PRIMEDIA INC
Form 10-Q
August 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: **June 30, 2004**

Commission file number: 1-11106

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

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

745 Fifth Avenue, New York, New York

(Address of principal executive offices)

10151

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No o

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

Yes ý No o

Number of shares of common stock, par value $.01 per share, of PRIMEDIA Inc. outstanding as of July 30, 2004: 260,481,340.

PRIMEDIA Inc.

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Part I. Financial Information:

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PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (Unaudited)	December 31, 2003
	(dollars in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 66,558	$ 8,685
Accounts receivable, net	180,944	194,080
Inventories	19,095	17,500
Prepaid expenses and other	40,942	36,059
Assets held for sale	379	31,879
Total current assets	307,918	288,203
Property and equipment (net of accumulated depreciation and amortization of $301,352 in 2004 and $280,612 in 2003)	98,448	110,859
Other intangible assets, net	258,389	268,407
Goodwill	903,178	910,534
Other non-current assets	60,384	58,118
Total Assets	$ 1,628,317	$ 1,636,121
LIABILITIES AND SHAREHOLDERS DEFICIENCY		
Current liabilities:		
Accounts payable	$ 75,293	$ 78,794
Accrued expenses and other	181,144	213,934
Deferred revenues	151,336	157,853
Current maturities of long-term debt	16,683	22,195
Liabilities of businesses held for sale	1,297	16,049
Total current liabilities	425,753	488,825
Long-term debt	1,592,292	1,562,441
Shares subject to mandatory redemption	474,559	474,559
Deferred revenues	35,446	33,604
Deferred income taxes	69,970	61,364
Other non-current liabilities	25,837	28,583
Total Liabilities	2,623,857	2,649,376
Shareholders deficiency:		
Series J convertible preferred stock ($.01 par value, 1,406,722 shares and 1,319,093 shares issued and outstanding, aggregate liquidation and redemption values of $175,841 and $164,887 at June 30, 2004 and December 31, 2003, respectively)	175,487	164,533
Common stock ($.01 par value, 350,000,000 shares authorized at June 30, 2004 and December 31, 2003 and 269,032,592 shares and 268,333,049 shares issued at June 30, 2004 and December 31, 2003, respectively)	2,690	2,683
Additional paid-in capital (including warrants of $31,690 at June 30, 2004 and December 31, 2003)	2,349,476	2,345,152
Accumulated deficit	(3,445,439)	(3,447,710)
Accumulated other comprehensive loss	(192)	(176)
Unearned compensation		(175)

Common stock in treasury, at cost (8,610,491 shares at June 30, 2004 and December 31, 2003)		(77,562)		(77,562)
Total Shareholders Deficiency		(995,540)		(1,013,255)
Total Liabilities and Shareholders Deficiency	$	1,628,317	$	1,636,121

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(dollars in thousands, except per share amounts)	
Revenues, net:		
Advertising	$ 418,025	$ 414,915
Circulation	150,792	155,081
Other	98,545	94,782
Total revenues, net	667,362	664,778
Operating costs and expenses:		
Cost of goods sold	141,668	147,758
Marketing and selling	141,562	142,003
Distribution, circulation and fulfillment	115,566	113,841
Editorial	53,853	53,152
Other general expenses	87,824	84,705
Corporate administrative expenses (excluding $3,486 and $2,023 of non-cash compensation in 2004 and 2003, respectively)	13,363	14,053
Depreciation of property and equipment	21,902	26,459
Amortization of intangible assets and other	10,783	20,605
Severance related to separated senior executives	658	5,576
Non-cash compensation	3,486	2,023
Provision for severance, closures and restructuring related costs	7,174	3,150
Provision for unclaimed property	5,500	
(Gain) loss on sale of businesses and other, net	(23)	1,338
Operating income	64,046	50,115
Other income (expense):		
Provision for impairment of investments	(804)	(7,727)
Interest expense	(58,742)	(65,203)
Interest on shares subject to mandatory redemption	(21,890)	
Amortization of deferred financing costs	(2,319)	(1,244)
Other income (expense), net	109	(3,819)
Loss from continuing operations before income tax expense	(19,600)	(27,878)
Income tax expense	(8,724)	(7,051)
Loss from continuing operations	(28,324)	(34,929)
Discontinued operations (including gain on sale of businesses of $42,226 and $102,605 in 2004 and 2003, respectively)	41,549	103,586
Net income	13,225	68,657
Preferred stock dividends and related accretion, net	(10,954)	(32,011)
Income applicable to common shareholders	$ 2,271	$ 36,646
Per common share:		
Loss from continuing operations	$ (0.15)	$ (0.26)
Discontinued operations	0.16	0.40

Basic and diluted income applicable to common shareholders	$	0.01	$	0.14
Basic and diluted common shares outstanding		260,100,874		258,945,403

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
	(dollars in thousands, except per share amounts)	
Revenues, net:		
Advertising	$ 213,696	$ 211,462
Circulation	76,989	77,779
Other	51,491	50,050
Total revenues, net	342,176	339,291
Operating costs and expenses:		
Cost of goods sold	74,209	75,910
Marketing and selling	66,203	66,358
Distribution, circulation and fulfillment	59,372	55,984
Editorial	26,785	26,473
Other general expenses	42,707	41,680
Corporate administrative expenses (excluding $1,567 and $777 of non-cash compensation in 2004 and 2003, respectively)	5,906	6,672
Depreciation of property and equipment	10,181	14,359
Amortization of intangible assets and other	4,817	9,920
Severance related to separated senior executives		5,576
Non-cash compensation	1,567	777
Provision for severance, closures and restructuring related costs	4,455	1,988
Loss on sale of businesses and other, net	52	1,212
Operating income	45,922	32,382
Other expense:		
Provision for impairment of investments	(804)	(7,727)
Interest expense	(30,164)	(31,750)
Interest on shares subject to mandatory redemption	(10,945)	
Amortization of deferred financing costs	(1,217)	(503)
Other expense, net	(179)	(3,275)
Income (loss) from continuing operations before income tax expense	2,613	(10,873)
Income tax expense	(4,357)	(3,333)
Loss from continuing operations	(1,744)	(14,206)
Discontinued operations (including gain on sale of businesses of $4,192 and $103,846 in 2004 and 2003, respectively)	3,898	103,110
Net income	2,154	88,904
Preferred stock dividends and related accretion, net	(5,801)	(15,578)
Income (loss) applicable to common shareholders	$ (3,647)	$ 73,326
Per common share:		
Loss from continuing operations	$ (0.03)	$ (0.12)
Discontinued operations	0.02	0.40
Basic and diluted income (loss) applicable to common shareholders	$ (0.01)	$ 0.28

Basic and diluted common shares outstanding	260,307,340	259,003,962

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
	(dollars in thousands)	
Operating activities:		
Net income	$ 13,225	$ 68,657
Adjustments to reconcile net income to net cash used in operating activities	7,197	(23,304)
Changes in operating assets and liabilities	(37,381)	(47,073)
Net cash used in operating activities	(16,959)	(1,720)
Investing activities:		
Additions to property, equipment and other, net	(13,574)	(21,166)
Proceeds from sale of businesses and other	70,277	182,922
Payments for businesses acquired, net of cash acquired	(1,270)	(4,796)
Proceeds from other investments, net	674	1,008
Net cash provided by investing activities	56,107	157,968
Financing activities:		
Borrowings under credit agreements	231,500	288,400
Repayments of borrowings under credit agreements	(378,500)	(314,312)
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	701	569
Purchases of common stock for the treasury		(19,367)
Dividends paid to preferred stock shareholders		(22,921)
Deferred financing costs paid	(5,559)	(5,977)
Capital lease obligations	(4,278)	(1,788)
Other	(139)	(155)
Net cash provided by (used in) financing activities	18,725	(151,226)
Increase in cash and cash equivalents	57,873	5,022
Cash and cash equivalents, beginning of period	8,685	18,553
Cash and cash equivalents, end of period	$ 66,558	$ 23,575
Supplemental information:		
Cash interest paid	$ 55,194	$ 69,336
Cash interest paid on shares subject to mandatory redemption	$ 26,455	$
Cash taxes paid, net of refunds	$ 102	$ 99
Accretion in carrying value of exchangeable and convertible preferred stock	$	$ 781
Payments of dividends-in-kind on Series J Convertible Preferred Stock	$ 10,954	$ 9,254
Carrying value of exchangeable preferred stock converted to common stock	$	$ 16,066
Fair value of common stock issued in connection with conversion of exchangeable preferred stock	$	$ 15,122

See notes to condensed consolidated financial statements (unaudited).

