

PRIMEDIA INC
Form 10-Q
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **September 30, 2006**

Commission file number: **1-11106**

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3647573
(I.R.S. Employer
Identification No.)

745 Fifth Avenue, New York, New York

(Address of principal executive offices)

10151

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, par value \$.01 per share, of PRIMEDIA Inc. outstanding as of October 31, 2006: 264,055,370

PRIMEDIA Inc.
INDEX

Part I. Financial Information:

| | | |
|---|---|----|
| Item 1. | Financial Statements | |
| | <u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2006 and December 31, 2005</u> | 2 |
| | <u>Condensed Statements of Consolidated Operations (Unaudited) for the three months ended September 30, 2006 and 2005</u> | 3 |
| | <u>Condensed Statements of Consolidated Operations (Unaudited) for the nine months ended September 30, 2006 and 2005</u> | 4 |
| | <u>Condensed Statements of Consolidated Cash Flows (Unaudited) for the nine months ended September 30, 2006 and 2005</u> | 5 |
| | <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> | 6 |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 30 |
| <u>Item 3.</u> | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 54 |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | 54 |
| <u>Part II. Other Information:</u> | | |
| <u>Item 1A.</u> | <u>Risk Factors</u> | 55 |
| <u>Item 6.</u> | <u>Exhibits</u> | 55 |
| | <u>Signatures</u> | 56 |

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share amounts)

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 71,832 | \$ 7,255 |
| Accounts receivable, net | 132,358 | 134,773 |
| Inventories | 16,013 | 21,212 |
| Prepaid expenses and other | 41,520 | 29,722 |
| Assets of businesses held for sale | | 109,129 |
| Total current assets | 261,723 | 302,091 |
| Property and equipment (net of accumulated depreciation and amortization of \$240,150 in 2006 and \$226,600 in 2005) | 54,603 | 56,868 |
| Intangible assets, net | 224,731 | 231,404 |
| Goodwill | 774,101 | 763,177 |
| Other non-current assets | 33,053 | 35,928 |
| Total Assets | \$ 1,348,211 | \$ 1,389,468 |
| LIABILITIES AND SHAREHOLDERS DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | \$ 49,683 | \$ 52,984 |
| Accrued expenses and other | 141,554 | 122,319 |
| Deferred revenues | 108,274 | 107,940 |
| Current maturities of long-term debt | 11,325 | 7,677 |
| Liabilities of businesses held for sale | | 33,203 |
| Total current liabilities | 310,836 | 324,123 |
| Long-term debt | 1,370,339 | 1,456,770 |
| Deferred revenues | 13,175 | 14,447 |
| Deferred income taxes | 88,124 | 87,655 |
| Other non-current liabilities | 74,809 | 78,202 |
| Total Liabilities | 1,857,283 | 1,961,197 |
| Commitments and contingencies (Note 12) | | |
| Shareholders' deficiency: | | |
| Common stock (\$.01 par value, 350,000,000 shares authorized at September 30, 2006 and December 31, 2005; 272,497,779 and 272,158,878 shares issued and 264,055,370 and 263,716,469 shares outstanding at September 30, 2006 and December 31, 2005, respectively) | 2,725 | 2,722 |
| Additional paid-in capital (including warrants of \$31,690 at September 30, 2006 and December 31, 2005) | 2,366,126 | 2,363,071 |
| Accumulated deficit | (2,802,046) | (2,861,645) |
| Common stock in treasury, at cost (8,442,409 shares at September 30, 2006 and December 31, 2005) | (75,877) | (75,877) |
| Total Shareholders' Deficiency | (509,072) | (571,729) |
| Total Liabilities and Shareholders' Deficiency | \$ 1,348,211 | \$ 1,389,468 |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Operations (Unaudited)
(in thousands, except share and per share amounts)

