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PRIMEDIA INC
Form 10-Q
November 15, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For Quarter Ended: September 30, 2002

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 /X/ No / /

Number of shares of common stock, par value \$.01 per share, outstanding as of October 31, 2002: 258,720,356.

The aggregate market value of the common equity of PRIMEDIA Inc. which is held by non-affiliates of PRIMEDIA Inc. at October 31, 2002 was approximately \$184.8 million.

PRIMEDIA Inc.

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(dollars in thousands, except

ASSETS

Current assets:

Cash and cash equivalents	\$	18,767
Accounts receivable, net		229,353
Inventories, net		24,345
Prepaid expenses and other		42,825

Total current assets 315,290

Property and equipment, net		142,608
Other intangible assets, net		417,270
Goodwill, net		1,093,180
Other investments		29,958
Other non-current assets		67,881

\$ 2,066,187

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current liabilities:

Accounts payable	\$	101,462
Accrued interest payable		39,100
Accrued expenses and other		221,873
Deferred revenues		202,378
Current maturities of long-term debt		7,882

Total current liabilities 572,695

Long-term debt 1,858,104

Deferred revenues 41,904

Deferred income taxes 45,500

Other non-current liabilities 21,751

Exchangeable preferred stock 490,142

Shareholders' deficiency:

Series J convertible preferred stock (1,130,981 shares and 1,031,248 shares issued and outstanding at September 30, 2002 and December 31, 2001, respectively) 140,933

Common stock (\$.01 par value, 350,000,000 shares and 300,000,000 shares authorized at September 30, 2002 and December 31, 2001, respectively, and 266,225,987 shares and 250,894,668 shares issued at September 30, 2002 and December 31, 2001, respectively) 2,662

Additional paid-in capital (including warrants and options of \$32,680 and \$25,799 at September 30, 2002 and December 31, 2001, respectively) 2,333,551

Accumulated deficit (3,356,616)

Accumulated other comprehensive loss (99)

Unearned compensation (6,497)

Common stock in treasury, at cost (7,793,175 shares at September 30, 2002 and December 31, 2001) (77,843)

Total shareholders' deficiency (963,909)

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\$ 2,066,187
 =====

See notes to condensed consolidated financial statements (unaudited).

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PRIMEDIA INC. AND SUBSIDIARIES
 CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	Nine Months En September 30 2002	

	(dollars in thousands, except p	
Sales, net	\$	1,219,817
Operating costs and expenses:		
Cost of goods sold		286,756
Marketing and selling		248,535
Distribution, circulation and fulfillment		222,114
Editorial		111,264
Other general expenses		168,725
Corporate administrative expenses (excluding \$10,612 and \$60,167 of non-cash compensation and non-recurring charges in 2002 and 2001, respectively)		23,718
Depreciation of property and equipment (including \$2,235 of provision for impairments during the third quarter of 2002)		49,622
Amortization of intangible assets, goodwill and other (including \$19,608 and \$47,458 of provision for impairments in 2002 and 2001, respectively)		72,099
Non-cash compensation and non-recurring charges		10,612
Provision for severance, closures and restructuring related costs		27,250
(Gain) loss on sales of businesses and other, net		1,841

Operating loss		(2,719)
Other income (expense):		
Provision for the impairment of investments		(15,698)
Interest expense		(107,130)
Amortization of deferred financing costs		(2,608)
Other, net		(277)

Loss from continuing operations before income taxes		(128,432)
Deferred provision for income taxes		(45,500)

Loss from continuing operations		(173,932)
Discontinued operations (including \$38,210 gain on sales of divested entities in 2002)		35,906
Cumulative effect of a change in accounting principle (from the adoption of Statement of Financial Accounting Standards No. 142)		(388,508)

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Net loss		(526,534)	
Preferred stock dividends and related accretion, net (including \$31,001 gain on exchange of exchangeable preferred stock in 2002)		(33,145)	
Loss applicable to common shareholders	\$	(559,679)	\$
Per Common Share:			
Loss from continuing operations	\$	(0.82)	\$
Discontinued operations		0.14	
Cumulative effect of a change in accounting principle		(1.54)	
Basic and diluted loss applicable to common shareholders	\$	(2.22)	\$
Basic and diluted common shares outstanding		252,220,023	

See notes to condensed consolidated financial statements (unaudited).

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PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	Three Months Ended September 2002	
	(dollars in thousands)	
Sales, net	\$	399,960
Operating costs and expenses:		
Cost of goods sold		90,343
Marketing and selling		76,450
Distribution, circulation and fulfillment		74,600
Editorial		35,560
Other general expenses		50,563
Corporate administrative expenses (excluding \$2,866 and \$47,440 of non-cash compensation and non-recurring charges in 2002 and 2001, respectively)		7,266
Depreciation of property and equipment (including \$2,235 of provision for impairments in 2002)		17,439
Amortization of intangible assets, goodwill and other (including \$14,764 and \$47,458 of provision for impairments in 2002 and 2001, respectively)		31,493
Non-cash compensation and non-recurring charges		2,866
Provision for severance, closures and restructuring related costs		2,158
(Gain) loss on sales of businesses and other, net		(290)
Operating income (loss)		11,512
Other income (expense):		
Provision for the impairment of investments		(8,140)
Interest expense		(35,265)
Amortization of deferred financing costs		(885)
Other, net		1,391

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Loss from continuing operations before income taxes	(31,387)
Non-cash deferred benefit for income taxes	19,000

Loss from continuing operations	(12,387)
Discontinued operations (including \$27,631 gain on sales of divested entities in 2002)	26,755

Net income (loss)	14,368
Preferred stock dividends and related accretion, net (including \$2,700 gain on exchange of exchangeable preferred stock in 2002)	(17,195)

Loss applicable to common shareholders	\$ (2,827)
	=====
Per Common Share:	
Loss from continuing operations	\$ (0.11)
Discontinued operations	0.10

Basic and diluted loss applicable to common shareholders	\$ (0.01)
	=====
Basic and diluted common shares outstanding	257,961,560
	=====

See notes to condensed consolidated financial statements (unaudited).

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PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Nine Months September 2002

	(dollars in th
OPERATING ACTIVITIES:	
Net loss	\$ (526,534)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities	541,183
Changes in operating assets and liabilities	(2,220)

Net cash provided by (used in) operating activities	12,429

INVESTING ACTIVITIES:	
Additions to property, equipment and other, net	(27,404)
Proceeds from sales of businesses and other, net	129,431
Payments for businesses acquired, net of cash acquired	(3,470)

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Payments for other investments	(3,352)

Net cash provided by (used in) investing activities	95,205

FINANCING ACTIVITIES:	
Borrowings under credit agreements	304,765
Repayments of borrowings under credit agreements	(367,890)
Proceeds from issuance of 87/8% Senior Notes, net	-
Payments of acquisition obligation	-
Proceeds from issuances of common stock, net	1,533
Proceeds from issuance of Series J Convertible Preferred Stock and related warrant	-
Payments for repurchases of senior notes	(19,141)
Dividends paid to preferred stock shareholders	(38,279)
Deferred financing costs paid	(108)
Other	(3,335)

Net cash provided by (used in) financing activities	(122,455)

Decrease in cash and cash equivalents	(14,821)
Cash and cash equivalents, beginning of period	33,588

Cash and cash equivalents, end of period	\$ 18,767
	=====
Supplemental information:	
Cash interest paid	\$ 95,184
	=====
Tax refunds received, net of payments	\$ 184
	=====
Businesses acquired:	
Fair value of assets acquired	\$ -
Less: Liabilities assumed	(3,470)
Less: Stock and stock option consideration for About.com, Inc. acquisition	-
Less: Cash acquired in connection with the About.com, Inc. acquisition	-

Payments for businesses acquired, net of cash acquired	\$ 3,470
	=====
Non-cash activities:	
Issuance of warrants in connection with Emap acquisition and related financing	\$ 5,891
	=====
Issuance of options to a related party in connection with services received	\$ 990
	=====
Accretion in carrying value of exchangeable and convertible preferred stock	\$ 7,510
	=====
Payments of dividends-in-kind on Series J Convertible Preferred Stock	\$ 12,466
	=====
Carrying value of exchangeable preferred stock converted to common stock	\$ 73,873
	=====
Fair value of common stock issued in connection with conversion of exchangeable preferred stock	\$ 42,872

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Asset-for-equity investments

=====
\$ 2,690
=====

See notes to condensed consolidated financial statements (unaudited).