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PRIMEDIA Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(dollars in thousands, except per share amounts)

1. Summary of Significant Accounting Policies

Basis of Presentation

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either PRIMEDIA or the Company. In the opinion of the Company s management, the condensed consolidated financial statements present fairly the consolidated financial position of the Company as of June 30, 2004 and December 31, 2003 and the consolidated results of operations of the Company for the six and three months ended June 30, 2004 and 2003, and consolidated cash flows of the Company for the six month periods ended June 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. The operating results for the six and three month periods ended June 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 six and three month periods ended June 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 increased the loss from continuing operations for the six and three months ended June 30, 2004 by $1,368 and $778, respectively. The impact of the adoption of SFAS 123 was not significant for the six and three months ended June 30, 2003.

The following table illustrates the effect on net income (loss) applicable to common shareholders and 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:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Reported net income (loss) applicable to common shareholders	$ 2,271	$ 36,646	$ (3,647)	$ 73,326
Add: Stock-based employee compensation expense included in reported net income (loss)	1,543	1,313	778	472
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(6,438)	(13,573)	(3,277)	(7,004)
Pro forma net income (loss) applicable to common shareholders	$ (2,624)	$ 24,386	$ (6,146)	$ 66,794
Per Common Share:				
Reported basic and diluted income (loss)	$ 0.01	$ 0.14	$ (0.01)	$ 0.28
Pro forma basic and diluted income (loss)	$ (0.01)	$ 0.09	$ (0.02)	$ 0.26

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. The following weighted-average assumptions were used for options granted in the six months ended June 30, 2004 and 2003, respectively: risk-free interest rates of 2.81% and 3.85%; dividend yields of 0.0% and 0.0%; volatility factors of the expected market price of the Company s common stock of 85% and 79%, and a weighted-average expected life of the options of three and five years. For the three months ended June 30, 2004 and 2003, respectively, the following weighted-average assumptions were used: risk-free interest rates of 2.83 % and 3.82%; dividend yields of 0.0% and 0.0%; volatility factors of the expected market price of the Company s common stock of 85% 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 six months ended June 30, 2004 and 2003 was $318 and $18, respectively, and $310 and $8 during the three months ended June 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

On July 1, 2003, the Company prospectively adopted SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity .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 (collectively the Exchangeable Preferred Stock) and to classify dividends from this Exchangeable Preferred Stock as interest expense.

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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 June 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 loss from continuing operations for the six and three months ended June 30, 2004, whereas previously they were presented below net income (loss) as preferred stock dividends. The adoption of SFAS 150 increased the loss from continuing operations for the six and three months ended June 30, 2004 by $22,562 and $11,281, 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. If SFAS 150 was adopted on January 1, 2003, loss from continuing operations for the six and three months ended June 30, 2003 would have increased by $22,670 and $10,794, respectively. This adoption did not have an impact on income (loss) applicable to common shareholders or income (loss) per common share for any of the periods presented on the accompanying condensed statements of consolidated operations.

2. 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 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, the Company is evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties in the Business Information segment. The operating results of these businesses 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 June 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 $6,718 and $86,815 for the six months ended June 30, 2004 and 2003, respectively, and $1,762 and $36,501 for the three months ended June 30, 2004 and 2003, respectively.

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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 June 30, 2004 and December 31, 2003 have been reclassified to held for sale on the accompanying condensed consolidated balance sheets as follows:

	June 30, 2004	December 31, 2003
ASSETS		
Accounts receivable, net	$ 365	$ 8,010
Inventories		391
Prepaid expenses and other	14	907
Property and equipment, net		297
Other intangible assets, net		14,056
Goodwill		6,747
Other non-current assets		1,471
Assets held for sale	$ 379	$ 31,879
LIABILITIES		
Accounts payable	$	$ 3,115
Accrued expenses and other		11,791
Deferred revenues-current	847	1,110
Deferred revenues-non current	450	
Other non-current liabilities		33
Liabilities of businesses held for sale	$ 1,297	$ 16,049

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

3. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	June 30, 2004	December 31, 2003
Accounts receivable	$ 196,336	$ 212,144
Less: Allowance for doubtful accounts	11,709	10,798
Allowance for returns and rebates	3,683	7,266
	$ 180,944	$ 194,080

4. Inventories

Inventories consisted of the following:

	June 30, 2004	December 31, 2003
Finished goods	$ 9,382	$ 8,008
Work in process		230
Raw materials	9,713	9,262
	$ 19,095	$ 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 six months ended June 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 $8,606 and $6,650 for the six months ended June 30, 2004 and 2003, respectively, and $4,317 and $3,325, for the three months ended June 30, 2004 and 2003, respectively, related to the increase in the Company s net deferred tax liability for the tax effect of the net increase in the difference between the book and tax basis of the indefinite-lived intangible assets.

In addition, since amortization of tax-deductible goodwill and trademarks ceased on January 1, 2002, the Company will have deferred tax liabilities that will arise each quarter because the taxable temporary differences related to the amortization of these assets will not reverse prior to the expiration period of the Company s deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. The Company expects that it will record a total of approximately $8,800 to increase deferred tax liabilities during the remaining six months of 2004.

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

	Enthusiast Media	Consumer Guides	Business Information	Education and Training	Total
Balance as of January 1, 2004	$ 695,340	$ 95,808	$ 119,386	$	$ 910,534
Purchase price allocation adjustments per final valuation reports		151			151
Goodwill written off related to the sale of businesses	(6,776)		(731)		(7,507)
Balance as of June 30, 2004	$ 688,564	$ 95,959	$ 118,655	$	$ 903,178

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

		June 30, 2004			December 31, 2003		
	Range of Lives	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	3	$ 20,449	$ 20,449	$	$ 21,013	$ 19,845	$ 1,168
Membership, subscriber and customer lists	2-20	347,325	319,641	27,684	348,346	315,860	32,486
Non-compete agreements	1-10	137,196	135,152	2,044	137,829	134,093	3,736
Trademark license agreements	2-15	2,984	2,908	76	2,984	2,899	85
Copyrights	3-20	20,550	19,800	750	20,550	19,609	941
Databases	2-12	9,353	8,823	530	9,353	8,627	726
Advertiser lists	5-20	135,978	124,770	11,208	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	
		$ 694,049	$ 651,757	$ 42,292	$ 696,267	$ 643,999	$ 52,268