| | Three Months Ended September 30, | |
|--|---|-------------|
| | 2006 | 2005 |
| Revenues, net: | | |
| Advertising | \$ 159,754 | \$ 159,508 |
| Circulation | 51,508 | 51,446 |
| Other | 42,773 | 35,974 |
| Total revenues, net | 254,035 | 246,928 |
| Operating costs and expenses: | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | 60,050 | 56,237 |
| Marketing and selling | 44,892 | 46,930 |
| Distribution, circulation and fulfillment | 47,621 | 47,686 |
| Editorial | 17,460 | 17,581 |
| Other general expenses | 30,930 | 30,034 |
| Corporate administrative expenses (including non-cash compensation of \$411 and \$4,070 in 2006 and 2005, respectively) | 6,978 | 10,362 |
| Depreciation and amortization of property and equipment | 7,229 | 7,049 |
| Amortization of intangible assets and other | 3,479 | 2,645 |
| Provision for severance, closures and restructuring related costs | 292 | 256 |
| Gain on sale of businesses and other, net | | (80) |
| Operating income | 35,104 | 28,228 |
| Other income (expense): | | |
| Interest expense | (33,574) | (32,440) |
| Interest on shares subject to mandatory redemption | | (4,566) |
| Amortization of deferred financing costs | (630) | (1,042) |
| Other income (expense), net | 787 | (2,906) |
| Income (loss) from continuing operations before provision for income taxes | 1,687 | (12,726) |
| Provision for income taxes | (5,009) | (4,090) |
| Loss from continuing operations | (3,322) | (16,816) |
| Discontinued operations, net of tax (including gain on sale of businesses, net of tax, of \$52,347 and \$219,039 in 2006 and 2005, respectively) | 57,074 | 224,570 |
| Net income | \$ 53,752 | \$ 207,754 |
| Basic and diluted income (loss) per common share: | | |
| Continuing operations | \$ (0.01) | \$ (0.06) |
| Discontinued operations | 0.21 | 0.85 |
| Net income | \$ 0.20 | \$ 0.79 |
| Basic and diluted common shares outstanding (weighted average) | 264,055,370 | 263,122,384 |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Operations (Unaudited)
(in thousands, except share and per share amounts)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2006 | 2005 |
| Revenues, net: | | |
| Advertising | \$ 474,786 | \$ 476,837 |
| Circulation | 149,709 | 150,742 |
| Other | 127,552 | 106,754 |
| Total revenues, net | 752,047 | 734,333 |
| Operating costs and expenses: | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | 176,788 | 159,911 |
| Marketing and selling | 140,767 | 142,556 |
| Distribution, circulation and fulfillment | 145,062 | 140,786 |
| Editorial | 51,670 | 51,602 |
| Other general expenses | 94,977 | 93,250 |
| Corporate administrative expenses (including non-cash compensation of \$2,948 and \$6,474 in 2006 and 2005, respectively) | 23,452 | 26,405 |
| Depreciation and amortization of property and equipment | 21,840 | 20,179 |
| Amortization of intangible assets and other | 9,570 | 7,288 |
| Provision for severance, closures and restructuring related costs | 2,208 | 1,556 |
| Loss (gain) on sale of businesses and other, net | 28 | (80) |
| Operating income | 85,685 | 90,880 |
| Other income (expense): | | |
| Interest expense | (85,855) | (98,266) |
| Interest on shares subject to mandatory redemption | | (21,920) |
| Amortization of deferred financing costs | (1,946) | (3,560) |
| Other income (expense), net | 1,102 | (7,083) |
| Loss from continuing operations before provision for income taxes | (1,014) | (39,949) |
| Provision for income taxes | (7,137) | (9,842) |
| Loss from continuing operations | (8,151) | (49,791) |
| Discontinued operations, net of tax (including gain on sale of businesses, net of tax, of \$66,015 and \$601,499 in 2006 and 2005, respectively) | 67,728 | 628,070 |
| Cumulative effect of change in accounting principle (from the adoption of Statement of Financial Accounting Standard No. 123 (R)) | 22 | |
| Net income | \$ 59,599 | \$ 578,279 |
| Basic and diluted income (loss) per common share: | | |
| Continuing operations | \$ (0.03) | \$ (0.19) |
| Discontinued operations | 0.26 | 2.39 |
| Cumulative effect of change in accounting principle | 0.00 | |
| Net income | \$ 0.23 | \$ 2.20 |
| Basic and diluted common shares outstanding (weighted average) | 263,923,378 | 262,919,067 |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Cash Flows (Unaudited)
(in thousands)