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PRIMEDIA INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. 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 financial statements present fairly the financial position, results of operations and cash flows of the Company as of and for the nine and three month periods ended September 30, 2002 and 2001 and all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant 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, 2001, which are included in the Company's annual report on Form 10-K for the year ended December 31, 2001. The operating results for the nine and three month periods ended September 30, 2002 are not necessarily indicative of the results that may be expected for a full year. Certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the presentation as of and for the nine and three month periods ended September 30, 2002.

RECENT ACCOUNTING PRONOUNCEMENTS:

In April 2001, the Emerging Issues Task Force ("EITF") issued Consensus No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which addresses whether consideration from a vendor to a reseller of the vendor's products is an adjustment to the selling price or the cost of the product. This issue was further addressed by EITF Consensus No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," issued in September 2001. The Company adopted EITF 00-25 and EITF 01-9 effective January 1, 2002. The adoption of EITF 00-25 and EITF 01-9 resulted in a net reclassification of product placement costs, relating to single copy sales, previously classified as distribution, circulation and fulfillment expense on the accompanying condensed statements of consolidated operations, to reductions of sales from such activities. The change in classifications is industry-wide and had no impact on the Company's results of operations, cash flows or financial position. The reclassification resulted in a net decrease in sales and a corresponding decrease in operating expenses of \$15,503 and \$5,833 for the nine and three months ended September 30, 2001, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued two new statements, Statement of Financial Accounting Standards ("SFAS") No.141, "Business Combinations," and SFAS No.142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling of interest method. SFAS No.142 changes the method by which companies may recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from

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goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill and indefinite lived intangible assets on a prospective basis and requires companies to assess goodwill and indefinite lived intangible assets for impairment, at least annually.

During 2001, the Company adopted SFAS 141 and certain provisions of SFAS 142 in connection with the EMAP Inc. ("EMAP") acquisition as required by the statements. The goodwill and indefinite lived intangible assets related to the acquisition of EMAP have not and will not be amortized. The other identifiable intangible assets are being amortized over a five to ten year useful life.

On January 1, 2002, the Company adopted SFAS 142 for all remaining goodwill and indefinite lived intangible assets. Upon adoption, the Company ceased the amortization of goodwill and indefinite lived intangible assets, which consist primarily of trademarks. All of the Company's other intangible assets are subject to amortization (See Note 7).

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In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for the Company beginning January 1, 2003. The adoption of SFAS 143 is not expected to have a material impact on the Company's results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which superseded SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This statement also supersedes accounting and reporting provisions of Accounting Principles Board ("APB") Opinion 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," relating to the disposal of a segment of a business. SFAS No. 121 did not address the accounting for business segments accounted for as discontinued operations under APB Opinion 30 and therefore two accounting models existed for long-lived assets to be disposed of. SFAS No. 144 established one accounting model for long-lived assets to be held and used, long-lived assets (including those accounted for as a discontinued operation) to be disposed of by sale and long-lived assets to be disposed of other than by sale, and resolved certain implementation issues related to SFAS No. 121. The Company adopted SFAS No. 144 on January 1, 2002, and as a result, the results of the Modern Bride Group which consists of MODERN BRIDE plus 16 regional bridal magazines, ExitInfo, CHICAGO, HORTICULTURE and DOLL READER were recorded as discontinued operations for the periods prior to their respective divestiture dates. Discontinued operations includes sales of \$28,590 and \$61,364 and income of \$35,906 (including a gain on sale of \$38,210) and \$2,586 for the nine months ended September 30, 2002 and 2001, respectively, and sales of \$4,675 and \$16,185 and income (loss) of \$26,755 (including a gain on sale of \$27,631) and \$(1,989) for the three months ended September 30, 2002 and 2001, respectively. The discontinued operations include expenses related to certain centralized functions that are shared by multiple titles, such as production, circulation, advertising, human resource and information technology costs but exclude general overhead costs. These costs were allocated to the discontinued entities based upon relative revenues for the

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related periods. The allocation methodology is consistent with that used across the Company. These allocations amounted to \$865 and \$2,322 for the nine months ended September 30, 2002 and 2001, respectively, and \$100 and \$775 for the three months ended September 30, 2002 and 2001, respectively. No tax provision was associated with the discontinued operations.

As a result of the adoption of EITF 00-25, EITF 01-9 and SFAS 144, the Company reclassified amounts from sales, net for the nine and three months ended September 30, 2001, as follows:

	Nine Months Ended September 30, 2001 -----	Three Months Ended September 30, 2001 -----
Sales, net (as originally reported)	\$ 1,290,906	\$ 418,000
Less: Effect of SFAS 144	61,364	16,000
Effect of EITF 00-25 and 01-9	15,503	5,000
	-----	-----
Sales, net (as reclassified)	\$ 1,214,039 =====	\$ 397,000 =====

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements Nos. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." For most companies, SFAS 145 will require gains and losses on

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extinguishments of debt to be classified within income or loss from continuing operations rather than as extraordinary items as previously required under SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt an amendment of APB Opinion No. 30." Extraordinary treatment will be required for certain extinguishments as provided under APB Opinion No. 30. The Company has early adopted SFAS 145 in accordance with the provisions of the statement. Accordingly, during the three months ended September 30, 2002, the Company recorded a gain in other expense of \$3,093 related to the repurchase and retirement of \$22,325 of the Company's notes at a discount (see Note 8).

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 will supersede EITF Consensus No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 will affect the timing of the recognition of costs associated with an exit or disposal plan by requiring them to be recognized when incurred rather than at the date of a commitment to exit or disposal plan and will affect the classification of restructuring costs on the consolidated statements of operations. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

BARTER TRANSACTIONS

The Company trades advertisements in its traditional and online properties in exchange for advertising in properties of other companies and trade show space and booths. Revenue and related expenses from barter transactions are recorded at fair value in accordance with EITF No. 99-17, "Accounting for Advertising Barter Transactions." Revenue from barter transactions is recognized in accordance with the Company's revenue recognition policies. Expense from barter

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transactions is recognized as incurred. Revenue from barter transactions was approximately \$12,000 and \$35,000 for the nine months ended September 30, 2002 and 2001, respectively, and approximately \$3,000 and \$9,000 for the three months ended September 30, 2002 and 2001, respectively, with equal related expense amounts in each nine and three month period.

2. ACQUISITIONS AND OTHER INVESTMENTS

ACQUISITIONS

In 2001, the Company acquired the stock of About.com, Inc. ("About"), a platform comprised of a network of more than 400 highly targeted topic-specific websites and the stock of EMAP from EMAP America Partners. EMAP publishes more than 60 consumer titles reaching over 75 million enthusiasts through a combination of magazines, network and cable television shows, web sites and live consumer events. The acquisitions have been accounted for by the purchase method. The condensed consolidated financial statements include the operating results of the acquisitions subsequent to their respective dates of acquisition. In addition, the Company completed several other smaller acquisitions. The other acquisitions, if they had occurred on January 1 of the year prior to acquisition would not have had a material impact on the results of operations. The pro forma effect of the About and EMAP acquisitions on the Company's operations is presented below.

ABOUT

On February 28, 2001, the Company completed its merger with About. This merger created an integrated traditional and new media company, providing an array of potential marketing solutions to advertisers and niche content to users. Through the efforts of knowledgeable human guides who manage the About sites, the sites provide high-quality original articles, moderated forums and chat rooms and links to related websites.

