

PRIMEDIA INC
Form 10-Q
November 09, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 2004

Commission file number: 1-11106

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3647573
(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**

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 No

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

Yes No

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.

INDEX

Part I. Financial Information:

| | | |
|---|---|-----------|
| Item 1. | Financial Statements | |
| | <u>Condensed Consolidated Balance Sheets</u> <u>as of September 30, 2004 (Unaudited) and</u> <u>December 31, 2003</u> | <u>2</u> |
| | <u>Condensed Statements of Consolidated Operations</u> <u>(Unaudited) for the three months ended</u> <u>September 30, 2004 and 2003</u> | <u>3</u> |
| | <u>Condensed Statements of Consolidated Operations</u> <u>(Unaudited) for the nine months ended</u> <u>September 30, 2004 and 2003</u> | <u>4</u> |
| | <u>Condensed Statements of Consolidated</u> <u>Cash Flows (Unaudited) for the nine months</u> <u>ended September 30, 2004 and 2003</u> | <u>5</u> |
| | <u>Notes to Condensed Consolidated</u> <u>Financial Statements (Unaudited)</u> | <u>6</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of</u> <u>Financial Condition and Results of Operations</u> | <u>27</u> |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>62</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>62</u> |
| <u>Part II. Other Information:</u> | | |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>63</u> |
| | <u>Signatures</u> | <u>65</u> |

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) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----|-----------|----|-----------|
| 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) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | |
|-----------------------------------|-------------|-------------|
| 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 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----|-------------|----|-------------|
| 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).

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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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.

Recent Accounting Pronouncement

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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:

| | Range of Lives | September 30, 2004 | | | December 31, 2003 | | |
|---|----------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|-----------|
| | | 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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 |

9. Non-Cash Compensation

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|--------|------|------------------------------------|------|----------|
| | 2004 | 2003 | 2003 | 2004 | 2003 | 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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|-------------------|------------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 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, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------------------|
| | 2004 | 2003 | 2004 | 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 |

(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 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | | |
|---|--------------|--------------|------------|----------------|--------------|
| 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 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | | | |
|--|-----------|------------|-------------|-------------|--|-----------|
| 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) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----------|-----------|--------|-----------|
| 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 | | 173,607 |
| Current maturities of long-term debt | 16,232 | 5,963 | | | 22,195 |
| Liabilities of businesses held for sale | | 13,500 | 2,549 | | 16,049 |
| Total current liabilities | 1,111,408 | 876,842 | 666,014 | (2,149,685) | 504,579 |
| Long-term debt | 1,542,095 | 20,346 | | | 1,562,441 |
| Shares subject to mandatory redemption | 474,559 | | | | 474,559 |
| Intercompany notes payable | | 2,210,418 | 753,838 | (2,964,256) | |
| Deferred revenues | | 17,850 | | | 17,850 |
| Deferred income taxes | 61,364 | | | | 61,364 |
| Other non-current liabilities | 24,157 | 4,497 | (71) | | 28,583 |
| Total Liabilities | 3,213,583 | 3,129,953 | 1,419,781 | (5,113,941) | 2,649,376 |
| Shareholders' deficiency: | | | | | |
| Series J convertible preferred stock | 164,533 | | | | 164,533 |
| Common stock | 2,683 | | | | 2,683 |
| Additional paid-in capital | 2,345,152 | | | | 2,345,152 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | | |
|---|--------------|--------------|-------------|-------------|--------------|
| Accumulated deficit | (3,447,710) | (1,210,343) | (1,264,751) | 2,475,094 | (3,447,710) |
| Accumulated other comprehensive loss | (176) | (6) | (170) | 176 | (176) |
| Unearned compensation | (175) | | | | (175) |
| Common stock in treasury, at cost | (77,562) | | | | (77,562) |
| Total Shareholders Deficiency | (1,013,255) | (1,210,349) | (1,264,921) | 2,475,270 | (1,013,255) |
| Total Liabilities and Shareholders Deficiency | \$ 2,200,328 | \$ 1,919,604 | \$ 154,860 | (2,638,671) | \$ 1,636,121 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS
(UNAUDITED)

For the Nine Months Ended September 30, 2003

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---------------|---------------------------|-------------------------------|--------------|--------------------------------------|
| Revenues, net | \$ 191 | \$ 859,748 | \$ 121,953 | \$ (27,102) | \$ 954,790 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold | 788 | 151,643 | 53,877 | | 206,308 |
| Marketing and selling | | 165,409 | 30,745 | | 196,154 |
| Distribution, circulation and fulfillment | | 126,782 | 41,921 | | 168,703 |
| Editorial | | 73,530 | 4,211 | | 77,741 |
| Other general expenses | 19 | 106,107 | 38,010 | (27,102) | 117,034 |
| Corporate administrative expenses (excluding non-cash compensation) | 18,415 | | 2,427 | | 20,842 |
| Depreciation of property and equipment | 4,312 | 21,315 | 9,489 | | 35,116 |
| Amortization of intangible assets and other | | 24,143 | 5,635 | | 29,778 |
| Severance related to separated senior executives | 5,576 | | | | 5,576 |
| Non-cash compensation | 2,793 | | | | 2,793 |
| Provision for severance, closures and restructuring related costs | (860) | 4,208 | | | 3,348 |
| (Gain) loss on sale of businesses and other, net | (19) | 1,468 | (824) | | 625 |
| Operating income (loss) | (30,833) | 185,143 | (63,538) | | 90,772 |
| Other income (expense): | | | | | |
| Provision for impairment of investments | (8,975) | | | | (8,975) |
| Interest expense | (91,552) | (3,077) | 186 | | (94,443) |
| Interest on shares subject to mandatory redemption | (11,008) | | | | (11,008) |
| Amortization of deferred financing costs | 1,052 | (3,401) | (11) | | (2,360) |
| Equity in income of subsidiaries | 40,637 | | | (40,637) | |
| Intercompany management fees and interest | 142,157 | (142,157) | | | |
| Other expense, net | (953) | (2,317) | (13) | | (3,283) |
| Income (loss) from continuing operations before income tax expense | 40,525 | 34,191 | (63,376) | (40,637) | (29,297) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|--|-----------|------------|-------------|-----------|
| Provision for deferred income taxes | (10,695) | (350) | 12 | (11,033) |
| Income (loss) from continuing operations | 29,830 | 33,841 | (63,364) | (40,637) |
| Discontinued operations | | 92,245 | (22,085) | 70,160 |
| Net income (loss) | \$ 29,830 | \$ 126,086 | \$ (85,449) | \$ 29,830 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(UNAUDITED)

For the Nine Months Ended September 30, 2003

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|--|---------------|---------------------------|-------------------------------|--------------|--------------------------------------|
| Operating activities: | | | | | |
| Net Income (loss) | \$ 29,830 | \$ 126,086 | \$ (85,449) | \$ (40,637) | \$ 29,830 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | (141,291) | 118,593 | 23,233 | 40,637 | 41,172 |
| Changes in operating assets and liabilities | (1,225) | (18,315) | (7,491) | | (27,031) |
| Net cash provided by (used in) operating activities | (112,686) | 226,364 | (69,707) | | 43,971 |
| Investing activities: | | | | | |
| Additions to property, equipment and other, net | (559) | (19,196) | (6,768) | | (26,523) |
| Proceeds from sale of (payments for) businesses and other | 19 | 184,047 | (325) | | 183,741 |
| Payments for businesses acquired, net of cash acquired | | (7,186) | (536) | | (7,722) |
| Payments for the purchase of other investments | (632) | (2,285) | (266) | | (3,183) |
| Net cash provided by (used in) investing activities | (1,172) | 155,380 | (7,895) | | 146,313 |
| Financing activities: | | | | | |
| Intercompany activity | 294,879 | (372,343) | 77,464 | | |
| Borrowings under credit agreements | 329,400 | | | | 329,400 |
| Repayments of borrowings under credit agreements | (382,312) | | | | (382,312) |
| Payments for repurchases of senior notes | (375,675) | | | | (375,675) |
| Proceeds from issuance of 8% Senior Notes | 300,000 | | | | 300,000 |
| Proceeds from issuances of common stock | 1,120 | | | | 1,120 |
| Purchases of common stock in connection with the exchange of exchangeable preferred stock | (19,367) | | | | (19,367) |
| | (33,928) | | | | (33,928) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----------|-----------|--------|-----------|
| Dividends paid to preferred stock shareholders | | | | |
| Deferred financing cost paid | | (6,288) | | (6,288) |
| Capital lease obligations | (93) | (2,977) | (103) | (3,173) |
| Other | | (233) | | (233) |
| Net cash provided by (used in) financing activities | 114,024 | (381,841) | 77,361 | (190,456) |
| Increase (decrease) in cash and cash equivalents | 166 | (97) | (241) | (172) |
| Cash and cash equivalents, beginning of period | 4,700 | 12,857 | 996 | 18,553 |
| Cash and cash equivalents, end of period | \$ 4,866 | \$ 12,760 | \$ 755 | \$ 18,381 |

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either PRIMEDIA or the Company.

The following discussion and analysis summarizes the financial condition and operating performance of the Company and its business segments and should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto.

Executive Summary

Our Business

The Company's revenues are generated from advertising (print and online), circulation (subscriptions and single copy sales) and other sources (events, third party distribution, sales of data products and directories, list rental, brand licensing and merchandising). PRIMEDIA's operating expenses include cost of goods sold (principally paper and printing); marketing and selling; distribution, circulation and fulfillment; editorial; and other general and corporate administrative expenses (collectively referred to as operating expenses).

Background

Historically, PRIMEDIA was a broad based media enterprise built primarily from a series of acquisitions and comprised of numerous disparate assets. During the past few years, the Company sold a number of properties to better focus on its core businesses and reduce debt. As a result of these divestitures, the Company has transformed itself into a highly focused targeted media company poised for growth. Over the past few years, to counter the effects of the weakness in the overall advertising environment, the Company has aggressively attacked its costs. These initiatives have resulted in charges for severance, closures and restructuring related costs to integrate Company operations and consolidate many back office functions and facilities, resulting in a significant reduction in the number of employees and office space. These actions have resulted in a stronger balance sheet, improved liquidity and a more efficient organization. The Company is now focused on growing organically while still diligently controlling costs.