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2006 | 2005 |
| Operating activities: | | |
| Net income | \$ 59,599 | \$ 578,279 |
| Cumulative effect of change in accounting principle | (22) | |
| Adjustments to reconcile net income to net cash provided by operating activities | (34,202) | (536,705) |
| Changes in operating assets and liabilities | 6,915 | (36,936) |
| Net cash provided by operating activities | 32,290 | 4,638 |
| Investing activities: | | |
| Additions to property and equipment | (18,402) | (21,681) |
| Proceeds from sales of businesses | 151,848 | 816,502 |
| Payments for businesses acquired, net of cash acquired | (20,335) | (27,830) |
| Proceeds from sale of other investments | 1,300 | |
| Net cash provided by investing activities | 114,411 | 766,991 |
| Financing activities: | | |
| Borrowings under credit agreements | 250,100 | 979,709 |
| Repayments of borrowings under credit agreements | (268,100) | (960,616) |
| Payments for repurchases of senior notes | (62,094) | (81,017) |
| Proceeds from issuances of common stock | 463 | 1,657 |
| Redemption of Series D and F Exchangeable Preferred Stock | | (264,494) |
| Deferred financing costs paid | | (832) |
| Capital lease payments | (2,331) | (4,141) |
| Other | (162) | (151) |
| Net cash used in financing activities | (82,124) | (329,885) |
| Increase in cash and cash equivalents | 64,577 | 441,744 |
| Cash and cash equivalents, beginning of period | 7,255 | 13,000 |
| Cash and cash equivalents, end of period | \$ 71,832 | \$ 454,744 |
| Supplemental information: | | |
| Cash interest paid, including interest on capital and restructured leases | \$ 82,439 | \$ 82,997 |
| Cash interest paid on shares subject to mandatory redemption | \$ | \$ 26,457 |
| Cash income taxes paid, net of refunds received | \$ 4,503 | \$ 4,280 |
| Cash paid for severance, closures and restructuring related costs | \$ 4,901 | \$ 7,869 |
| Businesses acquired: | | |
| Fair value of assets acquired, net of cash acquired | \$ 19,927 | \$ 27,430 |
| Deferred purchase price payments, net of liabilities assumed | 408 | 400 |
| Payments for businesses acquired, net of cash acquired | \$ 20,335 | \$ 27,830 |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

(in thousands, except share and 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 unless the context implies otherwise. In the opinion of the Company's management, the condensed consolidated financial statements present fairly the consolidated financial position of the Company as of September 30, 2006 and December 31, 2005, the results of consolidated operations of the Company for the three and nine months ended September 30, 2006 and 2005 and consolidated cash flows of the Company for the nine months ended September 30, 2006 and 2005. The adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated balance sheet as of December 31, 2005 has been derived from the Company's audited consolidated balance sheet included in the Company's annual report on Form 10-K for the year ended December 31, 2005. 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, 2005, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The operating results for the three and nine months ended September 30, 2006 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 due to discontinued operations to conform to the presentation as of and for the three and nine months ended September 30, 2006.

Stock-Based Compensation

The Company has a stock-based employee compensation plan which is described in Note 9. Prior to January 1, 2006, the Company accounted for stock-based compensation using the Financial Accounting Standards Board's Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure, under 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. Effective January 1, 2006, the Company adopted the provisions of, and account for stock-based compensation in accordance with SFAS No. 123 revised 2004 (SFAS No. 123(R)), Share-Based Payment, which replaced SFAS No. 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The modified prospective transition method requires recognition of compensation expense from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employees awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. The adoption of SFAS No. 123(R) did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Recent Accounting Pronouncements

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes

In July of 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective for fiscal years beginning after December 15, 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also requires entities to make further disclosures about uncertainties in their income tax position, and to include a rollforward of the tax benefits taken that do not qualify for financial statement recognition. The Company is in the process of assessing the impact of this Interpretation on its consolidated financial statements.

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not anticipate any material impact on its consolidated financial statements upon the adoption of this standard.

Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

The SEC issued Staff Accounting Bulletin (SAB) No. 108 in October of 2006, to address diversity in practice regarding the quantification of financial statement misstatements. SAB 108 requires that a company use both the rollover and iron curtain method (the two most commonly used methods) when quantifying misstatement amounts. The SEC staff believes that reliance on only one of these methods does not appropriately quantify all misstatements that could be material to financial-statement users. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is in the process of assessing the impact of this Interpretation on its consolidated financial statements.

2. Divestitures

The Company has classified the results of certain divested entities as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

On March 18, 2005, the Company completed the sale of About.com, part of the Enthusiast Media segment, the results of which have been classified as discontinued operations for the period up to the date of sale. Gross proceeds from the sale of approximately \$410,600 were used to reduce the Company's borrowings under its revolving bank credit facilities and for general corporate purposes. The Company recorded a net gain on the sale of About.com of \$172 and \$379,076 included in discontinued operations for the three and nine months ended September 30, 2005.