Under terms of the merger agreement, shareholders of About received approximately 45,000,000 shares of the Company's common stock or 2.3409 shares for each About share. An independent appraisal was completed during 2001 and was used to allocate the purchase price to the fair value of assets acquired and liabilities assumed including identifiable intangibles. The

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goodwill related to the About merger was amortized during 2001 over an estimated useful life of three years. The Company believed that a three-year life was responsive to the rapid rate of change in the Internet industry and was consistent with other recent mergers of a comparable nature. Other finite lived identifiable intangible assets are being amortized over a period of three years. The Company determined that the value of its shares of common stock issued was \$11.81 per share, based on the weighted-average market values for the two days prior and two days succeeding the acquisition announcement date. The fair value of the vested and unvested options issued was determined using a Black Scholes pricing model. The following is a summary of the calculation of the purchase price, as well as the allocation of purchase price to the fair value of net assets acquired:

Total number of shares of PRIMEDIA common stock issued to consummate the merger		44,951,034
Fair value per share of PRIMEDIA common stock	\$	11.81

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Value of shares of PRIMEDIA common stock issued	\$ 530,872
Fair value of replacement options issued (13,383,579 options)	102,404
Less: Unearned compensation related to unvested options	(7,592)
Cost of About shares acquired prior to the merger converted to treasury stock	74,865
Direct merger costs	16,792
Total purchase price	----- 717,341
Less: Fair value of net tangible assets (including cash acquired of \$109,490)	(175,050)
Less: Fair value of identifiable intangible assets	(24,743)
Goodwill	----- \$ 517,548 =====

In connection with the merger with About, outstanding options to purchase shares of About common stock held by certain individuals were converted into 13,383,579 options to purchase shares of PRIMEDIA common stock. The fair value of the vested and unvested options issued by PRIMEDIA was \$102,404 determined using a Black Scholes pricing model. On February 28, 2001, the date that the Company granted these unvested replacement options, the intrinsic value of the "in-the-money" unvested replacement options was \$19,741. Based on a four-year service period from the original date that these options were granted, the Company classified \$7,592 as unearned compensation relating to unvested options. The Company recorded charges related to the amortization of the intrinsic value of unvested "in-the-money" options of \$2,144 and \$2,352 during the nine months ended September 30, 2002 and 2001, respectively, and \$631 and \$1,008 during the three

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months ended September 30, 2002 and 2001, respectively (see Note 11). The remaining \$12,149 is included within the total purchase price. As of September 30, 2002, a number of these options have been forfeited or expired unexercised. Most of these remaining outstanding options have an exercise price, which exceeded the Company's share price on September 30, 2002.

In the fourth quarter of 2001, concurrent with its annual financial review process, the Company determined that the estimated future undiscounted cash flows of About were not sufficient to recover the carrying value of the goodwill. Accordingly, the Company recorded an impairment charge of \$326,297 to write down About's goodwill to the estimated fair value.

In connection with the acquisition, the Company entered into various agreements with two key executives of About as discussed in Note 11.

EMAP

On August 24, 2001, the Company acquired, by merger, 100% of the outstanding common stock of the publishing business of EMAP. The strategic acquisition of

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EMAP has strengthened the Company's unique mix of category specific endemic advertising as well as circulation revenue. This acquisition solidified PRIMEDIA as the leader in the specialty magazine industry in terms of revenue and single copy sales. The total consideration was \$525,000, comprised of \$515,000 in cash, including an estimate of working capital settlements of \$10,000 (which is subject to final settlement), and warrants to acquire 2,000,000 shares of the Company's common stock at \$9 per share. The fair value of the warrants was approximately \$10,000 and was determined using a Black Scholes pricing model. These warrants expire ten years from the date of issuance.

The Company financed the acquisition of EMAP by (1) issuing 1,000,000 shares of Series J Convertible Preferred Stock to KKR 1996 Fund (a partnership associated with Kohlberg Kravis Roberts & Co. L.P., ("KKR") a related party of the Company) for \$125,000 and (2) drawing upon its revolving credit facility in an amount of approximately \$265,000. In addition, KKR 1996 Fund purchased from the Company \$125,000 of common stock and Series K Convertible Preferred Stock, both at a price per share equal to \$4.70. This resulted in an additional 10,800,000 shares of common stock and 15,795,745 shares of Series K Convertible Preferred Stock. On September 27, 2001, all of the issued and outstanding shares of the Series K Convertible Preferred Stock were, in accordance with their terms, converted into 15,795,745 shares of the Company's common stock.

The Series J Convertible Preferred Stock is convertible at the option of the holder after one year from the date of issuance, into approximately 17,900,000 shares of the Company's common stock at a conversion price of \$7 per share, subject to adjustment. Dividends on the Series J Convertible Preferred Stock accrue at an annual rate of 12.5% and are payable quarterly in-kind. The Company paid dividends-in-kind (99,733 shares of Series J Convertible Preferred Stock) valued at \$12,466 during the nine months ended September 30, 2002 and (34,272 shares of Series J Convertible Preferred Stock) valued at \$4,284 during the three months ended September 30, 2002. The Company has the option to redeem any or all of the shares of the Series J Convertible Preferred Stock at any time for cash at 100% of the liquidation preference of each share being redeemed. On any dividend payment date, the Company has the option to exchange the Series J Convertible Preferred Stock into 12.5% Class J Subordinated Notes. The Company's ability to redeem or exchange the Series J Convertible Preferred Stock into debt is subject to the approval of a majority of the independent directors.

In connection with the equity financing by KKR 1996 Fund, the Company paid KKR 1996 Fund a commitment fee consisting of warrants to purchase 1,250,000 shares of common stock ("commitment warrants") of the Company at an exercise price of \$7 per share, subject to adjustment, and a funding fee consisting of warrants to purchase an additional 2,620,000 shares of the Company's common stock ("funding warrants") at an exercise price of \$7 per share, subject to adjustment. These warrants may be exercised after the first anniversary of the grant date and expire on August 24, 2011 or upon a change in control, as defined. In addition, the Company was required to issue to KKR 1996 Fund additional warrants to purchase up to 4,000,000 shares of the Company's common stock at an exercise price of \$7 per share, subject to adjustment. The issuance of the additional 4,000,000 warrants was contingent upon the length of time that the Series J

Convertible Preferred Stock was outstanding. As the Series J Convertible Preferred Stock was outstanding for three, six, nine and twelve months from the date of issuance, KKR 1996 Fund received the additional warrants to purchase 250,000, 1 million, 1.25 million and 1.5 million shares of common stock, respectively. The Company ascribed a value of \$498, \$2,160, \$1,988 and \$1,743 respectively, to these warrants using the Black Scholes pricing model. These warrants expire ten years from the date of issuance or upon a change in control.

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The 1,250,000 commitment warrants issued to KKR 1996 Fund represent a commitment fee related to the financing transaction as a whole. The Company valued these warrants at \$5,622 using the Black Scholes pricing model and recorded them as a component of additional paid-in capital.

The Company attributed the 2,620,000 funding warrants to the issuance of the Series J Convertible Preferred Stock. The Company valued these warrants at \$9,679 using the Black Scholes pricing model and has accordingly reduced the face value of the Series J Convertible Preferred Stock. The Company accreted the difference between the carrying value and the redemption value of the Series J Convertible Preferred Stock to additional paid in capital using the effective interest method over a one year period as the earliest date at which the preferred stock was convertible was one year from the date of issuance. The accretion was deducted in the calculation of loss applicable to common shareholders.

During the second quarter of 2002, the Company elected to account for the EMAP acquisition as an asset acquisition for income tax purposes. During the third quarter of 2002, the independent valuation of EMAP's intangible assets and other aspects of the purchase cost allocations for the EMAP acquisition were finalized. The completion of the independent valuation report associated with the EMAP acquisition resulted in a reclassification of \$37,832 from other intangible assets to goodwill on the accompanying condensed consolidated balance sheet at September 30, 2002.

The following is a summary of the calculation of the purchase price, as described above, as well as the allocation of the purchase price to the fair value of the net assets acquired:

Purchase consideration (including working capital and other settlements)	\$	525,000
Direct Acquisition Costs		6,565

Total purchase price		531,565
Add: Fair value of net tangible liabilities of EMAP		40,235
Less: Fair value of identifiable intangible assets		121,300

Goodwill	\$	450,500
		=====

The Company's condensed consolidated results of operations includes results of operations of About and EMAP from their respective dates of acquisition. The results of About and EMAP are included in the Company's consumer segment. The unaudited pro forma information below presents the consolidated results of operations as if the About and EMAP acquisitions had occurred as of January 1, 2001. In accordance with SFAS No. 142, these pro forma adjustments assume that none of the goodwill associated with the EMAP acquisition is amortized. If the Company had recorded amortization of the goodwill and indefinite lived intangible assets in connection with the EMAP acquisition in accordance with the Company's historical amortization policies, assuming the acquisition occurred on January 1, 2001, amortization expense would have increased by approximately \$10,200 and \$3,400 during the nine months and three months ended September 30, 2001, respectively. The unaudited pro forma information has been included for

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comparative purposes and is not indicative of the results of operations

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of the consolidated Company had the transactions occurred as of January 1, 2001, nor is it necessarily indicative of future results.