In October 2003, Kelly P. Conlin was appointed President and Chief Executive Officer (CEO). Mr. Conlin and the executive team reviewed the Company's operations and formulated a strategy to enable the Company to capitalize on the full potential of its businesses and maximize its operating performance. That review resulted in a redesigned operating structure with four reportable segments to better enable the Company to execute key investment and organic growth initiatives. Those four principal segments are: Enthusiast Media, Consumer Guides, Business Information, and Education (formerly Education and Training, see below for discussion of the classification of the Workplace Learning division as discontinued operations). Accordingly, the Company has reclassified prior year results to reflect this redesigned operating structure.

Company Strategy

The Company's strategy is to focus on its core media businesses and grow by leveraging and expanding its market-leading brands. Actions the Company is taking to organically grow revenues include introducing new products, improving and upgrading existing products, expanding into new markets, enhancing the caliber of its sales force, broadening its advertiser base, optimizing distribution, and leveraging its well known brands through extensions including events, television, radio, licensing and merchandising.

Business Trends

The media industry continues to be adversely affected by an overall advertising environment that is softer than historical norms, declining single copy sales of consumer magazines and budgetary constraints in the education markets. Additionally, low interest rates have resulted in apartment dwellers becoming homeowners and high apartment vacancy rates have pressured the advertising budgets of property managers.

In 2004, most of PRIMEDIA's products are growing despite being affected by soft industry trends. The Company is capitalizing on the general trend of marketers seeking to better target their advertising, the growth of free publications, strong growth in online advertising and the increasing popularity of avocations and leisure activities, as the Company has a large presence in those markets. Additionally, the Company has taken many actions to lower costs and improve profitability, including consolidating, selling or shutting down certain properties.

Summary of Consolidated Results for the three months ended September 30, 2004

In 2004, revenues were \$324,137 up 4.5% as compared to \$310,090 in 2003. Revenue increased at the Company's three major business segments while revenues at the Education segment were essentially flat. In 2004, operating expenses were \$264,168 up 3.1% compared to 2003. In 2004, operating income was \$43,721 improved from \$30,116 in 2003 due to increased revenues and decreased depreciation and amortization expenses. These decreases were partially offset by higher restructuring costs in 2004. Net income (loss) was \$8,740 in 2004 compared to (\$38,828) in 2003, primarily due to improved operating income, the gain on the sale of the Company's investment in All About Japan, Inc. of approximately \$16,700 and reduced losses from discontinued operations of approximately \$18,500.

Forward-Looking Information

This report contains certain forward-looking statements concerning the Company's operations, economic performance and financial condition. These statements are based upon a number of assumptions and estimates, which are inherently subject to uncertainties and external factors, many of which are beyond the control of the Company, and reflect future business decisions, which are subject to change. Some of the assumptions may not materialize and unanticipated events will occur which may affect the Company's results.

Why We Use Segment EBITDA

Segment EBITDA represents the segment's earnings before interest, taxes, depreciation, amortization and other charges (income) (Segment EBITDA). Other charges (income) 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. 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 manager's performance, and excludes items largely outside of the operating manager's control. Internally, the Company's chief operating decision maker, who is the President and CEO, and the executive team measure performance primarily based on Segment EBITDA.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 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. For more information, see the reconciliation of Segment EBITDA to operating income for the Company's four segments in their respective segment discussions below.

Intersegment Transactions

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.

Discontinued Operations

In accordance with Statement of Financial Accounting Standards (SFAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets , the Company's results have been classified to reflect Seventeen, Simba Information, Federal Sources, *CableWorld*, Sprinks, RealEstate.com, *New York* magazine, Kagan World Media, About Web Services, About.com's consumer Web hosting business, and the *Folio*, *Circulation Management* and *American Demographics* properties 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). As a result, the Education and Training segment has been renamed the Education segment. 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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Segment Data:

The following table presents the results of the Company's four operating segments and Corporate for the three and nine months ended September 30, 2004 and 2003, respectively:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------------------|---------------------------------|-------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Revenues, net: | | | | |
| Continuing Businesses: | | | | |
| 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) | | | | |
| Continuing Businesses: | | | | |
| 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) |
| Depreciation, amortization and other charges: (2) | | | | |
| Continuing Businesses: | | | | |
| Enthusiast Media | \$ 5,205 | \$ 8,546 | \$ 24,263 | \$ 29,114 |
| Consumer Guides | \$ 2,729 | \$ 2,839 | \$ 8,480 | \$ 8,780 |
| Business Information | \$ 2,124 | \$ 3,907 | \$ 10,370 | \$ 13,610 |
| Education | \$ 2,260 | \$ 4,519 | \$ 7,243 | \$ 12,492 |
| Corporate | \$ 3,930 | \$ 4,001 | \$ 11,760 | \$ 13,240 |
| Operating income (loss): | | | | |
| Continuing Businesses: | | | | |
| Enthusiast Media | \$ 37,355 | \$ 28,034 | \$ 90,560 | \$ 73,634 |
| Consumer Guides | 17,018 | 17,966 | 51,421 | 50,596 |
| Business Information | 3,308 | 1,065 | 10,374 | 4,419 |
| Education | (3,038) | (6,317) | (5,911) | (3,708) |
| Corporate | (10,922) | (10,632) | (32,449) | (34,169) |
| | 43,721 | 30,116 | 113,995 | 90,772 |
| Other income (expense): | | | | |
| Provision for impairment of investments | | (1,248) | (804) | (8,975) |
| Interest expense | (32,289) | (29,884) | (90,053) | (94,443) |
| Interest on shares subject to mandatory redemption (3) | (10,945) | (11,008) | (32,835) | (11,008) |
| Amortization of deferred financing costs (3) | (1,334) | (1,116) | (3,653) | (2,360) |
| Other income (expense), net | 17,680 | 519 | 17,793 | (3,283) |
| Income (loss) from continuing operations before income tax expense | 16,833 | (12,621) | 4,443 | (29,297) |
| Provision for deferred income taxes | (4,330) | (3,982) | (13,054) | (11,033) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|--|----------|-------------|-----------|-----------|
| Income (loss) from continuing operations | 12,503 | (16,603) | (8,611) | (40,330) |
| Discontinued operations (4) | (3,763) | (22,225) | 30,576 | 70,160 |
| Net income (loss) | \$ 8,740 | \$ (38,828) | \$ 21,965 | \$ 29,830 |

- (1) Segment EBITDA represents the segments' earnings before interest, taxes, depreciation, amortization and other charges (income) (see Note 2 below). 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 manager's performance, and excludes items largely outside of the operating manager's 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. See reconciliation of Segment EBITDA to operating income for the three and nine months ended September 30, 2004 and 2003 for each of the Company's segments in their respective segment discussions below.

(2) Other charges (income) 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.

(3) Effective July 1, 2003, the Company prospectively adopted SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, which requires the Company to classify as long term liabilities its Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock and to classify dividends from this preferred stock as interest expense. Such stock is now collectively described as shares subject to mandatory redemption and dividends on these shares are now included in loss from continuing operations and described as interest on shares subject to mandatory redemption, whereas previously they were presented below net income 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 nine months ended September 30, 2003. If SFAS 150 was adopted retroactively on January 1, 2003, loss from continuing operations for the nine months ended September 30, 2003 would have increased by \$22,670. As SFAS 150 was adopted during the third quarter of 2003, there was no material impact to the Company's results for the three months ended September 30, 2004 as compared to the same period of 2003.

(4) Discontinued operations include a gain on sale of businesses, net of \$999 and \$2,713 in the three months ended September 30, 2004 and 2003, respectively, and \$43,299 and \$105,310 in the nine months ended September 30, 2004 and 2003, respectively.

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003:**Consolidated Results:***Revenues, Net*

Consolidated revenues were \$324,137 in 2004 compared to \$310,090 in 2003:

| | Three Months Ended September 30, | | | Percent Change |
|-----------------------|-------------------------------------|------------|--|-------------------|
| | 2004 | 2003 | | |
| Revenues, net: | | | | |
| Advertising | \$ 213,165 | \$ 202,474 | | 5.3 |
| Circulation | 70,233 | 72,679 | | (3.4) |
| Other | 40,739 | 34,937 | | 16.6 |
| Total | \$ 324,137 | \$ 310,090 | | 4.5 |

Advertising revenues increased by \$10,691 in the third quarter of 2004 compared to 2003 with gains at all four segments, including an increase of \$8,065 at the Enthusiast Media segment largely due to online advertising increases. Circulation revenues decreased \$2,446 in 2004, due to declines at the Enthusiast Media and Business Information segments. Other revenues increased in 2004 compared to 2003 primarily due to increases at Enthusiast Media of \$3,145, at Consumer Guides of \$1,402 and at Business Information of \$1,312. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income (Loss)

Operating income increased to \$43,721 in 2004 compared to \$30,116 in 2003. The improvement in operating income in 2004 was due to the increase in revenues of \$14,047 and to decreases in amortization and depreciation expenses of \$5,085 and \$4,944, respectively. Amortization and depreciation expenses decreased in 2004 compared to 2003 primarily due to certain assets that have become fully amortized or depreciated. These expense decreases were partially offset by higher restructuring costs recorded in 2004 compared to 2003 principally due to the subleasing of certain excess real estate at a rate lower than originally estimated.

Net Income (Loss)

The Company had net income in 2004 of \$8,740 compared to a net loss of \$38,828 in 2003. The increase in net income was primarily due to improved operating income, lower losses from discontinued operations and the gain on the sale of the Company's investment in the stock of All About Japan, Inc. of approximately \$16,700 recorded in other income, net in 2004.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Interest expense increased \$2,405 in 2004 to \$32,289 from \$29,884 in 2003. The increase in interest expense was predominantly due to higher interest rates and increased debt levels as the Company incurred additional debt to redeem all of its outstanding Series J Convertible Preferred Stock, totaling approximately \$178,000, during the third quarter 2004. The Series J Convertible Preferred Stock accrued dividends quarterly at an annual rate of 12.5% and was the Company's highest cost of capital security. As a result, dividends on the Series J Convertible Preferred Stock decreased \$2,647 from \$4,845 to \$2,198 in 2004 compared to 2003 and will be zero for the fourth quarter of 2004.

Edgar Filing: PRIMEDIA INC - Form 10-Q

SFAS 144 requires sales or disposals of long-lived assets that meet certain criteria to be classified on the statement of consolidated operations as discontinued operations and to reclassify prior periods accordingly. During 2003, the Company completed the sale of Seventeen, Simba Information, Federal Sources, *CableWorld*, Sprinks and RealEstate.com and during 2004, the Company sold *New York* magazine, Kagan World Media and About Web Services, About.com's consumer Web hosting business.