On March 31, 2005, the Company completed the sale of Bankers Training & Consulting Company, the financial services division of Workplace Learning. On April 1, 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities. The Company recorded a net (loss)/gain of \$(132) and \$3,423 included in discontinued operations for the three and nine months ended September 30, 2005, respectively. The operating results of Workplace Learning have been classified as discontinued operations for all periods presented.

Edgar Filing: PRIMEDIA INC - Form 10-Q

On September 30, 2005, the Company sold its Business Information Segment for approximately \$385,000, resulting in a net gain of \$219,000 included in discontinued operations for both the three and nine months ended September 30, 2005. During the fourth quarter of 2005, the Company sold Ward's Automotive Group. The operating results of the Business Information segment, including Ward's Automotive Group, have been classified as discontinued operations for all periods presented. The net proceeds from these sales are subject to routine post-closing adjustments. Additionally, during the third quarter of 2005, the Company discontinued the operations of two magazines in the Enthusiast Media segment. Their operating results have been classified as discontinued operations for the period up to the date the two magazines were discontinued.

During the fourth quarter of 2005, the Company decided to pursue the sales of its Crafts and History groups, part of the Enthusiast Media segment, and discontinue the operations of its Software on Demand division, part of the Education segment. The operating results of these operations have been classified as discontinued operations for all periods presented.

In February of 2006, the Company completed the sale of the History group for \$17,000, resulting in a net gain of approximately \$13,700. The sale of this group reflects the Company's increased focus on growing its properties that reach the valuable 18-34 male demographic.

In September of 2006, the Company discontinued and completed the sale of the Gems group, part of the Enthusiast Media segment. The Company also completed the sale of the Crafts group in the third quarter of 2006 for \$132,000, resulting in a net gain of \$48,983 after certain divestiture related expenses and working capital expenses. The sale of these groups reflects the Company's continued focus on its properties that reach the valuable 18-34 male demographic. The net proceeds from these sales are subject to routine post-closing adjustments.

Net assets sold relating to the Crafts group, which were included in assets and liabilities of businesses held for sale, were comprised of the following:

| | |
|---------------------|-----------|
| Accounts receivable | \$ 7,925 |
| Intangible assets | 6,237 |
| Goodwill | 74,291 |
| Other assets | 5,009 |
| | 93,462 |
| Deferred revenues | (18,024) |
| Other liabilities | (4,528) |
| Net assets sold | \$ 70,910 |

Total revenues, net, and income (loss) before provision for income taxes included in discontinued operations on the accompanying condensed statements of consolidated operations are as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Total revenues, net | \$ 15,415 | \$ 70,698 | \$ 47,676 | \$ 244,990 |
| Income (loss) before provision for income taxes | \$ 2,371 | \$ 3,215 | \$ (306) | \$ 25,153 |

Income (loss) before provision for income taxes above excludes gains on sale of businesses. The gains on sales of businesses, which are net of tax, were \$52,347 and \$219,039 for the three months ended September 30, 2006 and 2005, respectively. The gains on sales of businesses, net of tax, were \$66,015 and \$601,499 for the nine months ended September 30, 2006 and 2005, respectively.

Held for Sale

The assets and liabilities of businesses which the Company had initiated plans to sell, but had not sold, as of December 31, 2005, have been reclassified to held for sale on the accompanying condensed consolidated balance sheet. As of December 31, 2005, this represents the assets and liabilities of the Crafts and History groups. There were no assets held for sale as of September 30, 2006.

| | December 31, 2005 |
|---|----------------------|
| ASSETS | |
| Accounts receivable, net | \$ 12,994 |
| Inventories | 1,273 |
| Prepaid expenses and other | 883 |
| Property and equipment, net | 1,617 |
| Intangible assets, net | 5,148 |
| Goodwill | 87,214 |
| Assets of businesses held for sale | \$ 109,129 |
| LIABILITIES | |
| Accounts payable | \$ 3,929 |
| Accrued expenses and other | 1,085 |
| Deferred revenues - current | 28,189 |
| Liabilities of businesses held for sale | \$ 33,203 |

3. Acquisitions*Automotive.com Forward Agreement*

On November 15, 2005, the Company purchased Automotive.com, Inc. (Automotive.com). PRIMEDIA and the minority shareholders entered into a forward agreement through which PRIMEDIA will purchase the remaining 20% of Automotive.com s stock within a short period of time after the 2008 audit date, or if the forward agreement is extended, the 2009 audit date (early 2010). The settlement price of the forward agreement is based on a measure of Automotive.com s earnings in the fiscal year prior to settlement.