Intangible assets not subject to amortization had a carrying value of $216,097 and $216,139 at June 30, 2004 and December 31, 2003, respectively, and consisted primarily of trademarks. Amortization expense for intangible assets still subject to amortization was $10,006 and $16,712 for the six months ended June 30, 2004 and 2003, respectively, and $4,403 and $7,950 for the three months ended June 30, 2004 and 2003, respectively. Amortization of deferred wiring costs of $777 and $3,893 for the six months ended June 30, 2004 and 2003, respectively, and $414 and $1,970 for the three months ended June 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 June 30, 2004, estimated future amortization expense of intangible assets still subject to amortization, excluding deferred wiring costs, is as follows: approximately $8,000 for the remaining six 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:

		June 30, 2004		December 31, 2003
Borrowings under bank credit facilities	$	412,906	$	559,906
7$^{5}/_{8}$% Senior Notes Due 2008		225,510		225,443
8$^{7}/_{8}$% Senior Notes Due 2011		470,101		469,820
8% Senior Notes Due 2013		300,000		300,000
Senior Floating Rate Notes Due 2010		175,000		
		1,583,517		1,555,169
Obligation under capital leases		25,458		29,467
		1,608,975		1,584,636
Less: Current maturities of long-term debt		16,683		22,195
	$	1,592,292	$	1,562,441

$175,000 Senior Floating Rate Notes Due 2010 and 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 three-month 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 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 provide the ability to redeem the Company s Series J Convertible Preferred Stock (see Subsequent Event Note 17).

Offering and Amendment to the Company s Bank Credit Facilities

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

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

With the exception of the term loan B and the term loan C, the amounts borrowed bear interest, at the Company s option, at either the base rate plus an applicable margin ranging from 0.125% to 1.5% or LIBOR plus an applicable margin ranging from 1.125% to 2.5%. The term loan B bears interest at the base rate plus 1.75% or LIBOR plus 2.75%. The term loan C bears interest at the base rate plus 3.375% or LIBOR plus 4.375%. At June 30, 2004 and December 31, 2003, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 3.8% and 3.6%, respectively.

7. Series J Convertible Preferred Stock

As of June 30, 2004 and December 31, 2003, the Company had $175,487 and $164,533 of Series J Convertible Preferred Stock outstanding, respectively. The Company paid dividends-in-kind of 87,629 and 46,407 shares of Series J Convertible Preferred Stock valued at $10,954 and $5,801 during the six and three months ended June 30, 2004, respectively, and 74,035 and 37,587 shares of Series J Convertible Preferred Stock valued at $9,254 and $4,698 during the six and three months ended June 30, 2003, respectively (see Subsequent Event Note 17).

8. Common Stock and Related Options

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

Range of Exercise Prices	Number Outstanding at 6/30/04	Number Exercisable at 6/30/04	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price of Outstanding Options	Weighted Average Exercise Price of Exercisable Options
$ 0.08 - $ 0.43	68,610	68,610	3	$ 0.29	$ 0.29
$ 1.01 - $ 1.80	5,270	3,395	6	1.44	1.50
$ 1.85 - $ 1.98	1,096,336	610,418	7	1.85	1.85
$ 2.02 - $ 2.99	2,918,949	739,824	5	2.84	2.76
$ 3.09 - $ 3.65	2,082,250	41,125	7	3.09	3.20
$ 4.00 - $ 5.95	7,267,077	5,686,952	6	4.73	4.77
$ 6.00 - $ 9.83	4,337,931	2,874,193	7	6.82	7.05
$ 10.13 - $19.81	9,408,805	9,072,228	5	13.44	13.34
$ 20.00 - $28.94	184,431	180,846	6	26.05	26.15
$ 30.01 - $36.52	13,066	13,066	6	34.04	34.04
Total	27,382,725	19,290,657	6	$ 7.76	$ 9.17

9. Non-Cash Compensation

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Restricted stock (1)	$ 1,943	$ 47	$ 789	$ 47
Stock options (2)	1,368		778	
Amortization of the intrinsic value of unvested in-the-money options issued in connection with the About acquisition (3)	175	766		259
Restricted stock and stock options-About (4)		1,210		471
Total	$ 3,486	$ 2,023	$ 1,567	$ 777

(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 $1,943 and $47 during the six months ended June 30, 2004 and 2003, respectively, and $789 and $47 during the three months ended June 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 $1,368 and $778 for the six and three months ended June 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 six and three months ended June 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 $175 and $766 for the six months ended June 30, 2004 and 2003, respectively, and $259 for the three months ended June 30, 2003. 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 $1,210 and $471 for the six and three months ended June 30, 2003.

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

Senior Executives Severance

The Company recorded $658 and $5,576 during the six months ended June 30, 2004 and 2003, respectively, and $0 and $5,576 during the three months ended June 30, 2004 and 2003, respectively, of severance relating to the finalization of the separation agreements of the former Chief Executive Officer and the former President and Interim Chief Executive Officer.

Provision for Severance, Closures and Restructuring Related Costs

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

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

	Liability as of January 1, 2004	Net Provision for the Six Months Ended June 30, 2004	Payments during the Six Months Ended June 30, 2004	Liability as of June 30, 2004
Severance and closures:				
Employee-related termination costs	$ 2,982	$ 2,021	$ (3,301)	$ 1,702
Termination of contracts	467			467
Termination of leases related to office closures	37,063	5,153	(4,063)	38,153
Total severance and closures	$ 40,512(1)	$ 7,174(2)	$ (7,364)	$ 40,322

	Liability as of January 1, 2003	Net Provision for the Six Months Ended June 30, 2003	Payments during the Six Months Ended June 30, 2003	Liability as of June 30, 2003
Severance and closures:				
Employee-related termination costs	$ 3,733	$ 3,608	$ (3,941)	$ 3,400
Termination of contracts	575		(159)	416
Termination of leases related to office closures	41,366	(458)	(3,353)	37,555
Total severance and closures	$ 45,674(1)	$ 3,150(2)	$ (7,453)	$ 41,371

(1) Reduced for liabilities relating to discontinued operations totaling $3,302 and $3,760 at January 1, 2004 and 2003, respectively.

(2) Adjusted to exclude net provisions related to discontinued operations totaling $9 and $596 for the six months ended June 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. 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 2,033 individuals that they would be terminated under these plans. As of June 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 June 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

Comprehensive income for the six and three months ended June 30, 2004 and 2003 is presented in the following table:

	Six Months Ended June 30,			
		2004		**2003**
Net income	$	13,225	$	68,657
Other comprehensive income (loss):				
Foreign currency translation adjustments		(16)		24
Total comprehensive income	$	13,209	$	68,681

	Three Months Ended June 30,			
		2004		**2003**
Net income	$	2,154	$	88,904
Other comprehensive income (loss):				
Foreign currency translation adjustments		(6)		
Total comprehensive income	$	2,148	$	88,904

13. Income (loss) per Common Share

Income (loss) per common share for the six and three months ended June 30, 2004 and 2003 has been determined based on net income (loss) applicable to common shareholders divided by the weighted average number of common shares outstanding for all periods presented. The effect of the assumed exercise of stock options and warrants and the conversion of convertible preferred stock were not included in the computation of per share amounts because the effect of their inclusion would be antidilutive. If the Company had recognized income from continuing operations for the six months ended June 30, 2004 and 2003, shares attributable to these antidilutive instruments would have increased diluted shares outstanding by approximately 62,400,000 and 57,600,000, 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 and Training.

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 and events, 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,* 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 and Training segment consists of the businesses that provide content to schools, universities, government and other public institutions as well as corporate training initiatives. It includes Channel One, Films Media Group and Workplace Learning.

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 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.