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.

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 IMN.

In accordance with SFAS 144, the financial results of all of these operations have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented.

For the three months ended September 30, 2004 and 2003, discontinued operations include a net gain on sale of businesses of \$999 and \$2,713, respectively.

Segment Results:

Enthusiast Media Segment (includes Consumer Automotive, Performance Automotive, International Automotive, Outdoors, Action Sports, Lifestyles and Home Technology magazine groups, their related Web sites, events, licensing and merchandising and About.com)

Revenues, Net

Enthusiast Media revenues were \$190,884 or 58.9% and \$181,136 or 58.4% of the Company's consolidated revenues for 2004 and 2003, respectively. Enthusiast Media revenues increased \$9,748 or 5.4% in 2004 compared to 2003 as follows:

| | Three Months Ended September 30, | | Percent Change |
|-----------------------|-------------------------------------|-----------|-------------------|
| | 2004 | 2003 | |
| Revenues, net: | | | |
| Advertising | \$ 107,628 | \$ 99,563 | 8.1 |
| Circulation | 66,244 | 67,478 | (1.8) |
| Other | 16,704 | 13,559 | 23.2 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | | |
|-----------------------|----|---------|----|---------|--------|
| Intersegment revenues | | 308 | | 536 | (42.5) |
| Total | \$ | 190,884 | \$ | 181,136 | 5.4 |

Advertising revenues increased \$8,065 or 8.1% in 2004. The growth was led by an increase in online advertising of approximately \$6,400, as well as an increase in print advertising driven by double digit growth for the Crafts, Truck and Hunting titles.

Edgar Filing: PRIMEDIA INC - Form 10-Q

During 2004, the Company initiated a comprehensive new advertising tracking system with Inquiry Management Systems (IMS), the largest ad-tracking service in North America. Currently, the IMS Auditor service tracks three quarters of PRIMEDIA s enthusiast publications and the Company expects that IMS will track nearly all of its titles by the end of the first quarter 2005. Based on the titles currently tracked, IMS Auditor reports that PRIMEDIA s and its competitors advertising pages were up in the third quarter, with PRIMEDIA s advertising pages increasing 5.6% and the market increasing 4.7%.

Circulation revenues at Enthusiast Media declined \$1,234 or 1.8% for the three months ended September 30, 2004. Subscription revenue, excluding bulk, was down approximately 2.1% as the Company reduced subscription levels in certain titles to increase circulation profitability. Newsstand revenue was flat as increased pricing and the sale of premium priced special issues offset a 4.3% decrease in single copy units. Despite the decline, Enthusiast Media single copy results exceeded industry averages as the industry average decline was 12.3% for the three months ended September 30, 2004, as reported by the International Periodical Distributors Association.

Other revenues for Enthusiast Media, which include licensing, merchandising, list rental, events and other items, increased \$3,145, or 23.2%, in 2004 compared to 2003.

Key Accomplishments

The Company continues to receive positive consumer response to revitalized editorial products. The Company redesigned its largest publication, *Motor Trend*, with a new editor this year, and it posted a 4.6% increase in advertising pages, while its primary competitor s fell 0.3%, according to the Publishers Information Bureau. In the first six months of 2004, newsstand sales of *Motor Trend* grew 7.8%, while its primary competitor s declined 5.9%, according to the Audit Bureau of Circulations.

The Company is having success with online advertising programs. Page views, unique visitors and online revenue were up sharply across the segments Web sites and at About.com. One particular example is *Power & Motoryacht* which expanded its online video boat testing program, increasing page views 28% and nearly tripling online revenue.

PRIMEDIA s targeted publications and online products, when aggregated, reach more 18-34 year old males than any other publishing company. The Company has shown success with its national advertising programs as revenues from national advertisers targeting this elusive and valuable demographic increased 15.8% since the beginning of 2004 with double-digit increases in the third quarter from Timberland, Bose, Circuit City, eBay, Clorox and Proctor & Gamble, among others.

Segment EBITDA

Enthusiast Media Segment EBITDA increased \$5,980 to \$42,560 in 2004 from \$36,580 in 2003 as increased revenues were partially offset by increased operating expenses. The Company is investing in an aggressive product improvement program, research and marketing initiatives to attract more national advertising, and the creation of an enhanced product fulfillment and database project for e-commerce and direct consumer marketing. Segment EBITDA margin increased to 22.3% in 2004 from 20.2% in 2003.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Below is a reconciliation of Enthusiast Media Segment EBITDA to operating income for the three months ended September 30, 2004 and 2003:

| | Three Months Ended September 30, | |
|---|---|-------------|
| | 2004 | 2003 |
| Segment EBITDA | \$ 42,560 | \$ 36,580 |
| Depreciation of property and equipment | 4,195 | 5,301 |
| Amortization of intangible assets and other | 1,092 | 3,409 |
| Provision for severance, closures and restructuring related costs | 221 | 195 |
| Gain on sale of businesses and other, net | (303) | (359) |
| Operating income | \$ 37,355 | \$ 28,034 |

Operating Income (Loss)

Operating income was \$37,355 in 2004 compared to \$28,034 in 2003, an increase of 33.2%. This increase was principally driven by the improvement in Segment EBITDA as well as decreases in amortization and depreciation expenses.

Discontinued Operations

In accordance with SFAS 144, the operating results of Seventeen, Sprinks, *New York* magazine and About Web Services have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented.

Enthusiast Media revenues exclude revenues from discontinued operations of \$18,827 for the three months ended September 30, 2003. Enthusiast Media segment operating income excludes operating income from discontinued operations of \$391 and \$4,884 for the three months ended September 30, 2004 and 2003, respectively. For the three months ended September 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of \$270 and \$3,116, respectively.

Consumer Guides Segment (includes *Apartment Guide*, *New Home Guide* and *Auto Guide* publications and their related Web sites, and the DistribuTech distribution business)

Revenues, Net

Consumer Guides revenues were \$71,739 or 22.1% and \$69,240 or 22.3% of the Company's consolidated revenues for 2004 and 2003, respectively. Consumer Guides revenues increased \$2,499 or 3.6% in 2004 compared to 2003 as follows:

| | Three Months Ended September 30, | | Percent Change |
|----------------|-------------------------------------|-----------|-------------------|
| | 2004 | 2003 | |
| Revenues, net: | | | |
| Advertising | \$ 59,546 | \$ 58,449 | 1.9 |
| Other | 12,193 | 10,791 | 13.0 |
| Total | \$ 71,739 | \$ 69,240 | 3.6 |

Advertising revenues for the Consumer Guides segment increased \$1,097 to \$59,546 in 2004 compared to \$58,449 in 2003 primarily due to growth in premium online advertising programs and gains in *New Home Guide* and *Auto Guide*. Advertising revenue at the *Apartment Guide* business continues to be affected by a soft, but improving, apartment rental market.

Consumer Guides other revenues, which relate to its distribution arm, DistribuTech, increased \$1,402 during the third quarter of 2004 compared to 2003 due to continued growth of its distribution network and increased rack utilization. DistribuTech increased its average number of third party customers by 3.4% from the second quarter of 2004. Its rack utilization rate is 76%, up from 70% a year ago.

Key Accomplishments

The *New Home Guide* division continued to post strong advertising revenue gains, up 6% in 2004 compared to 2003 for existing publications and up 4% from the second quarter of 2004. *New Home Guide* has recorded nine consecutive months of revenue gains.

The Company launched the *Houston New Home Guide* in May 2004, becoming the 19th market served and the second *New Home Guide* launched this year. Both *New Home Guide* launches as well as the *Charlotte Auto Guide*, launched in March 2004, made significant progress in the third quarter as they continue to establish themselves in their respective markets. The 2004 *New Home Guide* launches grew revenue 30% over the prior quarter, and the expansion *Auto Guide* publication posted a 16% revenue increase over the prior quarter.

Despite difficult conditions in the apartment industry, *Apartment Guide* posted its second consecutive quarter of advertising revenue gains and made significant improvements to its sales and marketing programs. In addition, *Apartmentguide.com* continues to lead the industry in qualified

lead delivery, with nearly 1.4 million leads delivered during the third quarter of 2004.

Segment EBITDA

Consumer Guides Segment EBITDA decreased \$1,058 or 5.1% in 2004 to \$19,747. The decrease was primarily due to additional sales and marketing costs related to investments in new products. This includes the *Charlotte*

Auto Guide, two additional *Auto Guides* to be launched in the next four months, as well as the *Orlando New Home Guide* and *Houston New Home Guide*. In addition, sales program initiatives and continued investment in the distribution network contributed to the increase in expenses. As a result, Segment EBITDA margin decreased to 27.5% in 2004 compared to 30.0% in 2003.

Below is a reconciliation of Consumer Guides Segment EBITDA to operating income for the three months ended September 30, 2004 and 2003:

| | Three Months Ended September 30, | |
|---|-------------------------------------|-----------|
| | 2004 | 2003 |
| Segment EBITDA | \$ 19,747 | \$ 20,805 |
| Depreciation of property and equipment | 1,972 | 1,941 |
| Amortization of intangible assets and other | 767 | 898 |
| Provision for severance, closures and restructuring related costs | (10) | |
| Operating income | \$ 17,018 | \$ 17,966 |

Operating Income (Loss)

Operating income decreased \$948 or 5.3% in 2004 due to the decrease in Segment EBITDA.

Discontinued Operations

In accordance with SFAS 144, the results of RealEstate.com have been classified as discontinued operations on the condensed statements of consolidated operations for three months ended September 30, 2003.

Consumer Guides revenues exclude revenues from discontinued operations of \$666 for the three months ended September 30, 2003. Consumer Guides segment operating income excludes operating losses from discontinued operations of \$1,707 for the three months ended September 30, 2003. Discontinued operations includes a loss on sale of business of \$1,000 in 2003.