		Nine Months Ended September 30 2001

Sales, net	\$	1,487
Loss from continuing operations applicable to common Shareholders	\$	(651)
Loss applicable to common shareholders	\$	(649)
Basic and diluted loss from continuing operations applicable to common shareholders per common share	\$	(
Basic and diluted loss applicable to common shareholders per common share	\$	(
Weighted average shares used in basic and diluted loss applicable to common shareholders per common share		242,552

Payments for businesses acquired on the accompanying condensed statement of consolidated cash flows for the nine months ended September 30, 2002, primarily represents payment for certain deferred purchase price liabilities associated with prior year acquisitions.

OTHER INVESTMENTS

Other investments consist of the following:

		September 30, 2002

Cost method investments	\$	24,650
Equity method investments		5,308
	\$	29,958
		=====

The Company's cost method investments consist primarily of the PRIMEDIA Ventures' investments and the assets-for-equity investments, detailed below. PRIMEDIA's equity method investments represent PRIMEDIA's investment in certain companies where PRIMEDIA has the ability to exercise significant influence over the operations (including financial and operational policies).

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PRIMEDIA VENTURES' INVESTMENTS

In 1998, the Company created PRIMEDIA Ventures, Inc. ("PRIMEDIA Ventures") to invest in early-stage Internet companies and other technology opportunities such as e-commerce services, enterprise software applications and advertising-related technologies.

The Company recorded provisions for impairment of various PRIMEDIA Ventures' investments of \$3,759 and \$1,109 as a component of provision for the impairment of investments on the accompanying condensed statements of consolidated operations for the nine and three months ended September 30, 2002, respectively. In addition, the Company recorded provisions for impairment of various PRIMEDIA Ventures' investments of \$3,500 as a component of provision for the impairment of investments on the accompanying condensed statements of consolidated operations for the nine months ended September 30, 2001.

The Company sold certain PRIMEDIA Ventures investments, received proceeds of \$323 and realized a gain on the sales of \$28 for the nine months ended September 30, 2002.

The Company recorded unrealized losses of \$693 and \$1,895 for the nine and three months ended September 30, 2001, respectively, related to investments in marketable securities. The unrealized losses are recorded as a component of other comprehensive income (loss) ("OCI") within shareholders' deficiency (See Note 13).

Since inception, proceeds from the sales of certain PRIMEDIA Ventures investments as well as related distributions have exceeded amounts invested.

INVESTMENT IN CMGI, INC.

In May 2000, the Company acquired 1,530,000 shares of common stock of CMGI, Inc. in exchange for 8,000,000 shares of the Company's common stock (par value \$.01) subject to a one year lockup. The transaction was valued at \$164,000, which represents the fair value of the Company's common stock exchanged on the exchange date. For the nine and three months ended September 30, 2001, the Company recorded realized losses of \$7,029 and \$3,060, respectively, related to its investment in CMGI, Inc. as the decline in the market value of the investment was deemed to be other than temporary. In October 2001, the Company sold its investment in CMGI for total proceeds and gain on sale of \$2,149 and \$619, respectively.

INVESTMENT IN LIBERTY DIGITAL, INC.

In April 2000, the Company completed its purchase of 625,000 shares of Liberty Digital Series A common stock at forty dollars per share for an aggregate purchase price of \$25,000. For the nine and three months ended September 30, 2001, the Company recorded a realized loss of \$658 related to its investment in Liberty Digital as the decline in the market value of the investment was deemed to be other than temporary. During the fourth quarter of 2001, the Company sold its investment in Liberty Digital for total proceeds and loss on sale of \$1,838 and \$668, respectively.

ASSETS-FOR-EQUITY TRANSACTIONS

During 2000, the Company began making strategic investments in companies ("Investees") which included various assets-for-equity transactions. Under these transactions, the Company provides promotional services, such as print

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advertising, content licensing, customer lists, online advertising and other services in exchange for equity in these entities. Additionally, the Company made cash investments in certain of these Investees. The Company's investments in Investees, included in other investments on the accompanying condensed consolidated balance sheets, totaled \$19,578 (\$16,703 representing cost method investments and, \$2,875 representing equity method investments) and \$32,753 (\$27,313 representing cost method investments and \$5,440 representing equity method investments) at September 30,

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2002 and December 31, 2001, respectively. At September 30, 2002 and December 31, 2001, respectively, \$8,159 and \$12,696 relating to these agreements is included as deferred revenues on the accompanying condensed consolidated balance sheets. This deferred revenue represents advertising, content licensing and other services to be rendered by the Company in exchange for the equity in these entities. The Company recognizes these amounts as revenue in accordance with the Company's revenue recognition policies. The Company recorded revenue from these agreements of \$5,590 and \$50,561 for the nine months ended September 30, 2002 and 2001, respectively, and \$1,059 and \$3,699 for the three months ended September 30, 2002 and 2001, respectively.

These transactions are recorded at the fair value of the equity securities received, which are typically based on cash consideration for like securities. For significant transactions involving equity securities in private companies, the Company obtains and considers independent third-party valuations where appropriate. Such valuations use a variety of methodologies to estimate fair value, including comparing the security with the securities of publicly traded companies in similar lines of business, comparing the nature of security, price, and related terms of investors in the same round of financing, applying price multiples to estimated future operating results for the private company, and then also estimating discounted cash flows for that company. Using these valuations and other information available to the Company, such as the Company's knowledge of the industry and knowledge of specific information about the Investee, the Company determines the estimated fair value of the securities received. As required by EITF No. 00-8, "Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods and Services," the fair value of the equity securities received is determined as of the earlier of the date a performance commitment is reached or the vesting date.

The Company continually evaluates all of its investments for potential impairment in accordance with APB No. 18, "The Equity Method of Accounting for Investments in Common Stock". If an investment is deemed to be permanently impaired, its carrying value will be reduced to fair market value. The Company recorded a provision for impairment of its investments in certain Investees of \$11,939 and \$7,031 for the nine and three months ended September 30, 2002, respectively, as the decline in value of the investments was deemed to be other than temporary. During the nine and three months ended September 30, 2001, the Company recorded a provision for impairment of its investments in certain Investees of \$72,671 and \$53,967, respectively, as the decline in value of the investments was deemed to be other than temporary.

The Company recorded \$3,272 and \$30,717 of equity method losses from Investees during the nine months ended September 30, 2002 and 2001, respectively, and \$600 and \$2,940 during the three months ended September 30, 2002 and 2001, respectively. These equity method losses from Investees are included in other, net on the accompanying condensed statements of consolidated operations. The Company recognized \$690 and \$7,200 of revenue related to the equity method Investees during the nine months ended September 30, 2002 and 2001, respectively, and \$25 and \$1,100 during the three months ended September 30,

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2002 and 2001, respectively.

INVESTMENTS IN ABOUT

During 2000, the Company entered into additional business arrangements with About whereby the Company has provided or will provide approximately \$89,000 of advertising and promotional services, over a five-year period, as well as the right to use a mailing list owned by the Company, in exchange for an aggregate of 2,873,595 shares of common stock of About. The Company and About have also entered into certain agreements pursuant to which the Company has agreed to purchase advertising and promotional services on the About network. These agreements provide for payments to About in the aggregate of \$15,900. At the merger completion date, these agreements became intercompany agreements, the activity of which, subsequent to the merger completion date, has been and will continue to be eliminated in consolidation. In accordance with the terms of these agreements, the Company recorded revenue of approximately \$21,000, and expenses of approximately \$3,500 during the three months ended March 31, 2001.

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3. DIVESTITURES

On February 28, 2002, the Company completed the sale of the Modern Bride Group, part of the Consumer segment, to Advance Magazine Publishers Inc. for total consideration, including a service agreement, of approximately \$52,000. Proceeds from the sale were used to pay down the Company's outstanding debt. The related gain on the sale of the Modern Bride Group approximates \$6,200 and is included as a component of discontinued operations on the accompanying condensed statement of consolidated operations for the nine months ended September 30, 2002.

On June 28, 2002, the Company completed the sale of ExitInfo, part of the Consumer segment, to Trader Publishing Company for \$24,000 (of which, \$1,500 is in escrow). Proceeds from the sale were used to pay down the Company's outstanding debt. The related gain on the sale of ExitInfo approximates \$3,900 and is included as a component of discontinued operations on the accompanying condensed statement of consolidated operations for the nine months ended September 30, 2002.

