 | 5,660 | | 33,031 |
| Assets held for sale | | 24,152 | 15,865 | | 40,017 |
| Total current assets | 1,519,433 | 340,933 | 158,383 | (1,723,510) | 295,239 |
| | | | | | |
| Property and equipment, net | 6,074 | 64,178 | 8,849 | | 79,101 |
| Investment in and advances to subsidiaries | 508,335 | | | (508,335) | |
| Other intangible assets, net | | 253,872 | 466 | | 254,338 |
| Goodwill | | 886,187 | 16,045 | | 902,232 |
| Other non-current assets | 9,657 | 32,392 | 4,383 | | 46,432 |
| Total Assets | $ 2,043,499 | $ 1,577,562 | $ 188,126 | $ (2,231,845) | $ 1,577,342 |
| | | | | | |
| **LIABILITIES AND SHAREHOLDERS DEFICIENCY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 6,514 | $ 73,926 | $ 2,302 | $ | $ 82,742 |
| Intercompany payables | 864,123 | 122,078 | 737,309 | (1,723,510) | |
| Accrued expenses and other | 104,902 | 95,642 | 3,102 | | 203,646 |
| Deferred revenues | 1,738 | 156,964 | 8,798 | | 167,500 |
| Current maturities of long-term debt | 11,835 | 4,387 | | | 16,222 |
| Liabilities of businesses held for sale | | 22,271 | 5,770 | | 28,041 |
| Total current liabilities | 989,112 | 475,268 | 757,281 | (1,723,510) | 498,151 |
| | | | | | |
| Long-term debt | 1,646,001 | 18,616 | | | 1,664,617 |
| Intercompany notes payable | | 2,806,611 | 94,118 | (2,900,729) | |
| Shares subject to mandatory redemption | 474,559 | | | | 474,559 |
| Deferred revenues | 16,575 | 1,117 | | | 17,692 |
| Deferred income taxes | 74,288 | | | | 74,288 |
| Other non-current liabilities | 6,124 | 4,495 | 576 | | 11,195 |
| Total Liabilities | 3,206,659 | 3,306,107 | 851,975 | (4,624,239) | 2,740,502 |
| | | | | | |
| Shareholders deficiency: | | | | | |
| Common stock | 2,691 | | | | 2,691 |
| Additional paid-in capital | 2,350,754 | | | | 2,350,754 |

| | | | | | |
|---|---|---|---|---|---|
| Accumulated deficit | (3,439,767) | (1,728,539) | (663,676) | 2,392,215 | (3,439,767) |
| Accumulated other comprehensive loss | (179) | (6) | (173) | 179 | (179) |
| Common stock in treasury, at cost | (76,659) | | | | (76,659) |
| Total Shareholders Deficiency | (1,163,160) | (1,728,545) | (663,849) | 2,392,394 | (1,163,160) |
| | | | | | |
| Total Liabilities and Shareholders Deficiency | $ 2,043,499 | $ 1,577,562 | $ 188,126 | $ (2,231,845) | $ 1,577,342 |

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS**

**(UNAUDITED)**

For the Nine Months Ended September 30, 2004

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---|---|---|---|---|
| Revenues, net | $ | $ 900,827 | $ 97,839 | $ (25,499) | $ 973,167 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | | 194,352 | 11,134 | | 205,486 |
| Marketing and selling | | 178,501 | 24,474 | | 202,975 |
| Distribution, circulation and fulfillment | | 124,867 | 41,126 | | 165,993 |
| Editorial | | 72,459 | 8,984 | | 81,443 |
| Other general expenses | 123 | 104,852 | 41,117 | (25,499) | 120,593 |
| Corporate administrative expenses (excluding non-cash compensation) | 16,015 | | 4,551 | | 20,566 |
| Depreciation of property and equipment | 2,187 | 20,794 | 4,672 | | 27,653 |
| Amortization of intangible assets and other | | 14,785 | 214 | | 14,999 |
| Severance related to separated senior executives | 658 | | | | 658 |
| Non-cash compensation | 4,830 | | | | 4,830 |
| Provision for severance, closures and restructuring related costs | 3,981 | 4,567 | 171 | | 8,719 |
| Provision for unclaimed property | 56 | 5,444 | | | 5,500 |
| (Gain) loss on sale of businesses and other, net | 47 | 1,461 | (1,751) | | (243) |
| Operating income (loss) | (27,897) | 178,745 | (36,853) | | 113,995 |
| Other income (expense): | | | | | |
| Provision for impairment of investments | (804) | | | | (804) |
| Interest expense | (87,708) | (2,218) | (127) | | (90,053) |
| Interest on shares subject to mandatory redemption | (32,835) | | | | (32,835) |
| Amortization of deferred financing costs | (1,007) | (2,595) | (51) | | (3,653) |
| Equity in income of subsidiaries | 78,929 | | | (78,929) | |
| Intercompany management fees and interest | 105,428 | (103,148) | (2,280) | | |
| Other income, net | 781 | 16,680 | 332 | | 17,793 |
| Income (loss) from continuing operations before income tax | 34,887 | 87,464 | (38,979) | (78,929) | 4,443 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| expense | | | | | | | | | |
| Provision for deferred income taxes | | (12,922) | | (112) | | (20) | | | (13,054) |
| | | | | | | | | | |
| Income (loss) from continuing operations | | 21,965 | | 87,352 | | (38,999) | | (78,929) | (8,611) |
| | | | | | | | | | |
| Discontinued operations | | | | 32,740 | | (2,164) | | | 30,576 |
| | | | | | | | | | |
| Net income (loss) | $ | 21,965 | $ | 120,092 | $ | (41,163) | $ | (78,929) $ | 21,965 |