Business Information Segment (includes trade magazines and their related Web sites, events, directories and data products)*Revenues, Net*

Business Information revenues were \$48,641 or 15.0% and \$47,281 or 15.2% of the Company's consolidated revenues for 2004 and 2003, respectively. Business Information revenues increased \$1,360 or 2.9% in 2004 compared to 2003 as follows:

| | Three Months Ended September 30, | | Percent Change |
|-----------------------|-------------------------------------|-----------|-------------------|
| | 2004 | 2003 | |
| Revenues, net: | | | |
| Advertising | \$ 39,162 | \$ 37,901 | 3.3 |
| Circulation | 3,989 | 5,201 | (23.3) |
| Other | 5,490 | 4,178 | 31.4 |
| Intersegment revenues | | 1 | |
| Total | \$ 48,641 | \$ 47,281 | 2.9 |

Overall, Business Information segment revenues are stabilizing and the segment has had revenue growth in the last two quarters after twelve quarters of revenue declines.

Advertising revenues increased \$1,261 in 2004 with strength primarily in the magazines serving the agriculture, communications, trucking, electrical and financial services sectors partially offset by weakness primarily in the marketing and apparel sectors.

Circulation revenues, consist of subscriptions to directories and data based products, decreased to \$3,989 in 2004 compared to \$5,201 in 2003. This decrease was primarily due to a decrease in frequency in certain publications from quarterly to semi-annually.

Other revenues, which consist of events, information products and online revenues, were up \$1,312, or 31.4%, in 2004 compared to 2003. The increase in other revenues is a result of an increase in the number of events occurring during the quarter and an increase in revenues from data products.

Key Accomplishments

Several titles recorded their highest revenue in four years or longer. *American Printer's* September revenue was the highest in the publication's history. *Fleet Owner's* September issue generated its highest advertising billing in four years. *Registered Rep.'s* September issue recorded its highest advertising billing in three years. Lighting Dimensions significantly broadened its advertiser base by successfully launching *The Entertainment Show-LDI*, a new event concept, with five mobile outdoor concert stages showcasing all components of entertainment technology.

The Company continued progress in developing innovative electronic products as online revenue increased 36% from the same period in 2003 by providing targeted newsletters and webinars, particularly in the *Telephony* and *Broadcast Engineering* titles.

Segment EBITDA

Business Information Segment EBITDA increased \$460 for the three months ended September 30, 2004 to \$5,432. The improvement is predominantly due to increased revenues as well as continued cost control with the exception of increased selling expenses, which increased commensurate with higher revenues. Segment EBITDA margin improved to 11.2% for 2004 versus 10.5% for 2003.

Below is a reconciliation of Business Information Segment EBITDA to operating income for the three months ended September 30, 2004 and 2003:

| | Three Months Ended | | |
|---|---------------------------|-------|-------------|
| | September 30, | | |
| | 2004 | | 2003 |
| Segment EBITDA | \$ | 5,432 | \$ 4,972 |
| Depreciation of property and equipment | | 950 | 2,184 |
| Amortization of intangible assets and other | | 1,236 | 2,168 |
| Provision for severance, closures and restructuring related costs | | (62) | (98) |
| Gain on sale of businesses and other, net | | | (347) |
| Operating income | \$ | 3,308 | \$ 1,065 |

Operating Income (Loss)

Business Information operating income increased \$2,243 to \$3,308 in 2004 compared to \$1,065 in 2003. This increase was driven by improved Segment EBITDA and decreases in depreciation and amortization expense in 2004 due to certain assets becoming fully depreciated or amortized.

Discontinued Operations

In accordance with SFAS 144, the results of Simba, Federal Sources, *CableWorld* and Kagan World Media, which have been sold, have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented. In addition, the Company began evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties during the second quarter 2004 and the operating results of these properties have been classified as discontinued operations for all periods presented. 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.

Business Information revenues exclude revenues from discontinued operations of \$989 and \$5,625 for the three months ended September 30, 2004 and 2003, respectively. Business Information segment operating results exclude the operating income from discontinued operations of \$505 and \$172 for the three months ended September 30, 2004 and 2003, respectively. For the three months ended September 30, 2004 and 2003, discontinued operations include a net gain on sale of businesses of \$729 and \$597, respectively.

Education Segment (includes Channel One, Films Media Group and Interactive Medical Network (IMN))

Revenues, Net

Education revenues were \$13,198 or 4.1% and \$13,243 or 4.3% of the Company's consolidated revenues for 2004 and 2003, respectively. Education revenues were essentially flat in 2004 compared to 2003 as follows:

| | Three Months Ended September 30, | | Percent Change |
|-----------------------|-------------------------------------|-----------|-------------------|
| | 2004 | 2003 | |
| Revenues, net: | | | |
| Advertising | \$ 6,829 | \$ 6,561 | 4.1 |
| Other | 6,352 | 6,409 | (0.9) |
| Intersegment revenues | 17 | 273 | (93.8) |
| Total | \$ 13,198 | \$ 13,243 | (0.3) |

Education segment advertising revenues, which are generated entirely by Channel One, increased \$268 in 2004 as compared to 2003. Advertising gains from movies, television networks, and consumer products were offset by reduced spending from certain internet providers. Third quarter revenues are seasonally low as schools are closed for summer vacation during much of the quarter.

Increased other revenues at Channel One from production and at the Films Media Group driven by increased DVD sales were offset by a decrease at IMN.

Segment EBITDA

Education Segment EBITDA increased \$1,020 to (\$778) for the three months ended September 30, 2004. This increase is principally due to continued cost control during the third quarter of 2004. Segment EBITDA margin improved in 2004 to (5.9%) compared to (13.6%) in 2003.

Below is a reconciliation of Education Segment EBITDA to operating loss for the three months ended September 30, 2004 and 2003:

| | Three Months Ended September 30, | |
|--|-------------------------------------|------------|
| | 2004 | 2003 |
| Segment EBITDA | \$ (778) | \$ (1,798) |
| Depreciation of property and equipment | 878 | 1,457 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----|---------|----|---------|
| Amortization of intangible assets and other | | 1,357 | | 3,062 |
| Provision for severance, closures and restructuring related costs | | 25 | | |
| Operating loss | \$ | (3,038) | \$ | (6,317) |

Operating Income (Loss)

Operating loss decreased \$3,279 for the three months ended September 30, 2004 due to decreased amortization and depreciation expense as certain assets became fully amortized and depreciated since the third quarter of 2003 as well as increased Segment EBITDA.

Discontinued Operations

The Company is exploring strategic options for the Workplace Learning division, excluding IMN, and is actively pursuing the sale of the division. Its results have been classified as discontinued operations for all periods presented in accordance with SFAS 144.

Education segment revenues exclude revenues from discontinued operations of \$9,013 and \$10,048 for the three months ended September 30, 2004 and 2003, respectively. Education segment operating results exclude the operating loss from discontinued operations of \$3,580 and \$24,900 for the three months ended September 30, 2004 and 2003, respectively.

Corporate:

Corporate Overhead

Corporate overhead increased to \$6,992 in 2004 from \$6,631 in 2003 primarily due to increased professional fees, including fees incurred in connection with the Company's year-end assessment of its internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002, partially offset by reduced compensation expense related to headcount reductions.

Operating Income (Loss)

Corporate operating loss increased \$290 in 2004 to \$10,922 from \$10,632 in 2003. This increase was due to an increase in stock-based compensation expense in 2004 to \$1,344 compared to \$770 in 2003 and an increase in restructuring related costs to \$1,752 in 2004 from \$351 in 2003. These increases were partially offset by a decrease in depreciation expense of \$2,056, primarily due to the disposal of certain fixed assets in 2003.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003:**Consolidated Results:***Revenues, Net*

Consolidated revenues were \$973,167 in 2004 compared to \$954,790 in 2003:

| | Nine Months Ended September 30, | | | |
|----------------|------------------------------------|------------|--|-------------------|
| | 2004 | 2003 | | Percent Change |
| Revenues, net: | | | | |
| Advertising | \$ 631,190 | \$ 617,347 | | 2.2 |
| Circulation | 208,785 | 214,445 | | (2.6) |
| Other | 133,192 | 122,998 | | 8.3 |
| Total | \$ 973,167 | \$ 954,790 | | 1.9 |

Advertising revenues increased by \$13,843 in 2004 compared to 2003 due to increases of \$14,473 and \$3,578 at the Enthusiast Media and Consumer Guides segments, respectively, partially offset by declines of \$540 and \$3,668 at the Business Information and Education segments, respectively. Circulation revenues decreased \$5,660 in 2004, principally driven by a \$4,355 decline at the Enthusiast Media segment. Other revenues increased \$10,194 in 2004 compared to 2003 primarily due to increases at Consumer Guides of \$4,075 from continued growth of its third party distribution business, at Enthusiast Media of \$5,772 and at Business Information of \$2,172 partially offset by a \$1,825 decline at the Education segment. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income (Loss)

Operating income was \$113,995 in 2004 compared to \$90,772 in 2003. The improvement in operating income in 2004 was due to the increase in revenues of \$18,377 and a decrease in amortization and depreciation expenses. Amortization and depreciation expenses decreased \$14,779 and \$7,463, respectively, in 2004 compared to 2003 primarily due to certain intangible assets and property and equipment that have become fully amortized. In addition, severance related to separated senior executives decreased \$4,918 to \$658 in 2004 compared to \$5,576 in 2003. These expense reductions were partially offset by a provision for unclaimed property. The Company has completed the initial phase of its internal assessment regarding compliance with escheatment requirements for unclaimed property in certain states and as a result has recorded an estimated provision of \$5,500 (see Note 11 of the notes to the condensed consolidated financial statements).

Net Income (Loss)

The Company had net income in 2004 of \$21,965 compared to \$29,830 in 2003. The decrease in net income was primarily due to the gain on the sale of Seventeen of \$107,138 recorded in discontinued operations in 2003. In 2004, the Company recorded a gain on the sale of *New York*

Edgar Filing: PRIMEDIA INC - Form 10-Q

magazine of \$38,006 in discontinued operations and a gain on the sale of the Company's investment in All About Japan, Inc. of approximately \$16,700 recorded in other income, net.

Interest expense decreased \$4,390, or 4.6% in 2004 to \$90,053 from \$94,443 in 2003. The decrease in interest expense was due to the Company's lower average debt levels despite the additional debt issued in May 2004.