On August 1, 2002, the Company completed the sale of CHICAGO, part of the Consumer segment, to an affiliate of the CHICAGO Tribune Company for \$35,000 in cash. Proceeds from the sale were used to pay down the Company's outstanding debt. The related gain on the sale of CHICAGO approximates \$28,500 and is included as a component of discontinued operations on the accompanying condensed statement of consolidated operations for the nine and three months ended September 30, 2002.

In addition, during the three months ended September 30, 2002, the Company completed several other smaller divestitures, including the divestitures of HORTICULTURE and DOLL READER, both part of the Consumer segment, for proceeds of approximately \$5,000. The results of the divestitures, including a related net loss on sale of businesses of approximately \$400 for the nine and three months ended September 30, 2002, have been included as a component of discontinued operations on the accompanying condensed statements of consolidated operations for the nine and three months ended September 30, 2002 and 2001.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

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	September 30, 2002	De
	-----	-----
Accounts Receivable	\$ 258,042	\$
Less: Allowance for doubtful accounts	20,150	
Allowance for returns and rebates	8,539	
	-----	-----
	\$ 229,353	\$
	=====	=====

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5. INVENTORIES, NET

Inventories consist of the following:

	September 30, 2002	Deco
	-----	-----
Finished goods	\$ 7,577	\$
Work in process	177	
Raw materials	19,106	
	-----	-----
	26,860	
Less: Allowance for obsolescence	2,515	
	-----	-----
	\$ 24,345	\$
	=====	=====

6. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	September 30, 2002	Deco
	-----	-----
Deferred financing costs, net	\$ 19,821	\$
Deferred wiring and installation costs, net	14,506	
Direct-response advertising costs, net	15,399	
Prepublication and programming costs, net	13,276	
Other	4,879	
	-----	-----
	\$ 67,881	\$
	=====	=====

The deferred financing costs are net of accumulated amortization of \$11,263 and \$8,911 at September 30, 2002 and December 31, 2001, respectively. The deferred wiring and installation costs are net of accumulated amortization of \$62,728 and

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\$56,449 at September 30, 2002 and December 31, 2001, respectively. Direct-response advertising costs are net of accumulated amortization of \$ 79,341 and \$116,700 at September 30, 2002 and December 31, 2001, respectively. Prepublication and programming costs are net of accumulated amortization of \$40,410 and \$35,196 at September 30, 2002 and December 31, 2001, respectively.

7. GOODWILL, OTHER INTANGIBLE ASSETS AND OTHER

On January 1, 2002, the Company adopted SFAS 142, which requires an evaluation of goodwill for impairment at the reporting unit level within six months of mandatory adoption of this Standard, as well as subsequent annual evaluations (more frequently if circumstances indicate a possible impairment). As required by SFAS 142, the Company reviewed its indefinite lived intangible assets (primarily trademarks) for impairment as of January 1, 2002 using a relief from royalty valuation model and determined that certain indefinite lived intangible assets were impaired. As a result, the Company recorded an impairment charge within cumulative effect of a change in accounting principle of \$21,535 (\$0.08 per share) during the first quarter of 2002. The impairment of \$21,535 referred to above relates to the Consumer segment.

During the second quarter of 2002, the Company completed its assessment of whether there was an indication that goodwill was impaired at any of its eight identified reporting units (step one). Step one of the transitional impairment test uses a fair value methodology, which differs from the undiscounted cash flow methodology that continues to be used for intangible

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assets with an identifiable life. Based on the results of step one of the transitional impairment test, the Company identified two reporting units in the Consumer segment and one reporting unit in the Business-to-Business segment for which the carrying values exceeded the fair values at January 1, 2002, indicating a potential impairment of goodwill in those individual reporting units.

During the third quarter of 2002, the Company completed step two of the transitional impairment test for the reporting units in which an indication of goodwill impairment existed. The Company determined the implied fair value of each of its reporting units, principally using a discounted cash flow analysis and compared such values to the respective reporting unit's carrying amounts. This evaluation indicated that goodwill associated with two reporting units in the Consumer segment and one reporting unit in the Business-to-Business segment were impaired as of January 1, 2002. As a result, the Company recorded an impairment charge within cumulative effect of a change in accounting principle of \$329,659 (\$1.31 per share) as of January 1, 2002 related to the impairment of goodwill. In connection with step two of the SFAS 142 implementation as it relates to goodwill, the Company reassessed its trademark valuation as of January 1, 2002 and recorded an additional \$37,314 (\$0.15 per share) impairment and has included such impairment in the cumulative effect of change in accounting principle. Of the impairment of \$37,314 referred to above, \$23,703 relates to the Consumer segment and \$13,611 relates to the Business-to-Business segment. Previously issued financial statements as of March 31, 2002 and for the three months then ended have been restated to reflect the cumulative effect of this accounting change which totaled \$388,508.

The Company's SFAS 142 evaluation, including the reassessment of its trademark valuation, was performed by an independent valuation firm, utilizing reasonable and supportable assumptions and projections and reflects management's best estimate of projected future cash flows. The Company's discounted cash flow evaluation used a range of discount rates that represented the Company's

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weighted-average cost of capital and included an evaluation of other companies in each reporting unit's industry. The assumptions utilized by the Company in the evaluation are consistent with those utilized in the Company's annual planning process. If the assumptions and estimates underlying this goodwill impairment evaluation are not achieved, the ultimate amount of the goodwill impairment could be adversely affected. Subsequent impairments, if any, will be classified as an operating expense. Future impairment tests will be performed at least annually in conjunction with the Company's annual budgeting and forecasting process. The first of these subsequent impairment tests will be performed in the fourth quarter of 2002 and the Company expects to record an additional impairment charge.

Historically, the Company did not need a valuation allowance for the portion of the net operating losses equal to the amount of 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. As a result of the adoption of SFAS 142, the reversal will not occur during the carryforward period of the net operating losses. Therefore, the Company recorded a non-cash deferred income tax expense of approximately \$52,000 on January 1, 2002 and \$16,500 and \$4,000 during the nine and three months ended September 30, 2002, respectively, each of which would not have been required prior to the adoption of SFAS 142. The non-cash charge recorded to increase the valuation allowance, was reduced by \$23,000 during the third quarter as a result of the impairment of goodwill and certain indefinite lived intangible assets discussed above.

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 an additional \$4,000 to increase the valuation allowance during the remaining three months of 2002.

The independent valuation reports received in connection with step two of the SFAS 142 impairment test completed during the third quarter indicated that the carrying value of certain finite-lived assets might not be recoverable. Accordingly, impairment testing under SFAS 144 was undertaken, resulting in an impairment charge of \$15,199 (\$11,141 and \$4,058 in the Consumer and Business-to-Business segments, respectively). These charges are included in depreciation of property and equipment (\$2,235) and amortization of intangible assets, goodwill and other (\$12,964) in the accompanying condensed statements of consolidated operations for the nine and three months ended September 30,

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2002.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2002, by operating segment, are as follows:

September 30, 2002	
Consumer Segment	Business-to- Business Segment

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Balance as of January 1, 2002	\$	1,052,041	\$	372,589
Transitional impairment charge		(174,076)		(155,583)
Finalization of purchase price allocations (including reclassification of \$37,832 from other intangible assets)		44,226		(1,208)
Goodwill related to the sale of businesses		(44,328)		(481)
		-----		-----
Balance as of September 30, 2002	\$	877,863	\$	215,317
		=====		=====

A reconciliation of the reported net loss and loss per common share to the amounts adjusted for the exclusion of amortization of goodwill and indefinite lived intangible assets, the cumulative effect of a change in accounting principle and the deferred provision for income taxes follows:

		Nine Months End 2002

Reported loss applicable to common shareholders	\$	(559,679)
Amortization of goodwill and indefinite lived intangible assets		--
Cumulative effect of a change in accounting principle		388,508
Deferred provision for income taxes		45,500

Adjusted loss applicable to common shareholders	\$	(125,671)
		=====
Per common share:		
Reported loss applicable to common shareholders	\$	(2.22)
Amortization of goodwill and indefinite lived intangible assets		--
Cumulative effect of a change in accounting principle		1.54
Deferred provision for income taxes		0.18

Adjusted loss applicable to common shareholders	\$	(0.50)
		=====

		Three Months Ende 2002

Reported loss applicable to common shareholders	\$	(2,827)
Amortization of goodwill and indefinite lived		

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intangible assets		-
Deferred benefit for income taxes		(19,000)