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONDENSED STATEMENT OF CONSOLIDATING CASH FLOWS**

**(UNAUDITED)**

For the Nine Months Ended September 30, 2004

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---|---|---|---|---|
| **Operating activities:** | | | | | |
| Net income (loss) | $ 21,965 | $ 120,092 | $ (41,163) | $ (78,929) | $ 21,965 |
| | | | | | |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | (161,983) | 91,811 | 2,576 | 78,929 | 11,333 |
| Changes in operating assets and liabilities | 2,449 | 12,213 | (11,628) | | 3,034 |
| Net cash provided by (used in) operating activities | (137,569) | 224,116 | (50,215) | | 36,332 |
| **Investing activities:** | | | | | |
| Additions to property, equipment and other, net | (869) | (18,775) | (3,856) | | (23,500) |
| Proceeds from sale of businesses and other | | 68,163 | 2,114 | | 70,277 |
| Payments for businesses acquired, net of cash acquired | | (1,358) | | | (1,358) |
| Proceeds from sale of (payments for) other investments, net | (10) | 17,409 | | | 17,399 |
| Net cash provided by (used in) investing activities | (879) | 65,439 | (1,742) | | 62,818 |
| **Financing activities:** | | | | | |
| Intercompany activity | 224,307 | (275,814) | 51,507 | | |
| Borrowings under credit agreements | 386,700 | | | | 386,700 |
| Repayments of borrowings under credit agreements | (461,700) | | | | (461,700) |
| Proceeds from issuance of Senior Floating Rate Notes | 175,000 | | | | 175,000 |
| Proceeds from (payments for) issuances of common stock | 1,028 | | | | 1,028 |
| Redemption of Series J Convertible Preferred Stock | (178,038) | | | | (178,038) |
| Deferred financing costs paid | 3 | (5,689) | | | (5,686) |
| Capital lease obligations | (1,347) | (3,373) | (200) | | (4,920) |
| Other | | (186) | | | (186) |

| | | | | | |
|---|---|---|---|---|---|
| Net cash provided by (used in) financing activities | 145,953 | (285,062) | 51,307 | | (87,802) |
| | | | | | |
| Increase (decrease) in cash and cash equivalents | 7,505 | 4,493 | (650) | | 11,348 |
| Cash and cash equivalents, beginning of period | 345 | 7,668 | 672 | | 8,685 |
| Cash and cash equivalents, end of period | $ 7,850 | $ 12,161 | $ 22 | $ | $ 20,033 |

**PRIMEDIA INC. AND SUBSIDIARIES**

**CONSOLIDATING BALANCE SHEET**

December 31, 2003

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 345 | $ 7,668 | $ 672 | $ | $ 8,685 |
| Accounts receivable, net | | 175,144 | 18,936 | | 194,080 |
| Intercompany receivables | 1,685,986 | 402,428 | 61,271 | (2,149,685) | |
| Inventories | | 17,417 | 83 | | 17,500 |
| Prepaid expenses and other | 5,009 | 29,865 | 1,185 | | 36,059 |
| Assets held for sale | 1,460 | 28,985 | 1,434 | | 31,879 |
| Total current assets | 1,692,800 | 661,507 | 83,581 | (2,149,685) | 288,203 |
| | | | | | |
| Property and equipment, net | 7,065 | 83,693 | 20,101 | | 110,859 |
| Investment in and advances to subsidiaries | 488,986 | | | (488,986) | |
| Other intangible assets, net | | 266,839 | 1,568 | | 268,407 |
| Goodwill | | 871,598 | 38,936 | | 910,534 |
| Other non-current assets | 11,477 | 35,967 | 10,674 | | 58,118 |
| Total Assets | $ 2,200,328 | $ 1,919,604 | $ 154,860 | $ (2,638,671) | $ 1,636,121 |
| | | | | | |
| **LIABILITIES AND SHAREHOLDERS DEFICIENCY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 11,482 | $ 55,724 | $ 11,588 | $ | $ 78,794 |
| Intercompany payables | 984,262 | 534,801 | 630,622 | (2,149,685) | |
| Accrued expenses and other | 97,694 | 103,725 | 12,515 | | 213,934 |
| Deferred revenues | 1,738 | 163,129 | 8,740 | | |