In accordance with the prospective adoption, effective July 1, 2003, of SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, income from continuing operations decreased by \$33,843 which represents \$32,835 of interest on shares subject to mandatory redemption and \$1,008 of amortization of issuance costs which is included in the amortization of deferred financing costs on the accompanying condensed statement of consolidated operations for the nine months ended September 30, 2004. As a result of SFAS 150 being adopted during the third quarter of 2003, loss from continuing operations increased \$11,344 for the nine months ended September 30, 2003. Such charges were recorded as preferred stock dividends and accretion prior to adoption. If SFAS 150 had been adopted retroactively on January 1, 2003, loss from continuing operations would have increased by \$22,670 for the nine months ended September 30, 2003.

SFAS 144 requires sales or disposals of long-lived assets that meet certain criteria to be classified on the statement of consolidated operations as discontinued operations and to reclassify prior periods accordingly. During 2003, the Company completed the sale of Seventeen, Simba Information, Federal Sources, *CableWorld*, Sprinks and RealEstate.com and during 2004, the Company sold *New York* magazine, Kagan World Media and About Web Services, About.com's consumer Web hosting business.

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.

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 IMN. As a result, the Company's Education and Training segment has been renamed the Education segment.

In accordance with SFAS 144, the financial results of all of these operations have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented.

For the nine months ended September 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of \$43,299 and \$105,310, respectively.

Segment Results:

Enthusiast Media Segment (includes Consumer Automotive, Performance Automotive, International Automotive, Outdoors, Action Sports, Lifestyles and Home Technology magazine groups, their related Web sites, events, licensing and merchandising and About.com)

Revenues, Net

Enthusiast Media revenues were \$551,398 or 56.7% and \$536,191 or 56.2% of the Company's consolidated revenues for 2004 and 2003, respectively. Enthusiast Media revenues increased \$15,207 or 2.8% in 2004 compared to 2003 as follows:

| | 2004 | Nine Months Ended September 30, | 2003 | Percent Change |
|-----------------------|------|------------------------------------|------------|-------------------|
| Revenues, net: | | | | |
| Advertising | \$ | 307,211 | \$ 292,738 | 4.9 |
| Circulation | | 195,639 | 199,994 | (2.2) |
| Other | | 47,670 | 41,898 | 13.8 |
| Intersegment revenues | | 878 | 1,561 | (43.8) |
| Total | \$ | 551,398 | \$ 536,191 | 2.8 |

Advertising revenues increased \$14,473 or 4.9% in 2004. The growth was led by an increase in online advertising of approximately \$18,900 driven by an aggressive effort to improve the sales and marketing of the Company's online properties.

The increase in online advertising revenues allows the Company to reinvest in its properties to be well positioned for the significant growth opportunities in online marketing. In April 2004, About.com unveiled its most significant product improvement since the site's debut in 1997 as it launched About 4.0 with an innovative new site design and architecture aimed at enhancing the total user experience.

The increase in online advertising was partially offset by an approximate \$4,500 decrease in print advertising, despite print advertising pages being up 1.2% in 2004 compared to 2003. Specifically, advertising pages in the Company's automotive titles declined 4.0% while advertising pages for the remainder of the segment's properties increased 5.5%. Industry wide advertising pages were up 1.3%, with automotive advertising pages decreasing 3.1% and non-automotive advertising pages increasing 4.2%, as reported by IMS.

Circulation revenues at Enthusiast Media declined \$4,355 or 2.2% for the nine months ended September 30, 2004 due to lower subscription revenue and continued softness in single copy sales. Newsstand revenue gains at the Lifestyles (including the soap opera titles) partially offset declines at the other groups. Overall, single copy units for Enthusiast Media magazines declined 3.7% for the nine months ended September 30, 2004, compared to the industry average increase of 0.3%, as reported by the International Periodical Distributors Association.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Other revenues for Enthusiast Media, which include licensing, list rental, events and other, increased \$5,772, or 13.8%, in 2004 compared to 2003. The increase was primarily due to growth in merchandising revenue and events.

Segment EBITDA

Enthusiast Media Segment EBITDA increased 11.8% to \$114,823 in 2004 from \$102,748 in 2003. This increase was due predominantly to the increase in revenues partially offset by increased operating expenses of \$3,132. As a result, Segment EBITDA margin increased to 20.8% in 2004 from 19.2% in 2003.

Below is a reconciliation of Enthusiast Media Segment EBITDA to operating income for the nine months ended September 30, 2004 and 2003:

| | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2004 | 2003 |
| Segment EBITDA | \$ 114,823 | \$ 102,748 |
| Depreciation of property and equipment | 12,966 | 15,325 |
| Amortization of intangible assets and other | 4,795 | 11,372 |
| Provision for severance, closures and restructuring related costs | 3,536 | 2,660 |
| Provision for unclaimed property | 3,271 | |
| Gain on sale of businesses and other, net | (305) | (243) |
| Operating income | \$ 90,560 | \$ 73,634 |

Operating Income (Loss)

Operating income was \$90,560 in 2004 compared to \$73,634 in 2003, an increase of \$16,926. This increase was principally driven by the improvement in Segment EBITDA as well as a decrease in amortization and depreciation expense, partially offset by an increase in restructuring related costs and a provision for unclaimed property (see Note 11 of the notes to the condensed consolidated financial statements).

Discontinued Operations

In accordance with SFAS 144, the operating results of Seventeen, Sprinks, *New York* magazine and About Web Services have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented.

Enthusiast Media revenues exclude revenues from discontinued operations of \$2,290 and \$92,415 for the nine months ended September 30, 2004 and 2003, respectively. Enthusiast Media segment operating income excludes operating income from discontinued operations of \$42,316 and \$114,187 for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of \$41,763 and \$105,886, respectively.

Consumer Guides Segment (includes *Apartment Guide*, *New Home Guide* and *Auto Guide* publications and their related Web sites, and the DistribuTech distribution business)*Revenues, Net*

Consumer Guides revenues were \$214,210 or 22.0% and \$206,567 or 21.6% of the Company's consolidated revenues for 2004 and 2003, respectively. Consumer Guides revenues increased \$7,643 or 3.7% in 2004 compared to 2003 as follows:

| | 2004 | Nine Months Ended September 30, | 2003 | Percent Change |
|-----------------------|------|------------------------------------|------------|-------------------|
| Revenues, net: | | | | |
| Advertising | \$ | 178,931 | \$ 175,353 | 2.0 |
| Other | | 35,279 | 31,204 | 13.1 |
| Intersegment revenues | | | 10 | |
| Total | \$ | 214,210 | \$ 206,567 | 3.7 |

Advertising revenues for the Consumer Guides segment increased \$3,578 to \$178,931 in 2004 compared to \$175,353 in 2003 primarily due to growth in premium online advertising programs, *New Home Guide* and the new *Auto Guide* launched in March 2004. The *New Home Guide* business had its ninth consecutive month of organic revenue growth in September 2004. Advertising revenue at the *Apartment Guide* business continued to be affected by challenges presented by low interest rates, which have driven increased home buying and higher than normal apartment vacancy rates depressing apartment owners' advertising budgets.

Consumer Guides other revenues, which relate to its distribution arm, DistribuTech, increased \$4,075 in 2004 compared to 2003 due to continued growth of its distribution network, increased rack utilization and an effective pricing strategy. Since the first quarter of 2003, DistribuTech has added over 1,000 retail locations and approximately 400 additional third party publication customers and boosted its total rack utilization from 65% to 76%. DistribuTech distributes more than 2,000 publications on behalf of other publishing organizations to many of the country's leading supermarkets and chain stores, with whom it has exclusive distribution relationships.

Segment EBITDA

Consumer Guides Segment EBITDA increased \$525 or 0.9% in 2004 to \$59,901. The increase is due to higher revenues in 2004 partially offset by increased operating expenses, particularly sales and marketing expenses related to new product introductions (*Auto Guide* and new markets for *New Home Guide*) as well as higher distribution expenses. Segment EBITDA margin decreased to 28.0% in 2004 compared to 28.7% in 2003.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Below is a reconciliation of Consumer Guides Segment EBITDA to operating income for the nine months ended September 30, 2004 and 2003:

| | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2004 | 2003 |
| Segment EBITDA | \$ 59,901 | \$ 59,376 |
| Depreciation of property and equipment | 6,031 | 5,952 |
| Amortization of intangible assets and other | 2,414 | 2,696 |
| Provision for severance, closures and restructuring related costs | 28 | |
| Provision for unclaimed property | 7 | |
| Loss on sale of businesses and other, net | | 132 |
| Operating income | \$ 51,421 | \$ 50,596 |

Operating Income (Loss)

Operating income increased \$825 or 1.6% in 2004. This increase is primarily driven by the improvement in Segment EBITDA.

Discontinued Operations

In accordance with SFAS 144, the results of RealEstate.com have been classified as discontinued operations on the condensed statements of consolidated operations for nine months ended September 30, 2004 and 2003.

Consumer Guides revenues exclude revenues from discontinued operations of \$458 and \$1,717 for the nine months ended September 30, 2004 and 2003, respectively. Consumer Guides segment operating income excludes operating losses from discontinued operations of \$252 and \$3,190 for the nine months ended September 30, 2004 and 2003, respectively. In 2004, discontinued operations includes a loss on sale of business of \$519 due to post closing adjustments related to the sale of RealEstate.com. Discontinued operations includes a loss on sale of business of \$1,000 in 2003.

Business Information Segment (includes trade magazines and their related Web sites, events, directories and data products)*Revenues, Net*

Business Information revenues were \$161,651 or 16.6% and \$161,326 or 16.9% of the Company's consolidated revenues for 2004 and 2003, respectively. Business Information revenues increased \$325 or 0.2% in 2004 compared to 2003 as follows:

| | 2004 | Nine Months Ended September 30, | 2003 | Percent Change |
|-----------------------|------|------------------------------------|------------|-------------------|
| Revenues, net: | | | | |
| Advertising | \$ | 119,006 | \$ 119,546 | (0.5) |
| Circulation | | 13,146 | 14,451 | (9.0) |
| Other | | 29,499 | 27,327 | 7.9 |
| Intersegment revenues | | | 2 | |
| Total | \$ | 161,651 | \$ 161,326 | 0.2 |

Overall, Business Information segment revenues are stabilizing and the segment has had revenue growth in the last two quarters after twelve quarters of revenue declines.

Advertising revenues decreased \$540 in 2004, despite advertising revenue increases during the second and third quarters, due to continued softness in trade advertising, particularly in the power, entertainment technology, marketing and apparel categories partially offset by strength in the communications and financial services sectors.