Adjusted loss applicable to common shareholders	\$	(21,827)
		=====
Per common share:		
Reported loss applicable to common shareholders	\$	(0.01)
Amortization of goodwill and indefinite lived intangible assets		-
Deferred benefit for income taxes		(0.07)

Adjusted loss applicable to common shareholders	\$	(0.08)
		=====

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Intangible assets subject to amortization after the adoption of SFAS No. 142 consist of the following:

	Range of Lives	September 30, 2002			Gross Carrying Amount
		Gross Carrying Amount	Accumulated Amortization	Net	
Trademarks	3	\$ 21,013	\$ 11,090	\$ 9,923	\$ 21,013
Membership, subscriber and customer lists	2-20	435,766	351,050	84,716	499,516
Non-compete agreements	1-10	207,254	191,878	15,376	213,532
Trademark license agreements	2-15	2,967	2,873	94	2,967
Copyrights	3-20	20,251	17,571	2,680	20,251
Databases	2-12	13,562	11,560	2,002	13,562
Advertiser lists	.5-20	180,864	157,987	22,877	202,051
Distribution agreements	1-7	11,745	11,715	30	11,745
Other	1-5	10,659	10,643	16	10,659
		-----	-----	-----	-----
		\$ 904,081	\$ 766,367	\$ 137,714	\$ 995,728
		=====	=====	=====	=====

Amortization expense for other intangible assets still subject to amortization (excluding provision for impairment) was \$44,142 for the nine months ended September 30, 2002 and \$13,875 for the three months ended September 30, 2002. At September 30, 2002, estimated future amortization expense of other intangible

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assets still subject to amortization is as follows: approximately \$14,000 for the remaining three months of 2002 and approximately \$39,000, \$23,000, \$16,000, \$11,000 and \$9,000 for 2003, 2004, 2005, 2006 and 2007, respectively. Amortization expense (excluding provision for impairment), including amortization of goodwill and trademarks, for the nine and three months ended September 30, 2001 was \$180,117 and \$72,453, respectively, of which \$47,626 and \$13,966 represents amortization of other intangible assets still subject to amortization for the nine and three months ended September 30, 2001, respectively. Intangible assets not subject to amortization had a total carrying value of \$279,556 and \$342,425 at September 30, 2002 and December 31, 2001, respectively, and consisted of trademarks. Amortization of deferred wiring costs of \$8,349 and \$12,368 for the nine months ended September 30, 2002 and 2001, respectively, and \$2,854 and \$4,117 for the three months ended September 30, 2002 and 2001, respectively, has also been included in amortization of intangible assets, goodwill and other on the accompanying condensed statements of consolidated operations.

During 2002, the Company changed the period over which certain deferred wiring costs were being amortized. This change increased the amortization period by 9 months to coincide with the implementation of the technological upgrade

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of a new video distribution platform and resulted in a decrease in amortization expense of \$4,527 (\$.02 per share) and \$1,577 (\$.01 per share) for the nine and three months ended September 30, 2002, respectively.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2002

Borrowings under credit facilities	\$ 720,750
10 1/4% Senior Notes due 2004	85,175
8 1/2% Senior Notes due 2006	299,490
7 5/8% Senior Notes due 2008	248,154
8 7/8% Senior Notes due 2011	486,936
	1,840,505
Obligation under capital leases	25,481
	1,865,986
Less: Current maturities of long-term debt	7,882
	\$ 1,858,104

On June 20, 2001, the Company completed a refinancing of its existing bank credit facilities pursuant to new bank credit facilities with The Chase Manhattan Bank, Bank of America, N.A., The Bank of New York, and The Bank of Nova Scotia, as agents. The debt under the new credit agreement (as well as certain of the Company's other equally and ratably secured indebtedness) is secured by a pledge of the stock of PRIMEDIA Companies Inc., an intermediate holding company, owned directly by the Company, which owns directly or

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indirectly all shares of PRIMEDIA subsidiaries that guarantee such debt.

Substantially all proceeds from sales of businesses and other investments were used to pay down borrowings under the credit agreement. Amounts under the bank credit facilities may be reborrowed and used for general corporate and working capital purposes as well as to finance certain future acquisitions. The bank credit facilities consist of the following:

- a \$475,000 revolving loan facility, of which \$200,000 was outstanding at September 30, 2002.
- a term loan A, of which \$100,000 was outstanding at September 30, 2002; and
- a term loan B, of which \$420,750 was outstanding at September 30, 2002.

With the exception of the term loan B, 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 the Eurodollar Rate 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 the Eurodollar rate plus 2.75%. At September 30, 2002, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 4.5%.

Under the bank credit facilities, the Company has agreed to pay commitment fees at a per annum rate of either 0.375% or 0.5%, depending on its debt to EBITDA ratio, as defined in the new credit agreement, on the daily average aggregate unutilized commitment under the revolving loan commitment. During the first nine months of 2002, the Company's commitment fees were paid at a weighted average rate of 0.5%. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee.

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The commitments under the revolving loan commitment are subject to mandatory reductions semi-annually on June 30 and December 31, commencing December 31, 2004 with the final reduction on June 30, 2008. The aggregate mandatory reductions of the revolving loan commitments under the bank credit facilities are \$23,750 in 2004, \$47,500 in 2005, \$71,250 in 2006, \$142,500 in 2007 and a final reduction of \$190,000 in 2008. To the extent that the total revolving credit loans outstanding exceed the reduced commitment amount, these loans must be paid down to an amount equal to or less than the reduced commitment amount. However, if the total revolving credit loans outstanding do not exceed the reduced commitment amount, then there is no requirement to pay down any of the revolving credit loans. Aggregate term loan payments under the bank credit facilities are \$2,125 in 2002, \$4,250 in 2003, \$16,750 in 2004, \$29,250 in 2005, 2006 and 2007, \$16,750 in 2008 and \$393,125 in 2009.

The bank credit facilities, among other things, limit the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers, consolidations or transactions with affiliates, make investments in or loans to certain subsidiaries, issue guarantees and make certain restricted payments including dividend payments on or repurchases of the Company's common stock in excess of \$75,000 in any given year.

The bank credit facilities and senior notes of the Company contain certain customary events of default which generally give the banks or the noteholders, as applicable, the right to accelerate payments of outstanding debt. Under the bank credit facilities, these events include:

- failure to maintain required covenant ratios, as described below;

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- failure to make a payment of principal, interest or fees within five days of its due date;
- default, beyond any applicable grace period, on any aggregate indebtedness of PRIMEDIA exceeding \$20,000;
- occurrence of certain insolvency proceedings with respect to PRIMEDIA or any of its material subsidiaries;
- entry of one judgment or decree involving a liability of \$15,000 or more (or more than one involving an aggregate liability of \$25,000 or more); and
- occurrence of certain events constituting a change of control of the Company.

The events of default contained in PRIMEDIA's senior notes are similar to, but generally less restrictive than, those contained in the Company's bank credit facilities.

The Company does not anticipate the occurrence of any of these default events. Upon the occurrence of such an event, the Company has the ability to cure or renegotiate with its lenders.

Under the most restrictive debt covenants as defined in the Company's credit agreement, the Company must maintain a minimum interest coverage ratio, as defined, of 1.80 to 1 and a minimum fixed charge coverage ratio, as defined, of 1.05 to 1. The Company's maximum allowable debt leverage ratio, as defined, is 6.0 to 1. The maximum leverage ratio decreases to 5.75 to 1, 5.5 to 1, 5.0 to 1 and 4.5 to 1, respectively, on July 1, 2003, January 1, 2004, January 1, 2005 and January 1, 2006. The minimum interest coverage ratio increases to 2.0 to 1, 2.25 to 1 and 2.5 to 1, respectively, on July 1, 2003, January 1, 2004 and January 1, 2005. The Company is in compliance with the financial and operating covenants of its financing arrangements.

As of September 30, 2002, the Company had \$720,750 borrowings outstanding, approximately \$19,500 letters of credit outstanding and unused bank commitments of approximately \$255,000 under the bank credit facilities.

As a result of the refinancing of the Company's existing bank credit facilities, during the second quarter of 2001, the Company wrote-off the remaining balances of deferred financing costs originally recorded approximating \$7,250. This write-off is included within amortization of deferred financing costs on the accompanying condensed statement of consolidated operations for the nine months ended September 30, 2001.

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10 1/4% SENIOR NOTES. Interest is payable semi-annually in June and December at an annual rate of 10 1/4%. The 10 1/4% Senior Notes mature on June 1, 2004, with no sinking fund requirements. The 10 1/4% Senior Notes are redeemable at 100% in 2002 plus accrued and unpaid interest.