For accounting purposes, the forward agreement was bifurcated into the components relating to the Chief Executive Officer (CEO) of Automotive.com and the other minority shareholders. The estimated fair value of the deferred purchase price is measured quarter-to-quarter as a charge or credit to interest expense, except for the estimated amount payable to Automotive.com s CEO, which is included in other general expenses, in Enthusiast Media Segment EBITDA.

The component relating to the CEO was measured at intrinsic value for the one and one half months remaining in 2005 following the transaction date. On January 1, 2006, PRIMEDIA adopted the provisions of SFAS No. 123(R) (see Note 9), which requires that the portion of the forward agreement relating to the CEO be recorded as a liability and measured at fair value. The initial recognition of the liability, as of January 1, 2006, totaling \$330, was recorded as a portion of the cumulative effect of change in accounting principle (due to the adoption of SFAS No. 123(R)). The liability measured on September 30, 2006 was \$1,182, resulting in a charge to compensation expense of \$371 and \$852 for the three and nine months ended September 30, 2006, respectively.

The component of the forward agreement relating to the other minority shareholders was recorded as a liability at fair value as of the transaction date and an adjustment to the purchase price. On September 30, 2006, the fair value of this liability was \$12,121, resulting in a charge to interest expense of

Edgar Filing: PRIMEDIA INC - Form 10-Q

\$482 for the three months ended September 30, 2006, and a net reduction to interest expense of \$11,559 for the nine months ended September 30, 2006.

In addition, under the provisions of the Automotive.com Stockholders Agreement, the Company must make quarterly payments (the Additional Payments) to the minority shareholders of Automotive.com in the amount of 30% of Remaining Free Cash Flow, as defined in the Automotive.com Stockholders Agreement. For the three and nine months ended September 30, 2006, the Company recorded \$114 and \$176, respectively, of compensation expense, and \$329 and \$508, respectively, to goodwill relating to the Additional Payments made to the minority shareholders.

RentClicks

In January 2006, the Consumer Guides segment acquired the assets of *RentClicks* for approximately \$12,683 in cash (including acquisition related expenses) and a potential earnout consideration. The amount of the earnout consideration will be charged to goodwill if and when it is earned and is based on a measure of *RentClicks* earnings for 2006. The Company allocated the purchase price of the acquisition to the following asset classes:

| | Amortization Period | Amount Allocated |
|---------------------------|------------------------|---------------------|
| Goodwill | | \$ 5,125 |
| Advertiser Lists | 22 years | 5,900 |
| Non-Compete Agreements | 5 years | 860 |
| Other | | 847 |
| | | 12,732 |
| Less: assumed liabilities | | (49) |
| Total | | \$ 12,683 |

This acquisition had no material impact on the Company's results of operations for the three and nine months ended September 30, 2006.

4. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

| | September 30, 2006 | December 31, 2005 |
|-----------------------------------|-----------------------|----------------------|
| Accounts receivable | \$ 142,851 | \$ 146,289 |
| Allowance for doubtful accounts | (8,370) | (8,256) |
| Allowance for returns and rebates | (2,123) | (3,260) |
| | \$ 132,358 | \$ 134,773 |

5. Inventories

Inventories consisted of the following:

| | September 30, 2006 | December 31, 2005 |
|-----------------|-----------------------|----------------------|
| Raw materials | \$ 11,371 | \$ 17,895 |
| Work in process | 68 | 125 |
| Finished goods | 4,574 | 3,192 |
| | \$ 16,013 | \$ 21,212 |

6. Goodwill, Intangible Assets and Other

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), the Company assesses goodwill and indefinite lived intangible assets for impairment at least once a year. The Company has established October 31 as its annual impairment test date. In addition to the annual impairment test, an assessment is also required whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the nine months ended September 30, 2006 and 2005, 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.