Circulation revenues decreased \$1,305 in 2004 compared to 2003 primarily due to a decrease in frequency in certain publications from quarterly to semi-annually.

Other revenues, which consist of events, information products and online revenues, were up \$2,172, or 7.9%, in 2004 compared to 2003. The focus on online initiatives in developing new electronic products contributed to the increase in online revenues.

Segment EBITDA

Business Information Segment EBITDA increased \$2,715 for the nine months ended September 30, 2004 to \$20,744. The improvement is predominantly due to continued cost control with expenses declining in all categories. Operating expenses in this segment declined by approximately \$2,390 in 2004 compared to 2003. These factors contributed to an improved Segment EBITDA margin of 12.8% for 2004 versus 11.2% for 2003.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Below is a reconciliation of Business Information Segment EBITDA to operating income for the nine months ended September 30, 2004 and 2003:

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2004 | 2003 |
| Segment EBITDA | \$ 20,744 | \$ 18,029 |
| Depreciation of property and equipment | 3,835 | 6,103 |
| Amortization of intangible assets and other | 3,885 | 6,640 |
| Provision for severance, closures and restructuring related costs | 1,097 | 112 |
| Provision for unclaimed property | 1,538 | |
| Loss on sale of businesses and other, net | 15 | 755 |
| Operating income | \$ 10,374 | \$ 4,419 |

Operating Income (Loss)

Business Information operating income increased \$5,955 to \$10,374 in 2004 compared to \$4,419 in 2003. The increase in operating income was driven by improved Segment EBITDA and decreases in depreciation and amortization expense in 2004 as certain assets became fully depreciated or amortized, partially offset by increased restructuring related costs and a provision for unclaimed property (see Note 11 of the notes to the condensed consolidated financial statements).

Discontinued Operations

In accordance with SFAS 144, the results of Simba Information, Federal Sources, *CableWorld* and Kagan World Media, which have been sold, have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented. In addition, the Company began evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties during the second quarter of 2004 and the operating results of these properties have been classified as discontinued operations for all periods presented. 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.

Business Information revenues exclude revenues from discontinued operations of \$4,959 and \$17,900 for the nine months ended September 30, 2004 and 2003, respectively. Business Information segment operating results exclude the operating income (loss) from discontinued operations of \$634 and (\$4,342) for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, discontinued operations include a net gain on sale of businesses of \$2,055 and \$424, respectively.

Education Segment (includes Channel One, Films Media Group and Interactive Medical Network (IMN))

Revenues, Net

Education revenues were \$46,953 or 4.8% and \$55,490 or 5.8% of the Company's consolidated revenues for 2004 and 2003, respectively. Education revenues decreased \$8,537 or 15.4% in 2004 compared to 2003 as follows:

| | 2004 | Nine Months Ended September 30, | 2003 | Percent Change |
|-----------------------|------|------------------------------------|-----------|-------------------|
| Revenues, net: | | | | |
| Advertising | \$ | 26,042 | \$ 29,710 | (12.3) |
| Other | | 20,744 | 22,569 | (8.1) |
| Intersegment revenues | | 167 | 3,211 | (94.8) |
| Total | \$ | 46,953 | \$ 55,490 | (15.4) |

Education advertising revenues, which are generated entirely by Channel One, decreased \$3,668 in 2004 as compared to 2003. Channel One's advertising revenue declined primarily as a result of reduced spending by several food and beverage accounts and the absence of any barter deals in 2004, partially offset by revenue gains from additional health and beauty brands, movies, military recruitment and television networks.

Other revenues decreased \$1,825 in 2004 due to declines at IMN and reduced product sales at Films Media Group as state and local school budgets continue to be constrained, partially offset by increased production revenue at Channel One.

Segment EBITDA

Education Segment EBITDA decreased \$7,452 to \$1,332 for the nine months ended September 30, 2004. This decrease is principally due to the declines in revenue discussed above partially offset by continued cost control during 2004. These factors contributed to a decrease in Segment EBITDA margin in 2004 to 2.8% compared to 15.8% in 2003.

Below is a reconciliation of Education Segment EBITDA to operating loss for the nine months ended September 30, 2004 and 2003:

| | 2004 | Nine Months Ended September 30, | 2003 |
|--|------|------------------------------------|----------|
| Segment EBITDA | \$ | 1,332 | \$ 8,784 |
| Depreciation of property and equipment | | 2,633 | 3,422 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|----|---------|----|---------|
| Amortization of intangible assets and other | | 3,905 | | 9,070 |
| Provision for severance, closures and restructuring related costs | | 77 | | |
| Provision for unclaimed property | | 628 | | |
| Operating loss | \$ | (5,911) | \$ | (3,708) |

Operating Income (Loss)

Operating loss increased \$2,203 for the nine months ended September 30, 2004 due to the decrease in Segment EBITDA partially offset by decreased amortization and depreciation expenses as certain assets became fully amortized and depreciated.

Discontinued Operations

The Company is exploring strategic options for the Workplace Learning division, excluding IMN, and is actively pursuing the sale of the division. Its results have been classified as discontinued operations for all periods presented in accordance with SFAS 144.

Education segment revenues exclude revenues from discontinued operations of \$27,345 and \$30,027 for the nine months ended September 30, 2004 and 2003, respectively. Education segment operating results exclude the operating loss from discontinued operations of \$9,810 and \$34,977 for the nine months ended September 30, 2004 and 2003, respectively.

Corporate:

Corporate Overhead

Corporate overhead decreased to \$20,689 in 2004 from \$20,929 in 2003 primarily due to reduced compensation expense resulting from headcount reductions and reduced professional fees, partially offset by fees incurred in connection with the Company's year-end assessment of its internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Operating Income (Loss)

Corporate operating loss decreased \$1,720 in 2004 to \$32,449 from \$34,169 in 2003 principally driven by a decrease in severance related to the separated senior executives of \$4,918 to \$658 in 2004 as a result of the finalization of the separation agreements of two of the executives compared to \$5,576 recorded in 2003. This was partially offset by an increase in the provision for severance, closures and restructuring related costs of \$3,405 to \$3,981 in 2004 and an increase in stock-based compensation expense in 2004 to \$4,830 compared to \$2,793 in 2003.

Risk Factors

Edgar Filing: PRIMEDIA INC - Form 10-Q

Set forth below are risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Quarterly Report.

General economic trends, as well as trends in advertising spending, may reduce our advertising revenues.

Our advertising revenues are subject to the risks arising from adverse changes in domestic and global economic conditions and possible shifting of advertising spending amongst media. A decline in the level of business activity of certain of our advertisers has had an adverse effect on our revenues and profit margins. Additionally, high apartment vacancy rates have pressured the advertising budgets of property owners, constraining growth in one of our segments. Because of economic conditions in the United States, many advertisers, particularly business-to-business advertisers, have reduced advertising expenditures. Any further adverse impact of economic conditions and high vacancy rates on the Company is difficult to predict, but it may result in further reductions in advertising revenue. Additionally, if geopolitical events negatively impact the economy or advertising spending patterns

change, our results of operations may be adversely affected. The Company believes that the targeted nature of its products together with its diversification of advertising vehicles, including print, on-line, events and television, would minimize the effects of shifting advertising spending.

We have substantial indebtedness and other financial obligations, which consume a substantial portion of the cash flow that we generate.

A substantial portion of our cash flow is dedicated to the payment of interest on indebtedness and on shares subject to mandatory redemption which reduces funds available for capital expenditures and business opportunities and may limit our ability to respond to adverse developments in our business or in the economy.

Our debt instruments limit our business flexibility by imposing operating and financial restrictions on our operations.

The agreements and indentures governing our indebtedness impose specific operating and financial restrictions on us. These restrictions impose limitations on our ability to, among other things:

- change the nature of our business;
- incur additional indebtedness;
- create liens on our assets;
- sell assets;
- issue stock;
- engage in mergers, consolidations or transactions with our affiliates;
- make investments in or loans to specific subsidiaries;
- make guarantees or specific restricted payments; and
- declare or make dividend payments on our common or preferred stock.

Failure to comply with the terms and covenants in our indebtedness could lead to a default under the terms of those documents, which would entitle the lenders to accelerate the indebtedness and declare all amounts owed due and payable. Moreover, the instruments governing almost all of our indebtedness contain cross-default provisions so that a default under any of our indebtedness may result in a default under our other indebtedness. If a cross-default occurs, the maturity of almost all of our indebtedness could be accelerated and become immediately due and payable. If that were to happen, we would not be able to satisfy our debt obligations, which would have a material adverse effect on our ability to continue as a going concern. We may not be able to comply with these restrictions in the future, or in order to comply with these restrictions we may have to forgo opportunities that might otherwise be beneficial to us.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Under the terms of our debt instruments, we have the ability to make significant additional investments in our unrestricted subsidiaries.

Kohlberg Kravis Roberts & Co. L.P., or KKR, has control of our common stock and has the power to elect all the members of our board of directors and to approve any action requiring stockholder approval.

As of September 30, 2004, approximately 60% of the shares of our common stock were held by investment partnerships, of which KKR Associates, L.P., a New York limited partnership (KKR Associates), and KKR GP 1996 LLC, a Delaware limited liability company (KKR GP 1996), each an affiliate of KKR, are the general partners. KKR Associates and KKR GP 1996 have sole voting and investment power with respect to these shares. Consequently, KKR Associates and KKR GP 1996 and their respective general partners and members, three of whom are also our directors, control us and have the power to elect all of our directors and approve any action requiring stockholder approval, including adopting amendments to our certificate of incorporation and approving

mergers or sales of all or substantially all of our assets. KKR Associates and KKR GP 1996 will also be able to prevent or cause a change of control at any time.

Section 404 (evaluation of internal controls) requirements of Sarbanes-Oxley Act of 2002.

The Company believes that it already has effective controls in place. PRIMEDIA continues to work diligently to meet the year-end deadline for Section 404 of the Sarbanes-Oxley Act of 2002 and intends to be in compliance as of December 31, 2004. However, the Section 404 compliance process is new for everyone and there remains a significant amount of work that needs to be accomplished by both the Company and its audit firm to meet the deadline.

Increases in paper and postage costs may have an adverse impact on our future financial results.

The price of paper is a significant expense relating to our print products and direct mail solicitations. The first paper price increases across all paper grades in four years became effective in 2004. Postage for product distribution and direct mail solicitations is also a significant expense. We use the U.S. Postal Service for distribution of many of our products and marketing materials. In April 2003, President Bush signed legislation that will hold postal rates stable until at least 2006. Paper and postage cost increases may have an adverse effect on our future results. We may not be able to pass these cost increases through to our customers.