8 1/2% SENIOR NOTES. Interest is payable semi-annually in February and August at an annual rate of 8 1/2%. The 8 1/2% Senior Notes mature on February 1, 2006, with no sinking fund requirements. The 8 1/2% Senior Notes are redeemable in whole or in part, at the option of the Company, at 100% in 2003 plus accrued and unpaid interest.

7 5/8% SENIOR NOTES. Interest is payable semi-annually in April and October at the annual rate of 7 5/8%. The 7 5/8% Senior Notes mature on April 1, 2008, with no sinking fund requirements. The 7 5/8% Senior Notes may not be redeemed prior to April 1, 2003 other than in connection with a change of control. Beginning on April 1, 2003 and thereafter, the 7 5/8% Senior Notes are redeemable in whole or in part, at the option of the Company, at prices ranging from 103.813% in 2003

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with annual reductions to 100% in 2006 and thereafter, plus accrued and unpaid interest.

8 7/8% SENIOR NOTES. In 2001, the Company completed an offering of \$500,000 of 8 7/8% Senior Notes. Net proceeds from this offering of \$492,685 were used to repay borrowings under the revolving credit facilities. The 8 7/8% Senior Notes mature on May 15, 2011, with no sinking fund requirements, and have interest payable semi-annually in May and November at an annual rate of 8 7/8%. Beginning in 2006, the 8 7/8% Senior Notes are redeemable at 104.438% with annual reductions to 100% in 2009 plus accrued and unpaid interest.

If the Company becomes subject to a change of control, each holder of the notes will have the right to require the Company to purchase any or all of the notes at a purchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to the date of purchase.

During the third quarter of 2002, the Board of Directors authorized the Company to expend up to \$20,000 for the purchase of its senior notes in private or public transactions. On October 4, 2002, the Board of Directors increased the authorization to an aggregate of \$50,000. During the nine months ended September 30, 2002, the Company repurchased \$14,825 of the 10 1/4% Senior Notes for \$13,397 plus accrued interest, \$1,000 of the 7 5/8% Senior Notes for \$763 plus accrued interest and \$6,500 of the 8 7/8% Senior Notes for \$4,981 plus accrued interest. The Senior Note purchases include fees associated with these purchases.

The 10 1/4% Senior Notes, 8 1/2% Senior Notes, 7 5/8% Senior Notes, and the 8 7/8% Senior Notes (together referred to as the "Senior Notes"), and the credit facility, all rank senior in right of payment to all subordinated indebtedness of PRIMEDIA Inc. (a holding company). The Senior Notes are secured by a pledge of stock of PRIMEDIA Companies Inc.

The Company is herewith providing detailed information and disclosure as to the methodology used in determining compliance with the leverage test in the credit agreements. The purpose for providing this information is to provide more clarity as to the substantial amount of disclosure already provided. Under its various credit and senior note agreements, the Company is allowed to designate certain businesses as unrestricted subsidiaries to the extent that the value of those businesses does not exceed the permitted amounts, as defined in these agreements. The Company has designated certain of its businesses as unrestricted (the "Unrestricted Group"), which primarily represent Internet businesses, trademark and content licensing and service companies, new launches (including traditional start-ups), other properties under evaluation for turnaround or shutdown and foreign subsidiaries. Indebtedness under the bank credit facilities and senior note agreements is guaranteed by each of the Company's domestic restricted subsidiaries in accordance with the provisions and limitations of the Company's credit and senior note agreements. The guarantees are full, unconditional and joint and several. The Unrestricted Group does not guarantee the bank credit facilities or senior notes, and its results (positive or negative) are not reflected in the EBITDA of the Restricted Group, as defined in the Company's credit and senior note agreements for purposes of determining compliance with certain financial covenants under these agreements. The Company has established intercompany arrangements that implement transactions, such as leasing, licensing, sales and related services and cross-promotion, between restricted and unrestricted subsidiaries, on an arms' length basis and as permitted by the credit and

senior note agreements. These intercompany arrangements afford strategic

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benefits across the Company's properties and, in particular, enable the Unrestricted Group to utilize established brands and content and promote brand awareness and increase traffic and revenue to the Company's new media properties. For company-wide consolidated financial reporting, these intercompany transactions are eliminated in consolidation. Additionally, the EBITDA of the Restricted Group, as determined in accordance with these agreements, omits restructuring charges and is adjusted for trailing four quarters results of acquisitions and divestitures and estimated savings for acquired businesses.

The scheduled repayments of all debt outstanding, including capital leases, as of September 30, 2002, are as follows:

Twelve Months Ended September 30,	Debt	Capital L Obligati
	-----	-----
2003.....	\$ 4,250	\$
2004.....	89,425	
2005.....	29,250	
2006.....	328,740	
2007.....	29,250	
Thereafter.....	1,359,590	1
	-----	-----
	\$ 1,840,505	\$ 2
	=====	=====

9. EXCHANGEABLE PREFERRED STOCK

Exchangeable Preferred Stock consists of the following:

	September 30, 2002

\$10.00 Series D Exchangeable Preferred Stock	\$ 174,410
\$9.20 Series F Exchangeable Preferred Stock	99,898
\$8.625 Series H Exchangeable Preferred Stock	215,834

	\$ 490,142
	=====

\$10.00 SERIES D EXCHANGEABLE PREFERRED STOCK

The Company authorized 2,000,000 shares of \$.01 par value, \$10.00 Series D Exchangeable Preferred Stock, of which 1,769,867 shares and 2,000,000 shares were issued and outstanding at September 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was \$176,987 at September 30, 2002 and \$200,000 December 31, 2001.

\$9.20 SERIES F EXCHANGEABLE PREFERRED STOCK

The Company authorized 1,250,000 shares of \$.01 par value, \$9.20 Series F Exchangeable Preferred Stock, of which 1,023,328 shares and 1,250,000 shares

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were issued and outstanding at September 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was \$102,333 at September 30, 2002 and \$125,000 December 31, 2001.

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\$8.625 SERIES H EXCHANGEABLE PREFERRED STOCK

The Company authorized 2,500,000 shares of \$.01 par value, \$8.625 Series H Exchangeable Preferred Stock, of which 2,202,391 shares and 2,500,000 shares were issued and outstanding at September 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was \$220,239 at September 30, 2002 and \$250,000 at December 31, 2001.

During the first quarter of 2002, the Board of Directors authorized the exchange by the Company of up to approximately \$100,000 of exchangeable preferred stock. During May 2002, the Board of Directors increased the authorization to an aggregate of approximately \$165,000 of exchangeable preferred stock. During the nine months ended September 30, 2002, the Company exchanged \$23,013, face value of Series D Exchangeable Preferred Stock for 4,467,033 shares of common stock, \$22,667, face value of Series F Exchangeable Preferred Stock for 4,385,222 shares of common stock and \$29,761, face value of Series H Exchangeable Preferred Stock for 5,508,050 shares of common stock. The cumulative gain on the exchanges of \$31,001 for the nine months ended September 30, 2002, is included as a component of additional paid-in capital on the accompanying condensed consolidated balance sheet at September 30, 2002. The gains of \$31,001 and \$2,700 for the nine and three months ended September 30, 2002, respectively, are included in the calculation of basic and diluted loss applicable to common shareholders per common share on the condensed statements of consolidated operations for their respective periods.

10. COMMON STOCK

During the second quarter of 2002, the Board of Directors approved and the shareholders ratified an amendment to the Company's Certificate of Incorporation, which increased the number of authorized shares of the Company's common stock from 300,000,000 to 350,000,000.

In April 2002, the Company granted certain executives an aggregate total of 6,630,000 options to purchase shares of the Company's common stock. The exercise prices of these options range from \$4.00 per share to \$6.00 per share. The options granted at \$4.00 per share vest over a four-year period following the date of the grant. The remaining options vest in 2010 unless the Company achieves certain earnings targets. Upon the achievement of these targets, the vesting of the respective options is accelerated upon the financial statements for the relevant period being finalized.