	Six Months Ended June 30, 2004	2003	Three Months Ended June 30, 2004	2003
Revenues, net:				
Enthusiast Media	$ 360,514	$ 355,055	$ 187,955	$ 183,420
Consumer Guides	142,471	137,327	71,084	69,404
Business Information	113,010	114,144	58,208	57,938
Education and Training	52,087	62,226	25,314	30,088
Intersegment Eliminations	(720)	(3,974)	(385)	(1,559)
Total	$ 667,362	$ 664,778	$ 342,176	$ 339,291
Segment EBITDA (1):				
Enthusiast Media	$ 72,263	$ 66,168	$ 42,849	$ 42,306
Consumer Guides	40,154	38,571	20,512	21,002
Business Information	15,312	12,679	10,223	7,966
Education and Training	(729)	5,972	(606)	1,640
Corporate Overhead	(13,474)	(14,124)	(5,984)	(6,700)
Total	$ 113,526	$ 109,266	$ 66,994	$ 66,214

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

	Six Months Ended June 30, 2004	2003	Three Months Ended June 30, 2004	2003
Segment EBITDA (1):	$ 113,526	$ 109,266	$ 66,994	$ 66,214
Depreciation of property and equipment	21,902	26,459	10,181	14,359
Amortization of intangible assets and other	10,783	20,605	4,817	9,920
Severance related to separated senior executives	658	5,576		5,576
Non-cash compensation	3,486	2,023	1,567	777
Provision for severance, closures and restructuring related costs	7,174	3,150	4,455	1,988
Provision for unclaimed property	5,500			
(Gain) loss on sale of businesses and other, net	(23)	1,338	52	1,212
Operating income	$ 64,046	$ 50,115	$ 45,922	$ 32,382

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

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

16. Financial Information for Guarantors of the Company s Debt

The information that follows presents condensed consolidating financial information as of June 30, 2004 and December 31, 2003 and for the six months ended June 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 six months ended June 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)

June 30, 2004

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
ASSETS					
Current assets:					
Cash and cash equivalents	$ 59,499	$ 6,700	$ 359	$	$ 66,558
Accounts receivable, net		167,514	13,430		180,944
Intercompany receivables	1,544,923	197,002	129,571	(1,871,496)	
Inventories		19,100	(5)		19,095
Prepaid expenses and other	5,763	25,717	9,462		40,942
Assets held for sale			379		379
Total current assets	1,610,185	416,033	153,196	(1,871,496)	307,918
Property and equipment, net	6,151	80,982	11,315		98,448
Investment in and advances to subsidiaries	581,300			(581,300)	
Other intangible assets, net		257,461	928		258,389
Goodwill		886,277	16,901		903,178
Other non-current assets	9,993	41,290	9,101		60,384
Total Assets	$ 2,207,629	$ 1,682,043	$ 191,441	$ (2,452,796)	$ 1,628,317
LIABILITIES AND SHAREHOLDERS DEFICIENCY					
Current liabilities:					
Accounts payable	$ 3,846	$ 68,092	$ 3,355	$	$ 75,293
Intercompany payables	965,310	238,814	667,372	(1,871,496)	
Accrued expenses and other	78,900	97,930	4,314		181,144
Deferred revenues	1,738	135,322	14,276		151,336
Current maturities of long-term debt	11,831	4,852			16,683
Liabilities of businesses held for sale			1,297		1,297
Total current liabilities	1,061,625	545,010	690,614	(1,871,496)	425,753
Long-term debt	1,573,882	18,410			1,592,292
Intercompany notes payable		2,848,198	155,681	(3,003,879)	
Shares subject to mandatory redemption	474,559				474,559
Deferred revenues		35,446			35,446
Deferred income taxes	69,970				69,970
Other non-current liabilities	23,133	2,436	268		25,837
Total Liabilities	3,203,169	3,449,500	846,563	(4,875,375)	2,623,857
Shareholders deficiency:					
Series J convertible preferred stock	175,487				175,487

Common stock	2,690				2,690
Additional paid-in capital	2,349,476				2,349,476
Accumulated deficit	(3,445,439)	(1,767,451)	(654,936)	2,422,387	(3,445,439)
Accumulated other comprehensive loss	(192)	(6)	(186)	192	(192)
Common stock in treasury, at cost	(77,562)				(77,562)
Total Shareholders Deficiency	(995,540)	(1,767,457)	(655,122)	2,422,579	(995,540)
Total Liabilities and Shareholders Deficiency	$ 2,207,629	$ 1,682,043	$ 191,441	$ (2,452,796)	$ 1,628,317

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PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS

(UNAUDITED)

For the Six Months Ended June 30, 2004

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
Revenues, net	$	$ 613,845	$ 80,423	$ (26,906)	$ 667,362
Operating costs and expenses:					
Cost of goods sold		129,286	12,382		141,668
Marketing and selling		120,805	20,757		141,562
Distribution, circulation and fulfillment		87,019	28,547		115,566
Editorial		48,002	5,851		53,853
Other general expenses	111	77,746	36,873	(26,906)	87,824
Corporate administrative expenses (excluding non-cash compensation)	10,279		3,084		13,363
Depreciation of property and equipment	1,364	16,776	3,762		21,902
Amortization of intangible assets and other		10,218	565		10,783
Severance related to separated senior executives	658				658
Non-cash compensation	3,486				3,486
Provision for severance, closures and restructuring related costs	2,229	4,697	248		7,174
Provision for unclaimed property	56	5,444			5,500
(Gain) loss on sale of businesses and other, net	37	(66)	6		(23)
Operating income (loss)	(18,220)	113,918	(31,652)		64,046
Other income (expense):					
Provision for impairment of investments	(804)				(804)
Interest expense	(56,109)	(2,585)	(48)		(58,742)
Interest on shares subject to mandatory redemption	(21,890)				(21,890)
Amortization of deferred financing costs	(671)	(1,633)	(15)		(2,319)
Equity in income of subsidiaries	49,624			(49,624)	
Intercompany management fees and interest	70,027	(69,460)	(567)		
Other income (expense), net	43	87	(21)		109
Income (loss) from continuing operations before income tax expense	22,000	40,327	(32,303)	(49,624)	(19,600)
Income tax expense	(8,775)	68	(17)		(8,724)

Income (loss) from continuing operations		13,225		40,395		(32,320)		(49,624)		(28,324)
Discontinued operations				41,652		(103)				41,549
Net income (loss)	$	13,225	$	82,047	$	(32,423)	$	(49,624)	$	13,225

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENT OF CONSOLIDATING CASH FLOWS

(UNAUDITED)

For the Six Months Ended June 30, 2004

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
Operating activities:					
Net income (loss)	$ 13,225	$ 82,047	$ (32,423)	$ (49,624)	$ 13,225
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities	(104,286)	57,599	4,260	49,624	7,197
Changes in operating assets and liabilities	(27,970)	(912)	(8,499)		(37,381)
Net cash provided by (used in) operating activities	(119,031)	138,734	(36,662)		(16,959)
Investing activities:					
Additions to property, equipment and other, net	(449)	(9,492)	(3,633)		(13,574)
Proceeds from sale of businesses and other		68,176	2,101		70,277
Payments for businesses acquired, net of cash acquired		(1,270)			(1,270)
Proceeds from (payments for) other investments, net	(10)	684			674
Net cash provided by (used in) investing activities	(459)	58,098	(1,532)		56,107
Financing activities:					
Intercompany activity	150,900	(188,981)	38,081		
Borrowings under credit agreements	231,500				231,500
Repayments of borrowings under credit agreements	(378,500)				(378,500)
Proceeds from issuances of Senior Floating Rate Notes	175,000				175,000
Proceeds from issuances of common stock	701				701
Deferred financing costs paid	3	(5,562)			(5,559)
Capital lease obligations	(960)	(3,118)	(200)		(4,278)
Other		(139)			(139)
	178,644	(197,800)	37,881		18,725