With the adoption of SFAS No. 142, the Company no longer amortizes the book basis of the indefinite-lived intangibles, but continues to amortize these intangibles for tax purposes. For the three months ended September 30, 2006 and 2005, provision for income taxes primarily consisted of deferred income taxes of \$3,945 and \$4,028, respectively, and for the nine months ended September 30, 2006 and 2005, \$10,619 and \$9,625, respectively. The Company expects that it will record a total of approximately \$3,692, to increase deferred tax liabilities during the remainder of 2006.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2006, by operating segment, are as follows:

| | Enthusiast Media | Consumer Guides | Total |
|--|---------------------|--------------------|------------|
| Balance as of January 1, 2006 | \$ 650,510 | \$ 112,667 | \$ 763,177 |
| Purchase price adjustments for valuation reports | 340 | (6,741) | (6,401) |
| Adjustment to goodwill allocated to assets held for sale | 5,477 | | 5,477 |
| Goodwill acquired related to the acquisition of businesses | 2,725 | 14,904 | 17,629 |
| Goodwill written off related to the sale of businesses | (5,781) | | (5,781) |
| Balance as of September 30, 2006 | \$ 653,271 | \$ 120,830 | \$ 774,101 |

Intangible assets subject to amortization in accordance with SFAS No. 142 consist of the following:

| | Range of Lives | September 30, 2006 | | | December 31, 2005 | | |
|---|-------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|-----------|
| | | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Membership, subscriber and customer lists | 2-20 | \$ 187,880 | \$ 162,732 | \$ 25,148 | \$ 194,926 | \$ 166,553 | \$ 28,373 |
| Advertiser lists | 4-22 | 100,484 | 79,200 | 21,284 | 96,065 | 79,418 | 16,647 |
| Other | 1-20 | 93,126 | 83,839 | 9,287 | 109,894 | 97,945 | 11,949 |
| | | \$ 381,490 | \$ 325,771 | \$ 55,719 | \$ 400,885 | \$ 343,916 | \$ 56,969 |

Intangible assets not subject to amortization had a carrying value of \$169,012 and \$174,435 (excluding intangible assets classified as assets held for sale) at September 30, 2006 and December 31, 2005, respectively, and consisted primarily of trademarks. Amortization expense for other intangible assets still subject to amortization was \$3,259 and \$2,280 for the three months ended September 30, 2006 and 2005, respectively, and \$9,026 and \$6,228 for the nine months ended September 30, 2006 and 2005, respectively. Amortization of deferred wiring costs of \$220 and \$365 for the three months ended September 30, 2006 and 2005, respectively, and \$544 and \$1,060 for the nine months ended September 30, 2006 and 2005, respectively, is also included in amortization of intangible assets and other on the accompanying condensed statements of consolidated operations. At September 30, 2006, estimated future amortization expenses of other intangible assets still subject to amortization, excluding deferred wiring costs, are as follows: approximately \$3,000 for the remainder of 2006 and approximately \$11,000, \$7,000, \$6,000 and \$5,000 for 2007, 2008, 2009 and 2010, respectively.

7. Accrued Expenses and Other

Accrued expenses and other current liabilities consisted of the following:

| | September 30, 2006 | December 31, 2005 |
|--|-----------------------|----------------------|
| Payroll, commissions and related employee benefits | \$ 29,094 | \$ 30,333 |
| Rent and lease liabilities | 6,365 | 5,643 |
| Retail display costs and allowances | 9,746 | 11,450 |
| Royalties | 1,315 | 2,337 |
| Circulation costs | 4,224 | 5,399 |
| Professional fees | 3,982 | 2,943 |
| Taxes | 28,229 | 19,475 |
| Deferred purchase price | 2,250 | 2,724 |
| Interest payable | 28,154 | 13,794 |
| Other | 28,195 | 28,221 |
| | \$ 141,554 | \$ 122,319 |

8. Long-term Debt

Long-term debt consisted of the following:

| | September 30, 2006 | December 31, 2005 |
|---|-----------------------|----------------------|
| Borrowings under bank credit facilities | \$ 495,000 | \$ 513,000 |
| 8 ⁷ / ₈ % Senior Notes Due 2011 | 408,411 | 471,013 |
| 8% Senior Notes Due 2013 | 300,000 | 300,000 |
| Senior Floating Rate Notes Due 2010 | 175,000 | 175,000 |
| | 1,378,411 | 1,459,013 |
| Obligation under capital leases | 3,253 | 5,434 |
| | 1,381,664 | 1,464,447 |
| Less: Current maturities of long-term debt | 11,325 | 7,677 |
| | \$ 1,370,339 | \$ 1,456,770 |