11. NON-CASH COMPENSATION AND NON-RECURRING CHARGES

In connection with the About merger, certain senior executives were granted 2,955,450 shares of restricted PRIMEDIA common stock. These shares of restricted PRIMEDIA common stock, which were valued at \$9.50 per share, the closing stock price on February 28, 2001, vest at a rate of 25% per year and are subject to the executives' continued employment. Related non-cash compensation of \$1,731 and \$8,530 was recorded for the nine months ended September 30, 2002 and 2001, respectively, and \$479 and \$3,656 was recorded for the three months ended September 30, 2002 and 2001, respectively. This non-cash compensation reflects pro rata vesting on a graded basis.

In addition, these senior executives were granted options to purchase 3,482,300

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shares of PRIMEDIA common stock at an exercise price of \$2.85 per share, equal to thirty percent of the fair market value per share on that date. These options vest at a rate of 25% per year and are subject to the executives' continued employment. Related non-cash compensation of \$1,428 and \$7,035 was recorded for the nine months ended September 30, 2002 and 2001, respectively, and \$395 and \$3,015 was recorded for the three months ended September 30, 2002 and 2001, respectively. This non-cash compensation reflects pro rata vesting on a graded basis. Amounts reflect a 70% market value discount (\$6.65 per share) based on a PRIMEDIA per share market value of \$9.50 which was the closing price on February 28, 2001.

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Two senior executives of About also entered into share lockup agreements with the Company, pursuant to which they agreed to specific restrictions regarding the transferability of their shares of PRIMEDIA common stock issued in the merger. Under the terms of those agreements, during the first year after the closing of the merger, the executives could sell a portion of their shares of the Company's common stock, subject to the Company's right of first refusal with respect to any sale. In the event that the gross proceeds received on sale were less than \$33,125 (assuming all shares are sold), the Company agreed to pay the executives the amount of such shortfall ("the Shortfall Payment").

During the third quarter of 2001, one of the executives, who subsequently left the Company, advised the Company that he was selling 1,429,344 shares of the Company's common stock in the market. Concurrently therewith, the executive assigned to a financial institution the right to receive his Shortfall Payment on that number of shares. The financial institution advised the Company that it purchased 1,429,344 shares of the Company's common stock in the market. The financial institution agreed to waive its right to the Shortfall Payment in exchange for the Company's agreement to make the financial institution whole if it sells such shares, which it purchased in the market, for proceeds of less than approximately \$23,406. As of March 8, 2002, the financial institution had sold all of the shares in the open market for proceeds of approximately \$3,300. In April 2002, the Company paid approximately \$20,300 to the financial institution. A liability of approximately \$18,400 representing the Shortfall Payments due under both agreements, based on the fair value of the Company's stock was included as a component of accrued expenses and other on the accompanying condensed consolidated balance sheet at December 31, 2001.

As a result of this executive leaving the Company, effective December 2001, half of his restricted shares (1,105,550 shares) and options (1,302,650 options) were accelerated and the remainder were forfeited, resulting in a reversal of unearned compensation of \$19,166 during the fourth quarter of 2001. The accelerated options expired unexercised during the first quarter of 2002.

On July 26, 2002, the Company granted 1,800,000 options to purchase Company stock to a related party consulting firm for services received. These options are fully vested as of the grant date, have a ten year life and an exercise price of \$1.80 per share. The exercise price equals 200% of the share price on the grant date. Related non-cash compensation of \$990, determined using the Black Scholes pricing model, was recorded for the nine and three months ended September 30, 2002. In addition, the Company paid \$800 in cash to this related party consulting firm for services received.

During the nine and three months ended September 30, 2002, the Company recorded \$10,612 and \$2,866 of non-cash compensation and non-recurring charges, respectively. These non-cash compensation charges consisted of a \$3,159 and \$874 charge, respectively, related to the restricted stock and option grants to two key executives of About discussed above, a \$2,144 and \$631 charge, respectively,

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related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger, a \$986 and \$329 charge, respectively, related to the issuance of stock in connection with an acquisition and a \$990 and \$990 charge, respectively, for the options granted for consulting services received as discussed above. These non-recurring charges consisted of a \$3,256 and \$0 charge, respectively, related to the share lockup arrangements with certain executives of About discussed above and a \$77 and \$42 charge, respectively, related to certain non-recurring compensation arrangements with certain senior executives.

During the nine and three months ended September 30, 2001, the Company recorded \$60,167 and \$47,440, respectively, of non-cash compensation and non-recurring charges. These non-cash compensation charges consisted of a \$15,565 and \$6,671 charge, respectively, related to the restricted stock and option grants to two key executives of About discussed above, a \$2,352 and \$1,008 charge, respectively, related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger and a \$1,104 and \$301 charge, respectively, related to the vesting of stock in connection with an acquisition. For the nine months ended September 30, 2001, these non-recurring charges consisted of a \$1,686 charge related to certain non-recurring compensation arrangements with certain senior executives and for the nine and three months ended September 30, 2001, these non-recurring charges consisted of a \$27,098 charge for the make-whole payment to the Financial Institution discussed above and a \$12,362 charge for severance payments made to certain senior executives of About.

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Non-cash compensation and non-recurring charges are omitted from the Company's calculation of EBITDA, as defined in the Company's Credit and Senior Note agreements (see Note 8).

12. PROVISION FOR SEVERANCE, CLOSURES AND RESTRUCTURING RELATED COSTS

During 2001 and 2000, the Company implemented plans to integrate the operations of the Company and consolidate many back office functions. The Company expects that these plans will continue to result in future savings. All restructuring related charges were expensed as incurred.

During 2002, the Company announced additional cost initiatives that would continue to implement and expand upon the cost initiatives enacted during 2001 and 2000.

Details of the initiatives implemented and the payments made in furtherance of these plans during the nine-month periods ended September 30, 2002 and 2001 are presented in the following tables:

	LIABILITY AS OF JANUARY 1, 2002		NET PROVISION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002		PAYMENTS DURING THE NINE MONTH PERIODS ENDED SEPTEMBER 2002
	-----		-----		-----
Severance and closures:					
Employee-related					
termination costs.....	\$	9,043	\$	6,052	\$

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Termination of contracts.....	2,318	(137)	
Termination of leases related to office closures.....	13,037	20,570	
	-----	-----	-----
	24,398	26,485	
	-----	-----	-----
Restructuring related:			
Relocation and other employee costs.....	-	765	
	-----	-----	-----
	-	765	
	-----	-----	-----
Total severance, closures and restructuring related costs.....	\$ 24,398	\$ 27,250	\$
	=====	=====	=====

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	LIABILITY AS OF JANUARY 1, 2001	NET PROVISION FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001	PAYMENTS DURING THE NINE MONTHS ENDED SEPTEMBER 2001
	-----	-----	-----
Severance and closures:			
Employee related termination costs.....	\$ 7,063	\$ 15,776	\$
Termination of contracts.....	1,519	3,326	
Termination of leases related to office closures.....	1,634	3,434	
Other.....	213	-	
	-----	-----	-----
	10,429	22,536	
	-----	-----	-----
Restructuring related:			
Consulting services....	498	2,627	
Relocation and other employee costs.....	462	2,972	
	-----	-----	-----
	960	5,599	
	-----	-----	-----
Total severance, closures and restructuring related			

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costs.....	\$	11,389	\$	28,135	\$
		=====		=====	=====

For the nine months ended September 30, 2001, \$6,477 of additional restructuring related costs are included in general and administrative expenses on the accompanying condensed consolidated statement of operations.

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. During the fourth quarter of 2002, the Company will reevaluate real estate market conditions and will adjust its provision accordingly.

As a result of the implementation of these plans, the Company has closed and consolidated in excess of twenty office locations and has notified a total of 1,665 individuals that they would be terminated under these plans, of which 345 and 75 individuals were notified during the nine and three month periods ended September 30, 2002, respectively. As of September 30, 2002, all of those individuals have been terminated.

The Company expects to realize sufficient savings from its plans to integrate the operations of the Company and to recover the costs associated with these plans, related to employee termination costs, within approximately a one-year period. Savings from terminations of contract and lease costs will be realized over the estimated life of the contract or lease.

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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 their respective dates. The provision for severance, closures and restructuring related costs is omitted from the Company's calculation of EBITDA, as defined in the Company's Credit and Senior Note agreements (see Note 8).

13. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) for the nine and three months ended September 30, 2002 and 2001 is presented in the following tables:

	Nine Months September 30, 2002

Net loss	\$ (526,534)
Other comprehensive income (loss):	
Unrealized loss on available-for-sale securities	-
Change in fair value of derivative instruments	1,897
Foreign currency translation adjustments	126

Total comprehensive loss	\$ (524,511)
	=====