Net cash provided by (used in) financing activities					
Increase (decrease) in cash and cash equivalents	59,154	(968)	(313)		57,873
Cash and cash equivalents, beginning of period	345	7,668	672		8,685
Cash and cash equivalents, end of period	$ 59,499	$ 6,700	$ 359	$	$ 66,558

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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	147,375	8,740		157,853
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	861,088	666,014	(2,149,685)	488,825
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		33,604			33,604
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

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 Six Months Ended June 30, 2003

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
Revenues, net	$ 219	$ 557,026	$ 89,344	$ 18,189	$ 664,778
Operating costs and expenses:					
Cost of goods sold	708	103,968	43,082		147,758
Marketing and selling		119,158	22,845		142,003
Distribution, circulation and fulfillment		86,333	27,508		113,841
Editorial		49,215	3,937		53,152
Other general expenses	268	38,813	27,435	18,189	84,705
Corporate administrative expenses (excluding non-cash compensation)	12,649		1,404		14,053
Depreciation of property and equipment	1,434	18,290	6,735		26,459
Amortization of intangible assets and other		16,767	3,838		20,605
Severance related to separated senior executives	5,576				5,576
Non-cash compensation	2,023				2,023
Provision for severance, closures and restructuring related costs	(1,210)	4,360			3,150
Provision for unclaimed property					
(Gain) loss on sale of businesses and other, net	(19)	2,280	(923)		1,338
Operating income (loss)	(21,210)	117,842	(46,517)		50,115
Other income (expense):					
Provision for impairment of investments	(7,727)				(7,727)
Interest expense	(63,451)	(1,738)	(14)		(65,203)
Interest on shares subject to mandatory redemption					
Amortization of deferred financing costs	1,291	(2,526)	(9)		(1,244)
Equity in income of subsidiaries	93,653			(93,653)	
Intercompany management fees and interest	75,680	(75,680)			
Other income (expense), net	(2,858)	(1,001)	40		(3,819)
Income (loss) from continuing operations before income tax expense	75,378	36,897	(46,500)	(93,653)	(27,878)
Income tax expense	(6,721)	(314)	(16)		(7,051)

Income (loss) from continuing operations		68,657		36,583		(46,516)		(93,653)		(34,929)
Discontinued operations				108,914		(5,328)				103,586
Net income (loss)	$	68,657	$	145,497	$	(51,844)	$	(93,653)	$	68,657

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENT OF CONSOLIDATING CASH FLOWS

(UNAUDITED)

For the Six Months Ended June 30, 2003

(dollars in thousands)

	PRIMEDIA Inc.	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**PRIMEDIA Inc. and Subsidiaries**
Operating activities:					
Net Income (loss)	$ 68,657	$ 145,497	$ (51,844)	$ (93,653)	$ 68,657
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	(145,701)	13,344	15,400	93,653	(23,304)
Changes in operating assets and liabilities	(12,860)	(27,388)	(6,825)		(47,073)
Net cash provided by (used in) operating activities	(89,904)	131,453	(43,269)		(1,720)
Investing activities:					
Additions to property, equipment and other, net	(1,001)	(15,219)	(4,946)		(21,166)
Proceeds from sales of businesses and other, net	19	183,528	(625)		182,922
Payments related to businesses acquired		(4,446)	(350)		(4,796)
Proceeds from (payments for) other investments, net	1,051	(513)	470		1,008
Net cash provided by (used in) investing activities	69	163,350	(5,451)		157,968
Financing activities:					
Intercompany activity	242,094	(290,642)	48,548		
Borrowings under credit agreements	288,400				288,400
Repayments of borrowings under credit agreements	(314,312)				(314,312)
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	569				569
Purchases of common stock for the treasury	(19,367)				(19,367)
Dividends paid to preferred stock shareholders	(22,921)				(22,921)

Deferred financing costs paid	(5,977)				(5,977)
Capital lease obligations	(43)	(1,676)	(69)		(1,788)
Other		(155)			(155)
Net cash provided by (used in) financing activities	92,768	(292,473)	48,479		(151,226)
Increase (decrease) in cash and cash equivalents	2,933	2,330	(241)		5,022
Cash and cash equivalents, beginning of period	4,700	12,857	996		18,553
Cash and cash equivalents, end of period	$ 7,633	$ 15,187	$ 755	$	$ 23,575

17. Subsequent Event

The Company entered into a series of transactions with the intention to redeem its highest cost of capital security, the Series J Convertible Preferred Stock, which had an annual pay-in-kind dividend yield of approximately 13%.

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 approximately $145,000 of advances under its revolving credit facility.

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, training services, sales of data products and directories, list rental and licensing). 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 selected 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 controlled 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 and better focused organization. The asset divestiture program is essentially complete and the Company is now focused on growing organically while still diligently controlling costs.

Company Strategy

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 and Training. Accordingly, the Company has reclassified prior year results to reflect this redesigned operating structure.

The Company s strategy is to focus on its core targeted media businesses and grow through 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, licensing and merchandising arrangements.

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, cutbacks in the demand for training services and budgetary constraints in the education markets. Additionally, high apartment vacancy rates have pressured the advertising budgets of property managers.

In 2004, most of PRIMEDIA s products continued to grow, while some were 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 hobbies and leisure activities, as the Company has a large presence in those markets. Additionally, the Company has taken certain actions to lower costs and improve profitability, including consolidating, selling or shutting down certain properties.

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

In 2004, revenues were $342,176 up 0.9% as compared to $339,291 in 2003. Revenue gains in the Company s three major business segments were partially offset by a decline in the Education and Training segment. In 2004, operating expenses were $275,182 up 0.8% compared to 2003. In 2004, operating income was $45,922 improved from $32,382 in 2003 due to decreased depreciation and amortization expenses as well as the absence of severance related to separated senior executives in 2004. These decreases were partially offset by higher restructuring costs in 2004. Net income was $2,154 in 2004 compared to $88,904 in 2003, primarily due to the gain on the sale of *Seventeen* and its companion teen properties (Seventeen) in 2003 of $104,304.

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 managers performance, and excludes items largely outside of the operating managers 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.

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.

Reclassifications due to Discontinued Operations

In accordance with Statement of Financial Accounting Standards (SFAS) 144, Accounting for the Disposal of Long-Lived Assets , the Company s results have been reclassified to reflect Seventeen, Simba Information, Federal Sources, *CableWorld*, Sprinks, RealEstate.com, *New York* magazine, Kagan World Media and About Web Services, About.com s consumer Web hosting business, as discontinued operations for the periods prior to their respective divestiture dates. In addition, the Company is evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties in the Business Information segment. The operating results of these properties have been classified as discontinued operations for all periods presented.