Incompatible financial systems limit the Company's ability to operate efficiently.

PRIMEDIA is the result of numerous acquisitions since its inception in 1989. Many of the companies acquired had financial systems which were incompatible. Incompatible financial systems across PRIMEDIA had negatively impacted the Company's ability to more efficiently analyze data and respond to business opportunities on a timely basis. Despite the economic slowdown, the Company has been engaged in upgrading its key financial systems, which are designed to make the financial reporting and analysis functions more efficient. To address management's concerns regarding the lack of compatible financial systems across the Company and the demands surrounding increased financial disclosure, the Company has installed an integrated enterprise-wide general ledger system across all business units. Despite the difficult economic environment, the Company spent approximately \$15,000 on the systems upgrade, of which approximately \$10,000 and \$5,000 was spent during 2003 and 2002, respectively. The Company is also implementing a new integrated billing/accounts receivable system across its consumer magazine units which is scheduled for completion in the first half of 2005 at a cost of approximately \$5,000. The Company recognizes that there are inherent risks in a system implementation and has taken reasonable steps to mitigate these risks.

We depend on some important employees, and the loss of any of those employees may harm our business.

Our performance is substantially dependent on the performance of our executive officers and other key employees. In addition, our success is dependent on our ability to attract, train, retain and motivate high quality personnel, especially for our management team. The loss of the services of any of our executive officers or key employees may harm our business.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The past decline in revenues had necessitated cost cuts including the reduction of certain personnel at the Company. Such workforce reductions may impact the ability of remaining personnel to perform their assigned responsibilities in an efficient manner, primarily due to the increased volume of work being generated in the financial area and to the continuing process of converting certain of our financial systems. The Company believes that it has in place the necessary financial workforce to analyze data and has put in place additional resources during the period prior to the completion of the financial systems upgrade to improve the efficiency of financial analysis and mitigate the risk of employee turnover.

The Company's management also is concerned about the intense competition in this economy for the hiring and retention of qualified financial personnel, the inherent risk in certain system implementations across the Company and the demands surrounding increased financial disclosure. To mitigate management's concerns regarding the hiring and retention of qualified financial personnel and to ensure future stability in the financial workforce, the Company continues to upgrade the skill level of its back office financial personnel, consolidate certain back office functions and cross train individuals in the performance of multiple job functions. Additionally, the Company continues to aggressively recruit qualified professionals to strengthen and increase its financial personnel. The Company believes that it is currently close to being fully staffed in the finance area.

Liquidity, Capital and Other Resources

As of September 30, 2004, the Company had cash and unused credit facilities of \$333,544, as further detailed below under Financing Arrangements, compared to \$319,125 as of December 31, 2003. On July 7, 2004, the Company redeemed all of its Series J Convertible Preferred Stock. The Company has also implemented and continues to implement various cost-cutting programs and cash conservation plans, which involve the limitation of capital expenditures and the control of working capital. These plans should help mitigate any future possible cash flow shortfalls.

The Company believes its liquidity, capital resources and cash flow from operations are sufficient to fund planned capital expenditures, working capital requirements, interest and principal payments on its debt and shares subject to mandatory redemption and other anticipated expenditures for the next twelve months. The Company has no significant required debt repayments until 2008.

Working Capital

Consolidated working capital reflects certain industry working capital practices and accounting principles, including the recording of deferred revenue from subscriptions as a current liability as well as the expensing of certain advertising, editorial and product development costs as incurred. Consolidated working capital deficiency, which includes current maturities of long-term debt, was \$202,912 at September 30, 2004 compared to \$216,376 at December 31, 2003.

Cash Flow 2004 Compared to 2003

Net cash provided by operating activities decreased \$7,639 to \$36,332 from \$43,971 for the nine months ended September 30, 2004 and 2003, respectively. This change is primarily due to payments made in 2004 related to the finalization of the separation agreements of the former CEO and the former President and Interim CEO as well as interest related to shares subject to mandatory redemption paid in 2004 as a result of the Company's adoption of SFAS 150, effective July 1, 2003. Payments on these shares prior to the adoption of SFAS 150 were classified as preferred stock dividends and are presented as part of cash flows used in financing activities in 2003.

Net cash provided by investing activities decreased \$83,495 to \$62,818 from \$146,313 for the nine months ended September 30, 2004 and 2003, respectively. Proceeds from the sale of businesses were \$70,277 in 2004 compared to \$183,741 in 2003. Net capital expenditures decreased to \$23,500 in 2004, compared to \$26,523 in 2003. The Company expects capital spending in 2004 to remain consistent with 2003.

Net cash used in financing activities was \$87,802 in 2004 compared to \$190,456 in 2003 predominantly due to proceeds from the issuance of \$175,000 Senior Floating Rate Notes and a new \$100,000 term loan C credit facility offset by voluntary permanent reductions of term loans A and B of \$150,000 and the pay down of all outstanding borrowings under the revolving credit facility in 2004. In addition, in July 2004 the Company redeemed all of its outstanding Series J Convertible Preferred Stock for approximately \$178,000, using cash on hand of approximately \$33,000 and \$145,000 of advances under its revolving credit facility (See further discussion below in Other Arrangements). In 2003, proceeds from the sale of businesses and the issuance of 8% Senior Notes were used to pay down borrowings under the Company's credit facilities and redeem the Company's remaining 8²% Senior Notes. (See further discussion below in Financing Arrangements).

Financing Arrangements*Bank Credit Facilities*

On April 29, 2004, the Company amended its credit facilities agreement with various financial institutions 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). The debt under the bank credit facilities agreement, including term loan C, and as otherwise permitted under the bank credit facilities agreement and the indebtedness relating to the 7 5/8% Senior Notes, 8 7/8% Senior Notes, 8% Senior Notes and Senior Floating Rate Notes of the Company (together referred to as Senior Notes) 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 indirectly all shares of PRIMEDIA subsidiaries that guarantee such debt.

On May 14, 2004, the Company issued \$175,000 principal amount of Senior Floating Rate Notes Due 2010, 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 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, which was completed on July 7, 2004.

Substantially all proceeds from sales of businesses and other investments were used to pay down borrowings under the bank credit facilities agreement. Amounts under the revolving loan commitment may be reborrowed and used for general corporate and working capital purposes as well as to finance certain future acquisitions. The Company made voluntary pre-payments towards the term loans A and B and voluntary permanent reductions of the revolving loan commitment consisting of the following for the nine months ended September 30, 2004 and 2003:

| | Nine Months Ended September 30, 2004 | Nine Months Ended September 30, 2003 |
|---------------------------------------|---|---|
| Term A (cash pre-payment) | \$ 30,000 | \$ 5,000 |
| Term B (cash pre-payment) | 120,000 | 21,000 |
| Revolving loan (commitment reduction) | 21,350 | 24,000 |
| Total | \$ 171,350 | \$ 50,000 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

The bank credit facilities consisted of the following as of September 30, 2004:

| | Revolver | Term A | Term B | Term C | Total |
|-------------------------|-----------------|---------------|---------------|---------------|--------------|
| Bank Credit Facilities | \$ 405,650 | \$ 60,000 | \$ 252,906 | \$ 100,000 | \$ 818,556 |
| Borrowings | | | | | |
| Outstanding | (72,000) | (60,000) | (252,906) | (100,000) | (484,906) |
| Letters of Credit | | | | | |
| Outstanding | (20,139) | | | | (20,139) |
| Unused Bank Commitments | \$ 313,511 | \$ | \$ | \$ | \$ 313,511 |

With the exception of the term loan B and 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.

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 bank credit facilities agreement, on the daily average aggregate unutilized commitment under the revolving loan commitment. During the first and second quarters of 2004, the Company's commitment fees were paid at a weighted average rate of 0.375% and during the third quarter of 2004, 0.432%. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee. From time to time the Company may pay amendment fees under its bank credit facilities.

The commitments under the revolving loan portion of the bank credit facilities are subject to mandatory reductions semi-annually on June 30 and December 31, commencing June 30, 2005, with the final reduction on June 30, 2008. The aggregate mandatory reductions of the revolving loan commitments under the bank credit facilities are \$42,700 in 2005, \$64,050 in 2006, \$128,100 in 2007 and a final reduction of \$170,800 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. Remaining aggregate term loan payments under the bank credit facilities are \$500 in 2004, \$20,764 in 2005, 2006 and 2007, \$12,192 in 2008 and \$337,922 in 2009.

The bank credit facilities agreement, among other things, limits 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.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The bank credit facilities and Senior Notes agreements 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 agreement, these events include:

failure to maintain required covenant ratios, as described below;

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.

Contractual Obligations

There are no required significant debt repayments until 2008. The following are certain contractual obligations of the Company as of September 30, 2004:

| Contractual Obligations | Total | Less than 1 year | Payments Due by Period | | After 5 years |
|--|--------------|---------------------|------------------------|------------|------------------|
| | | | 1-3 years | 4-5 years | |
| Long-term debt obligations (net of unamortized discount) | \$ 1,655,696 | \$ 10,881 | \$ 41,528 | \$ 563,090 | \$ 1,040,197 |
| Interest on long-term debt obligations(1) | 761,050 | 120,977 | 255,141 | 215,941 | 168,991 |
| Shares subject to mandatory redemption (Exchangeable Preferred Stock) | 474,559 | | | 167,487 | 307,072 |
| Interest on shares subject to mandatory redemption (Exchangeable Preferred Stock)(1) | 200,857 | 43,782 | 87,564 | 59,649 | 9,862 |
| Capital lease obligations | 25,143 | 5,341 | 6,248 | 4,003 | 9,551 |
| Interest on capital lease obligations | 7,264 | 1,649 | 2,370 | 1,688 | 1,557 |
| Operating lease obligations | 256,162 | 48,478 | 80,019 | 48,966 | 78,699 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | | | | | | | |
|-------------------------------|----|-----------|----|---------|----|---------|----|-----------|----|-----------|
| Total Contractual Obligations | \$ | 3,380,731 | \$ | 231,108 | \$ | 472,870 | \$ | 1,060,824 | \$ | 1,615,929 |
|-------------------------------|----|-----------|----|---------|----|---------|----|-----------|----|-----------|

(1) Interest payments are based on the Company's projected interest rates and estimated principal amounts outstanding for the periods presented.