In the first quarter of 2006, the Company redeemed \$7,025 principal amount of its 8⁷/₈% Senior Notes due May 15, 2011 in three different transactions for \$6,832 plus \$200 of accrued interest. In the second quarter of 2006, the Company redeemed \$56,615 principal amount of its 8⁷/₈% Senior Notes in six different transactions for \$55,262 plus \$400 of accrued interest. As a result of these transactions, the Company recorded a gain of \$336 net of the write-off of unamortized deferred financing costs and bond discount during the nine months ended September 30, 2006. This gain is included in the other income (expense), net line on the accompanying condensed statements of consolidated operations.

Under the most restrictive covenants as defined in the bank credit facilities agreement, as amended on September 30, 2005, the Company must maintain a minimum interest coverage ratio, as defined, of 1.75 to 1 and a minimum fixed charge coverage ratio, as defined, of 1.05 to 1. The maximum allowable debt leverage ratio, as defined in the bank credit facilities, is 6.25 to 1 and decreases to 6.00 to 1 on October 1, 2007.

The Senior Floating Rate Notes bear interest equal to the three-month LIBOR plus 5.375% per year. The interest rate of the Senior Floating Rate Notes was 10.78% at September 30, 2006.

In October 2006, the Company redeemed a portion of its 8% Senior Notes (See Note 15).

9. Share-Based Compensation Plans

Accounting Prior to Adoption of SFAS No. 123(R)

Prior to January 1, 2006, the Company accounted for stock-based compensation using SFAS No. 123 under the prospective method. Upon adoption on January 1, 2003, 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 company adopted SFAS No. 123(R) on January 1, 2006.

The PRIMEDIA Inc. 1992 Stock Purchase and Option Plan, as amended (the "Stock Option Plan"), authorizes sales of shares of common stock and grants of incentive awards in the form of, among other things, stock options to key employees and other persons with a unique relationship with the Company. The Stock Option Plan has authorized grants of up to 45,000,000 shares of the Company's common stock or options to management personnel.

Stock options are granted with exercise prices at or above quoted market value at time of issuance. Most of the options are exercisable at the rate of 20%-33% per year commencing on the effective date of the grant. Most options granted pursuant to the Stock Option Plan will expire no later than ten years from the date the option was granted. The grant date fair value is calculated using the Black-Scholes pricing model.

Summary of Impact of SFAS No. 123(R)

Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The modified prospective transition method requires recognition of compensation expense from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employees awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date.

Upon adoption of SFAS No. 123(R), the Company recorded an increase in net income of \$352 as a portion of the cumulative effect of change in accounting principle due to SFAS No. 123(R)'s requirement to apply an estimated forfeiture rate to unvested awards (previously the Company recognized forfeitures when occurred) and a reduction to net income of \$330 as a portion of the cumulative effect of change in accounting principle as described in Note 3. The adoption of SFAS No. 123(R) did not have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Pro Forma Disclosure for the Three and Nine Months Ended September 30, 2005

Pro forma information regarding net income and earnings per share is required by SFAS No. 123(R), 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. The fair value of these options was estimated at the date of grant using the Black-Scholes pricing model with assumptions noted in the Stock Options section below.

| | Three Months Ended September 30, 2005 | Nine Months Ended September 30, 2005 |
|---|--|---|
| Reported net income | \$ 207,754 | \$ 578,279 |
| Add: stock-based employee compensation expense included in reported net income | 3,331 | 4,483 |
| Deduct: total stock-based employee compensation expense determined under fair value based method for all awards | (4,437) | (7,908) |
| Pro forma net income | \$ 206,648 | \$ 574,854 |
| Per common share: | | |
| Reported basic and diluted income | \$ 0.79 | \$ 2.20 |
| Pro forma basic and diluted income | \$ 0.79 | \$ 2.19 |