Segment Data:

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

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Revenues, net:				
Enthusiast Media	$ 360,514	$ 355,055	$ 187,955	$ 183,420
Consumer Guides	142,471	137,327	71,084	69,404
Business Information	113,010	114,144	58,208	57,938
Education and Training	52,087	62,226	25,314	30,088
Intersegment Eliminations	(720)	(3,974)	(385)	(1,559)
Total	$ 667,362	$ 664,778	$ 342,176	$ 339,291
Segment EBITDA: (1)				
Enthusiast Media	$ 72,263	$ 66,168	$ 42,849	$ 42,306
Consumer Guides	$ 40,154	$ 38,571	$ 20,512	$ 21,002
Business Information	$ 15,312	$ 12,679	$ 10,223	$ 7,966
Education and Training	$ (729)	$ 5,972	$ (606)	$ 1,640
Corporate Overhead	$ (13,474)	$ (14,124)	$ (5,984)	$ (6,700)
Depreciation, amortization and other charges: (2)				
Enthusiast Media	$ 18,985	$ 20,568	$ 8,287	$ 11,670
Consumer Guides	$ 5,751	$ 5,941	$ 2,842	$ 2,913
Business Information	$ 8,318	$ 9,789	$ 3,065	$ 4,789
Education and Training	$ 8,596	$ 13,614	$ 3,972	$ 7,274
Corporate	$ 7,830	$ 9,239	$ 2,906	$ 7,186
Operating income (loss):				
Enthusiast Media	$ 53,278	$ 45,600	$ 34,562	$ 30,636
Consumer Guides	34,403	32,630	17,670	18,089
Business Information	6,994	2,890	7,158	3,177
Education and Training	(9,325)	(7,642)	(4,578)	(5,634)
Corporate	(21,304)	(23,363)	(8,890)	(13,886)
Total	64,046	50,115	45,922	32,382
Other income (expense):				
Provision for impairment of investments	(804)	(7,727)	(804)	(7,727)
Interest expense	(58,742)	(65,203)	(30,164)	(31,750)

Interest on shares subject to mandatory redemption (3)	(21,890)		(10,945)	
Amortization of deferred financing costs (3)	(2,319)	(1,244)	(1,217)	(503)
Other income (expense), net	109	(3,819)	(179)	(3,275)
Income (loss) from continuing operations before income tax expense	(19,600)	(27,878)	2,613	(10,873)
Income tax expense	(8,724)	(7,051)	(4,357)	(3,333)
Loss from continuing operations	(28,324)	(34,929)	(1,744)	(14,206)
Discontinued operations (4)	41,549	103,586	3,898	103,110
Net income	$ 13,225	$ 68,657	$ 2,154	$ 88,904

(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 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. See reconciliation of Segment EBITDA to operating income for the six and three months ended June 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 increased the loss from continuing operations for the six and three months ended June 30, 2004 by $22,562 and $11,281 which represent 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. If SFAS 150 was adopted retroactively on January 1, 2003, loss from continuing operations for the six and three months ended June 30, 2003 would have increased by $22,670 and $10,794, respectively.

(4) Discontinued operations include a gain on sale of businesses, net of $42,226 and $102,605 in the six months ended June 30, 2004 and 2003, respectively, and $4,192 and $103,846 in the three months ended June 30, 2004 and 2003, respectively.

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003:

Consolidated Results:

Revenues, Net

Consolidated revenues were $342,176 in 2004 compared to $339,291 in 2003:

	Three Months Ended June 30, 2004		Three Months Ended June 30, 2003		Percent Change
Revenues, net:					
Advertising	$	213,696	$	211,462	1.1
Circulation		76,989		77,779	(1.0)
Other		51,491		50,050	2.9
Total	$	342,176	$	339,291	0.9

Advertising revenues increased by $2,234 in the second quarter of 2004 compared to 2003 due to an increase of $3,834 at the Enthusiast Media segment, partially offset by a decline of $2,304 at the Education and Training segment. Circulation revenues decreased $790 in 2004, principally driven by a $669 decline in revenues at the Education and Training segment. Other revenues increased in 2004 compared to 2003 primarily due to increases at Consumer Guides of $1,410 from continued growth of its third party distribution business and at Enthusiast Media of $1,048 partially offset by a $874 decline at the Education and Training segment. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income (Loss)

Operating income increased to $45,922 in 2004 compared to $32,382 in 2003. The improvement in operating income in 2004 was due to decreases in amortization and depreciation expenses of $5,103 and $4,178, respectively, as well as an absence of severance related to separated senior executives in 2004 compared to $5,576 recorded during the second quarter of 2003. Amortization and depreciation expenses decreased in 2004 compared to 2003 primarily due to certain assets that have become fully amortized or depreciated subsequent to the second quarter of 2003. These expense decreases were partially offset by higher restructuring costs recorded in 2004 compared to 2003 due primarily to the continued consolidation of operations resulting in excess real estate.

Net Income (Loss)

The Company had net income in 2004 of $2,154 compared to $88,904 in 2003. The decrease in net income was primarily due to the gain on the sale of Seventeen of $104,304 recorded in discontinued operations during the second quarter of 2003.

Interest expense decreased $1,586 or 5.0% in 2004 to $30,164 from $31,750 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 , loss from continuing operations increased by $11,281 which represents $10,945 of interest on shares subject to mandatory redemption and $336 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 three months ended June 30, 2004. If

SFAS 150 was adopted retroactively on January 1, 2003, loss from continuing operations for the three months ended June 30, 2003 would have increased by $10,794.

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. In accordance with SFAS 144, the financial results of these operations have been reclassified into discontinued operations on the condensed statements of consolidated operations for periods prior to their respective divestiture date. In addition, the Company is evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties in the Business Information segment and the operating results of these properties have been classified as discontinued operations for all periods presented. For the three months ended June 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of $4,192 and $103,846, 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, and About.com)

Revenues, Net

Enthusiast Media revenues were $187,955 or 54.9% and $183,420 or 54.1% of the Company s consolidated revenues for 2004 and 2003, respectively. Enthusiast Media revenues increased $4,535 or 2.5% in 2004 compared to 2003 as follows:

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Percent Change
Revenues, net:			
Advertising	$ 105,237	$ 101,403	3.8
Circulation	66,411	66,512	(0.2)
Other	15,958	14,910	7.0
Intersegment revenues	349	595	(41.3)
Total	$ 187,955	$ 183,420	2.5

Advertising revenues increased $3,834 or 3.8% in 2004. The growth was led by an increase in online advertising of approximately $5,300, partially offset by a decrease in print advertising due to a soft quarter for automotive print advertising.

The Company has 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 third quarter 2004. Based on the titles currently tracked, IMS Auditor reports that PRIMEDIA s and its competitors advertising pages were essentially flat in the second quarter, with PRIMEDIA s advertising pages declining 0.6% and the market increasing 0.3%. These results were negatively skewed by the performance in the automotive categories, which the Company continues to expect will improve in the second half of 2004 due to the timing of new automobile model introductions. Excluding automotive titles, PRIMEDIA s advertising pages increased 5.2% in the quarter, compared to a market increase of 3.7%, according to IMS.

Circulation revenues at Enthusiast Media declined $101 or 0.2% for the three months ended June 30, 2004 with gains in single copy revenues from the Lifestyles (including the soap opera titles), Consumer Automotive and Action Sports groups, offset by weakness in other groups. Overall, single copy units for Enthusiast Media magazines increased 0.1% for the three months ended June 30, 2004, compared to the industry average decline of 1.5%, as reported by the International Periodical Distributors Association.

Other revenues for Enthusiast Media, which include licensing, merchandising, list rental, events and other, increased $1,048, or 7.0%, in 2004 compared to 2003. The increase was primarily due to growth in merchandising and the timing of certain automotive events during the second quarter of 2004 compared to 2003.

Key Accomplishments

The Company is continuing to combat industry wide circulation weakness with several initiatives, including several additional magazine titles authorized for distribution to Wal-Mart stores, and new distribution to large retail chains such as CSK Auto and Fred s Dollar Stores in 1,180 and 550 locations, respectively.