The Company had \$72,000 of borrowings outstanding at September 30, 2004 under the revolving loan portion of the bank credit facilities, which expires in 2008. Assuming this balance remains constant until the end of the term, and application of the Company's projected interest rates, total interest payments related to the revolver under our bank credit facilities are estimated to be \$16,227 for the periods presented in the above table. These interest payments are not included in the above table.

The Company has other commitments in the form of letters of credit of \$20,139 aggregate face value which expire on or before September 30, 2005.

Off Balance Sheet Arrangements

The Company has no variable interest (otherwise known as special purpose) entities or off balance sheet debt, other than as related to operating leases in the ordinary course of business as disclosed above.

Covenant Compliance

As defined in the amended bank credit facilities agreement, the maximum allowable debt leverage ratio was amended to 6.25 to 1 through September 30, 2005. The maximum debt leverage ratio 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.

The Company is herewith providing detailed information and disclosure as to the methodology used in determining compliance with the leverage ratio in the bank credit facilities agreement. Under its bank credit facilities 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. Except for those specifically designated by the Company as unrestricted, all businesses of the Company are restricted (the Restricted Group). Indebtedness under the bank credit facilities and Senior Note agreements is guaranteed by each of the Company's domestic subsidiaries in the Restricted Group in accordance with the provisions and limitations of the Company's bank credit facilities 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. For purposes of determining compliance with certain financial covenants under the Company's bank credit facilities agreement, the Unrestricted Group's results (positive or negative) are not reflected in the Consolidated EBITDA of the Restricted Group which, as defined in the bank credit facilities agreement, excludes losses of the Unrestricted Group, non-cash charges and restructuring charges and is adjusted primarily for the trailing four quarters results of acquisitions and divestitures and estimated savings for acquired businesses.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The following represents a reconciliation of EBITDA of the Restricted Group for purposes of the leverage ratio as defined in the bank credit facilities agreement to operating income for the three and twelve months ended September 30, 2004:

| | For the Three Months Ended September 30, 2004 | For the Twelve Months Ended September 30, 2004 |
|---|--|---|
| EBITDA of the Restricted Group | \$ 67,617 | \$ 303,796 |
| EBITDA loss of the Unrestricted Group | (9,381) | (49,378) |
| Divestiture and other adjustments | 1,733 | 6,572 |
| Depreciation of property and equipment | (8,819) | (38,888) |
| Amortization of intangible assets and other | (4,452) | (38,810) |
| Severance related to separated senior executives | | (4,454) |
| Non-cash compensation | (1,344) | (13,221) |
| Provision for severance, closures and restructuring related costs | (1,926) | (13,473) |
| Provision for unclaimed property | | (5,500) |
| Income on the sales of businesses and other, net | 293 | 277 |
| Operating income | \$ 43,721 | \$ 146,921 |

The EBITDA loss of the Unrestricted Group, as defined in the bank credit facilities agreement, is comprised of the following categories:

| | For the Three Months Ended September 30, 2004 | For the Twelve Months Ended September 30, 2004 |
|--|--|---|
| Internet properties | \$ 1,528 | \$ 14,622 |
| Traditional turnaround and start-up properties | 6,386 | 28,402 |
| Related overhead and other charges | 1,467 | 6,354 |
| | \$ 9,381 | \$ 49,378 |

The Company has established intercompany arrangements that reflect transactions, such as leasing, licensing, sales and related services and cross-promotion, between Company businesses in the Restricted Group and the Unrestricted Group which management believes are on an arms length basis and as permitted by the bank credit facilities and Senior Note agreements. These intercompany arrangements afford strategic benefits across the Company's properties and, in particular, enable the Unrestricted Group to utilize established brands and content, promote brand awareness and increase traffic and revenue to the properties of the Unrestricted Group. For company-wide consolidated financial reporting, these intercompany transactions are eliminated in consolidation.

The calculation of the Company's leverage ratio, as required under the bank credit facilities agreement for covenant purposes, is defined as the Company's consolidated debt divided by the EBITDA of the Restricted Group. At September 30, 2004, this leverage ratio was approximately 5.6 to 1.0.

Other Arrangements

During 2002, the Company's Board of Directors authorized the exchange of up to \$165,000 of the Company's Exchangeable Preferred Stock for common stock. As of September 30, 2004, the Company has exchanged \$75,441 liquidation value of Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock (carrying value of \$73,874) for 14,360,306 shares of common stock of the Company.

In addition, the Company's Board of Directors authorized the exchange by the Company of up to \$50,000 of Exchangeable Preferred Stock for common stock and the subsequent repurchase of the common stock issued in connection with the exchange transactions. As of September 30, 2004, the Company has exchanged \$25,000 liquidation value of Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock (carrying value of \$24,597) for 8,733,842 shares of common stock of the Company and subsequently repurchased all of the common stock issued in connection with such exchanges.

The Series J Convertible Preferred Stock was convertible at the option of the holder after one year from the date of issuance, into approximately 25,100,000 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 accrued quarterly at an annual rate of 12.5% and were payable quarterly in-kind. 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.

On May 14, 2004 the Company issued \$175,000 of Senior Floating Rate Notes due 2010 and entered into a new \$100,000 term loan C credit facility with a maturity date of December 31, 2009. The Company used the proceeds from these transactions to make voluntary pre-payments to the term loans A and B with the remainder used to temporarily pay down all outstanding advances under its revolving credit facility.

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.

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.

Critical Accounting Policies and Estimates

During the first nine months of 2004, there were no significant changes related to the Company's critical accounting policies and estimates as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2003.

Recent Accounting Pronouncements

In 2003, the Company adopted an accounting change, as required by the Financial Accounting Standards Board that impacts year-over-year comparisons of financial results. This change is summarized below:

SFAS 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

Effective July 1, 2003, the Company prospectively adopted SFAS 150. SFAS 150 requires the Company to classify as long-term liabilities its Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock and to reclassify dividends from this preferred stock as interest expense. As a result of the adoption by the Company of SFAS 150, the Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H 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 are now described as interest on shares subject to mandatory redemption and included in income from continuing operations for the three and nine months ended September 30, 2004, whereas previously they were presented below net income (loss) as preferred stock dividends. 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.

Impact of Inflation and Other Costs

The impact of inflation was immaterial during 2003 and through the first nine months of 2004. Postage for product distribution and direct mail solicitations is a significant expense of the Company. The Company uses the U.S. Postal Service for distribution of many of its products and marketing materials. There were no increases in postage rates in 2003 or in the first nine months of 2004. In April 2003, President Bush signed legislation that will hold postal rates stable until at least 2006. In the past, the effects of inflation on operating expenses have substantially been offset by PRIMEDIA's ability to increase selling prices. No assurances can be given that the Company can pass such cost increases through to its customers in the future. In addition to pricing actions, the Company is continuing to examine all aspects of the manufacturing and purchasing processes to identify ways to offset some of these price increases. In the first nine months of 2004, paper costs were approximately 7% of the Company's total operating costs and expenses. The Company's paper expense increased approximately 3% during the first nine months of 2004 as compared to the same period in 2003. The Company attributes the increase in paper expenses primarily to higher volume usage as a result of product upgrades and increased folio sizes.

Seasonality

The Company's operations are seasonal in nature. Operating results have historically been stronger in the second half of the year with generally strongest results generated in the fourth quarter of the year. The seasonality of the Company's business reflects (i) the relationship between advertising purchases and the retail and academic cycles and (ii) subscription promotions and the holiday season. This seasonality causes, and will likely continue to cause, a variation in the Company's quarterly operating results. Such variations have an effect on the timing of the Company's cash flows and the reported quarterly results.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the first nine months of 2004, there were no significant changes related to the Company's market risk exposure.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended.

Internal Control Over Financial Reporting

During the nine month period ended September 30, 2004, there have not been any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. EXHIBITS

- (a) Exhibits
 - 3.1 Certificate of Incorporation of The Virtual Flyshop, Inc. (1)
 - 3.2 By-laws of The Virtual Flyshop, Inc. (1)
 - 3.3 Third Amended and Restated Certificate of Incorporation of About, Inc. (1)
 - 3.4 Second Amended and Restated By-laws of About, Inc. (1)
 - 4.1 Form of Senior Floating Rate Note due 2010(2)
 - 4.2 Senior Floating Rate Note Indenture (including form of note and form of guarantee)(2)
 - 4.3 Registration Rights Agreement dated as of May 14, 2004, among PRIMEDIA Inc., certain of its subsidiaries and Banc of America Securities LLC, Citigroup Global Markets Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc., BNY Capital Market, Inc. and Scotia Capital (USA) Inc., as representatives of the initial purchasers(2)
 - 10.1 Second Amendment, dated as of April 29, 2004, with JPMorgan Chase Bank (f/k/a The Chase Manhattan Bank), as administrative agent, Bank of America N.A., as syndication agent, and The Bank of New York and The Bank of Nova Scotia, as co-documentation agents(2)
 - 10.2.1 Credit Agreement, dated as of May 14, 2004, with Bank of America N.A., as syndication agent, Citicorp North America, Inc., as co-syndication agent and JPMorgan Chase Bank as administrative agent(2)
 - 31.1 Certification by Kelly P. Conlin Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
 - 31.2 Certification by Matthew A. Flynn Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
 - 31.3 Certification by Robert J. Sforzo Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
 - 32.1 Certification by Kelly P. Conlin Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)
 - 32.2 Certification by Matthew A. Flynn Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)
 - 32.3 Certification by Robert J. Sforzo Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)

(1) Incorporated by reference to PRIMEDIA Inc.'s Registration Statement Form S-4 Registration No 333-113742)

Edgar Filing: PRIMEDIA INC - Form 10-Q

(2) Incorporated by reference to PRIMEDIA Inc. s Registration Statement Form S-4 Registration No 333-120138)

(*) Filed herewith.

SIGNATURES

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

PRIMEDIA Inc.
(Registrant)

Date: November 9, 2004

/s/ Kelly P. Conlin
(Signature)
Chief Executive Officer and President
(Principal Executive Officer)

Date: November 9, 2004

/s/ Matthew A. Flynn
(Signature)
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

Date: November 9, 2004

/s/ Robert J. Sforzo
(Signature)
Senior Vice President, Chief Accounting Officer and Controller
(Principal Accounting Officer)