The segment s 2004 product improvement initiatives continued, highlighted by a redesigned *Hot Rod* issue featuring 32 additional pages of editorial content, improved paper stock and an upgraded design. The first two redesigned *Hot Rod* issues are up approximately 20% in advertising revenues and newsstand sales.

The Company s initiatives to extend existing brands include licensing *Lowrider* brand apparel to be sold by leading retailers, developing *In-Fisherman* branded electronic entertainment for personal computers and video consoles with Destineer, a technology leader in the video game market, and an agreement with Procter & Gamble to release Febreze Auto™ with the *Motor Trend* seal of approval.

The April 2004 launch of About 4.0, with an innovative new site design and architecture aimed at enhancing the total user experience, resulted in a 16% increase in page views and substantially higher traffic in areas of greatest value to advertisers. A test of an online broadcast advertising platform, Unicast, on the new About platform resulted in the highest clickthrough rates of all the sites in the test, providing a strong foundation for what is expected to be one of the highest growth categories for Web-based advertising.

Segment EBITDA

Enthusiast Media Segment EBITDA increased $543 to $42,849 in 2004 from $42,306 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 decreased to 22.8% in 2004 from 23.1% in 2003.

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

	Three Months Ended June 30, 2004		Three Months Ended June 30, 2003	
Segment EBITDA	$	42,849	$	42,306
Depreciation of property and equipment		3,740		5,829
Amortization of intangible assets and other		1,316		3,650
Provision for severance, closures and restructuring related costs		3,231		2,074
Loss on sale of businesses and other, net				117
Operating income	$	34,562	$	30,636

Operating Income (Loss)

Operating income was $34,562 in 2004 compared to $30,636 in 2003, an increase of 12.8%. This increase was principally driven by decreases in amortization and depreciation expenses as well as the improvement in Segment EBITDA, partially offset by an increase in restructuring related costs.

Discontinued Operations

In accordance with SFAS 144, the operating results of Seventeen, Sprinks, *New York* magazine and About Web Services have been reclassified to discontinued operations on the condensed statements of consolidated operations for the periods prior to their respective divestiture dates.

Enthusiast Media revenues exclude revenues from discontinued operations of $117 and $29,476 for the three months ended June 30, 2004 and 2003, respectively. Enthusiast Media segment operating income excludes operating income from discontinued operations of $4,583 and $105,328 for the three months ended June 30, 2004 and 2003, respectively. For the three months ended June 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of $4,300 and $103,748, 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 $71,084 or 20.8% and $69,404 or 20.5% of the Company s consolidated revenues for 2004 and 2003, respectively. Consumer Guides revenues increased $1,680 or 2.4% in 2004 compared to 2003 as follows:

	Three Months Ended June 30, 2004		Percent Change
	2004	2003	
Revenues, net:			
Advertising	$ 59,293	$ 59,023	0.5
Other	11,791	10,381	13.6
Total	$ 71,084	$ 69,404	2.4

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Advertising revenues for the Consumer Guides segment increased $270 to $59,293 in 2004 compared to $59,023 in 2003 primarily due to growth in premium online advertising programs and the new *Auto Guide* launched in March 2004. Advertising revenue at the *Apartment Guide* business continues to be affected by a soft rental market due to low interest rates which is driving increased home buying and higher than normal apartment vacancy rates.

Consumer Guides other revenues, which relate to its distribution arm, DistribuTech, increased $1,410 during the second 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 7%. Its rack utilization rate is 76%, an increase of 4 percentage points compared to first quarter 2004 and up 8 percentage points compared to a year ago.

Key Accomplishments

Apartmentguide.com delivered nearly one half million leads to advertisers in June 2004, which was its strongest performance to date and a record for the industry.

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.

Segment EBITDA

Consumer Guides Segment EBITDA decreased $490 or 2.3% in 2004 to $20,512. The decrease was primarily due to additional sales and marketing expenses related to new products, including the Charlotte *Auto Guide* business and the Orlando and Houston *New Home Guides,* as well as higher distribution expenses. As a result, Segment EBITDA margin decreased to 28.9% in 2004 compared to 30.3% in 2003.

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

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003
Segment EBITDA	$ 20,512	$ 21,002
Depreciation of property and equipment	2,018	2,014
Amortization of intangible assets and other	824	899
Operating income	$ 17,670	$ 18,089

Operating Income (Loss)

Operating income decreased $419 or 2.3% in 2004 due to the decrease in Segment EBITDA.

Discontinued Operations

In accordance with SFAS 144, the results of RealEstate.com have been reclassified to discontinued operations on the condensed statements of consolidated operations for three months ended June 30, 2004 and 2003.

Consumer Guides revenues exclude revenues from discontinued operations of $516 for the three months ended June 30, 2003. Consumer Guides segment operating income excludes operating losses from discontinued operations of $9 and $1,294 for the three months ended June 30, 2004 and 2003, respectively.

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

Revenues, Net

Business Information revenues were $58,208 or 17.0% and $57,938 or 17.1% of the Company s consolidated revenues for 2004 and 2003, respectively. Business Information revenues increased $270 or 0.5% in 2004 compared to 2003 as follows:

	Three Months Ended June 30, 2004		Percent Change
	2004	2003	
Revenues, net:			
Advertising	$ 39,927	$ 39,493	1.1
Circulation	4,617	4,637	(0.4)
Other	13,664	13,807	(1.0)
Intersegment revenues.		1	(100)
Total	$ 58,208	$ 57,938	0.5

Overall, Business Information segment revenues are stabilizing, with approximately 37% of the segment s revenues coming from sectors that are up, approximately 50% from sectors that are flat and approximately 13% from sectors that remain down.

Advertising revenues increased $434 in 2004 with strength primarily in the magazines serving the agriculture, communications and financial services sectors offset by weakness primarily in the marketing and public services sectors.

Circulation revenues, which consist of subscriptions to directories and data based products, were flat at $4,617 in 2004 compared to $4,637 in 2003.

Other revenues, which consist of events, information products and online revenues, were down $143, or 1.0%, in 2004 compared to 2003.

Key Accomplishments

The Business Information segment continued to improve as the business showed a revenue gain for the first time in twelve quarters.

The Company launched *EquipmentWatch,* a completely revamped subscription data product. The new paid-content Web site provides integrated access to *EquipmentWatch s* construction equipment valuation, ownership, operating cost and specification data. This paid content subscription model is being extended to other markets.

The Company continued progress in developing electronic products. Projects such as web-based continuing education, sponsored webcasts, and custom microsites contributed to an increase of 57% in online revenue.

Segment EBITDA

Business Information Segment EBITDA increased $2,257 for the three months ended June 30, 2004 to $10,223. The improvement is predominantly due to continued cost control with expenses declining in most categories.

As operating expenses in this segment declined by approximately $2,000 in 2004 compared to 2003. Segment EBITDA margin improved to 17.6% for 2004 versus 13.7% for 2003.

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

	Three Months Ended June 30,	
	2004	2003
Segment EBITDA	$ 10,223	$ 7,966
Depreciation of property and equipment	1,376	1,881
Amortization of intangible assets and other	1,258	2,193
Provision for severance, closures and restructuring related costs	416	(380)
Loss on sale of businesses and other, net	15	1,095
Operating income	$ 7,158	$ 3,177

Operating Income (Loss)

Business Information operating income increased $3,981 to $7,158 in 2004 compared to $3,177 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. In addition, loss on sale of businesses decreased in 2004 compared to 2003 as the Company recorded a loss related to the sale of the assets of *Coal Age* and *Engineering & Mining Journal* in 2003.

Discontinued Operations

In accordance with SFAS 144, the results of Simba, Federal Sources, *CableWorld* and Kagan World Media, which have been sold, have been reclassified to discontinued operations on the condensed statements of consolidated operations for periods prior to their respective divestiture dates. In addition, the Company is evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties and the operating results of these properties have been classified as discontinued operations for all periods presented.

Business Information revenues exclude revenues from discontinued operations of $1,645 and $6,509 for the three months ended June 30, 2004 and 2003, respectively. Business Information segment operating results exclude the operating loss from discontinued operations of $476 and $800 for the three months ended June 30, 2004 and 2003, respectively. For the three months ended June 30, 2004 and 2003, discontinued operations include a net gain (loss) on sale of businesses of ($108) and $98, respectively.

Education and Training (includes Channel One, Films Media Group and Workplace Learning)

Revenues, Net

Education and Training revenues were $25,314 or 7.4% and $30,088 or 8.9% of the Company s consolidated revenues for 2004 and 2003, respectively. Education and Training revenues decreased $4,774 or 15.9% in 2004 compared to 2003 as follows:

	Three Months Ended June 30, 2004		2003	Percent Change
Revenues, net:				
Advertising	$	9,239	$ 11,543	(20.0)
Circulation		5,961	6,630	(10.1)
Other		10,078	10,952	(8.0)
Intersegment revenues		36	963	(96.3)
Total	$	25,314	$ 30,088	(15.9)

Education and Training advertising revenues, which are generated entirely by Channel One, decreased $2,304 in 2004 as compared to 2003. Advertising gains from movies, television networks, military recruitment and other clients were offset by reduced spending from certain food and beverage accounts.

Workplace Learning subscription revenue accounts for all of the segment s circulation revenue, which decreased $669 in 2004. Lagging demand for training services from Workplace Learning continued to depress subscription revenues as well as product sale revenues which are classified in other.

Reduced product sales at Workplace Learning and the Films Media Group primarily accounted for the decline of $874 in other revenues in 2004. At the Films Media Group, continuing constraints on state and local school budgets were the driver of approximately $550 of declines in product sales in 2004 compared to 2003.

Key Action Steps to Improve Performance

The Company is working to improve Channel One s sales effectiveness by focusing the sales team on industry segments instead of geography. The Company is reorganizing the Films Media Group s marketing efforts under a newly recruited, experienced direct marketing professional. In addition, the Company is continuing a thorough review of Workplace Learning s portfolio.

Segment EBITDA

Education and Training Segment EBITDA decreased $2,246 to ($606) for the three months ended June 30, 2004. This decrease is principally due to the declines in revenue discussed above partially offset by continued cost control during the second quarter of 2004. These factors contributed to a decrease in Segment EBITDA margin in 2004 to (2.4%) compared to 5.5% in 2003.

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

	Three Months Ended June 30,			
	2004		2003	
Segment EBITDA	$	(606)	$	1,640
Depreciation of property and equipment		2,368		3,846
Amortization of intangible assets and other		1,419		3,178
Provision for severance, closures and restructuring related costs		185		250
Operating loss	$	(4,578)	$	(5,634)

Operating Income (Loss)

Operating loss decreased $1,056 for the three months ended June 30, 2004 due to decreased amortization and depreciation as certain assets became fully amortized and fully depreciated since the second quarter of 2003, partially offset by the decrease in Segment EBITDA.

Corporate:

Corporate Overhead

Corporate overhead decreased to $5,984 in 2004 from $6,700 in 2003 primarily due to a reduction in general and administrative expenses.

Operating Income (Loss)

Corporate operating loss decreased $4,996 in 2004 to $8,890 from $13,886 in 2003 principally driven by the absence of severance related to separated senior executives in 2004 compared to $5,576 recorded in 2003. This decrease was partially offset by an increase in stock-based compensation expense in 2004 to $1,567 compared to $777 in 2003 and an increase in restructuring related costs to $623 in 2004 from $44 in 2003.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003:

Consolidated Results:

Revenues, Net

Consolidated revenues were $667,362 in 2004 compared to $664,778 in 2003:

	Six Months Ended June 30, 2004		2003		Percent Change
Revenues, net:					
Advertising	$	418,025	$	414,915	0.7

Circulation		150,792		155,081	(2.8)
Other		98,545		94,782	4.0
Total	$	667,362	$	664,778	0.4

Advertising revenues increased by $3,110 in 2004 compared to 2003 due to increases of $6,408 and $2,481 at the Enthusiast Media and Consumer Guides segments, respectively, partially offset by declines of $1,801 and $3,978 at the Business Information and Education and Training segments, respectively. Circulation revenues decreased $4,289 in 2004, principally driven by a $3,121 decline in revenues at the Enthusiast Media segment due to continued weakness in single copy sales. Other revenues increased $3,763 in 2004 compared to 2003 primarily due to increases at Consumer Guides of $2,673 from continued growth of its third party distribution business, at Enthusiast Media of $2,627 and at Business Information of $768 partially offset by a $2,305 decline at the Education and Training segment. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income (Loss)

Operating income was $64,046 in 2004 compared to $50,115 in 2003. The improvement in operating income in 2004 was due to reduced operating expenses and a decrease in amortization and depreciation expenses. Amortization and depreciation expense decreased $9,822 and $4,557, respectively, in 2004 compared to 2003 primarily due to certain intangible assets and property and equipment that have become fully amortized or depreciated subsequent to June 30, 2003. 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 $13,225 compared to $68,657 in 2003. The decrease in net income was primarily due to the gain on the sale of Seventeen of $104,304 recorded in discontinued operations in 2003. The Company recorded a gain on the sale of *New York* magazine of $37,978 in discontinued operations in 2004.

Interest expense decreased $6,461, or 9.9% in 2004 to $58,742 from $65,203 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 , loss from continuing operations increased by $22,562 which represents $21,890 of interest on shares subject to mandatory redemption and $672 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 six months ended June 30, 2004. If SFAS 150 was adopted retroactively on January 1, 2003, loss from continuing operations for the six months ended June 30, 2003 would have increased by $22,670.

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. In accordance with SFAS 144, the financial results of these operations have been reclassified into discontinued operations on the condensed statements of consolidated operations for periods prior to their respective divestiture date. In addition, the Company is evaluating strategic partnerships regarding the *Folio*, *Circulation Management* and *American Demographics* properties in the Business Information segment. The operating results of these properties have been classified as discontinued operations for all periods presented. For the six months ended June 30, 2004 and 2003, discontinued operations includes a net gain on sale of businesses of $42,226 and $102,605, 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, and About.com)

Revenues, Net

Enthusiast Media revenues were $360,514 or 54.0% and $355,055 or 53.4% of the Company s consolidated revenues for 2004 and 2003, respectively. Enthusiast Media revenues increased $5,459 or 1.5% in 2004 compared to 2003 as follows:

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003	Percent Change
Revenues, net:			
Advertising	$ 199,583	$ 193,175	3.3
Circulation	129,395	132,516	(2.4)
Other	30,966	28,339	9.3
Intersegment revenues	570	1,025	(44.4)
Total	$ 360,514	$ 355,055	1.5

Advertising revenues increased $6,408 or 3.3% in 2004. The growth was led by an increase in online advertising of approximately $10,700 predominantly 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 $4,300 decrease in print advertising. Print advertising pages were down 1.3% in 2004 compared to 2003. Specifically, advertising pages in the Company s automotive titles declined 6.4% while advertising pages for the remainder of the segment s properties increased 3.5%. Industry wide advertising pages were up 2.0%, with automotive advertising pages increasing