Fair Value Calculations by Award

Stock Options

The fair value of each option award was estimated at the date of grant using the Black-Scholes pricing model under the assumptions noted in the following table. Where certain inputs to the Black-Scholes model varied throughout the period, the ranges utilized for those assumptions are disclosed. Expected volatilities are based on historical volatilities of the Company's stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted is derived from the historical exercise behavior of employees and represents the period of time that options granted are expected to be outstanding. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | Three Months Ended September 30, 2006 | | 2005 | | Nine Months Ended September 30, 2006 | | 2005 | |
|-----------------------------|--|---|-------------|---|---|---|----------------|---|
| Expected volatility | 61.71 | % | 67.03 | % | 61.71% - 63.63 | % | 67.03% - 75.30 | % |
| Weighted-average volatility | 61.71 | % | 67.03 | % | 61.78 | % | 72.12 | % |
| Expected dividends | | | | | | | | |
| Expected term (in years) | 3 | | 3 | | 3 | | 3 | |
| Risk-free rate | 4.95% - 5.03 | % | 4.08 | % | 4.95% - 5.03 | % | 3.25% - 4.08 | % |

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. The Company's employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate of its employee stock options.

Edgar Filing: PRIMEDIA INC - Form 10-Q

In the third quarter of 2006, the Company granted two board members an aggregated total of 100,000 options to purchase shares of the company's Common stock. The exercise price of these stock options is \$1.60. These options vest annually over a three-year period following the date of grant.

A summary of the Company's stock options award activity as of September 30, 2006 and changes during the nine months ended September 30, 2006 is presented below:

| | Options | Weighted Average Exercise Price | Weighted Average remaining Contractual Term |
|-----------------------------------|------------|------------------------------------|---|
| Outstanding at January 1, 2006 | 20,712,058 | \$ 7.65 | |
| Granted | 110,000 | \$ 1.62 | |
| Exercised | (19,883) | \$ 1.82 | |
| Expired | (458,337) | \$ 7.37 | |
| Forfeited | (201,198) | \$ 3.11 | |
| Outstanding at September 30, 2006 | 20,142,640 | \$ 7.67 | 4 |
| Exercisable at September 30, 2006 | 18,584,611 | \$ 7.92 | 4 |

The weighted-average fair value per option for options granted during both the three and nine months ended September 30, 2006 was \$0.73. Cash received from the exercise of stock options during the three and nine months ended September 30, 2006 was \$1 and \$36, respectively. No options were settled in cash during the three and nine months ended September 30, 2006.

The Company's policy for attributing the value of graded vested share-based compensation awards is on a straight-line basis over the requisite service period for the entire award. As of September 30, 2006, there was \$900 of total unrecognized compensation cost related to unvested stock options. The cost is expected to be recognized over a weighted average period of 1 year.

Nonvested shares

The weighted average fair value of nonvested shares granted in the nine months ended September 30, 2005 was \$3.48.

A summary of the Company's nonvested shares award activity as of September 30, 2006 and changes during the nine months ended September 30, 2006 is presented below:

| | Number of Shares | Weighted Average Grant-Date Fair Value |
|--|---------------------|--|
| Nonvested Shares at January 1, 2006 | 804,500 | \$ 2.95 |
| Vested | (43,963) | \$ 2.97 |
| Forfeited | (5,500) | \$ 2.90 |
| Nonvested Shares at September 30, 2006 | 755,037 | \$ 2.95 |

As of September 30, 2006, there was \$967 of total unrecognized compensation cost related to nonvested shares. The cost is expected to be recognized over a weighted average period of 1 year.

The total fair value of shares vested during the nine months ended September 30, 2006 was \$131.

The Company has 9,685,921 shares of the Company's common stock reserved for future grants in connection with the Stock Option Plan at September 30, 2006.

Employee Stock Purchase Plan (ESPP)

Effective January 1, 2006, the ESPP was amended to provide that the purchase price of shares through the ESPP is 95% of the closing stock price on the last day of the offering period. Due to the amendment, the ESPP became non-compensatory and thus no charges were recorded for the three and nine months ended September 30, 2006. ESPP non-cash compensation for the three and nine months ended September 30, 2005 did not have a material impact on the Company's statements of consolidated operations. In January and July 2006, the Company issued 170,054 and 112,877 shares purchased under the ESPP during the offering periods of the six months ended December 31, 2005 and June 30, 2006, respectively.

The Company has 2,451,000 shares of the Company's common stock reserved for future grants in connection with the ESPP at September 30, 2006.

Non-Cash Compensation

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| Nonvested shares | \$ 348 | \$ 739 | \$ 1,085 | \$ 1,991 |
| Share Based Compensation (SFAS 123(R) and SFAS 123) | 63 | 3,331 | 1,863 | 4,483 |
| Total | \$ 411 | \$ 4,070 | \$ 2,948 | \$ 6,474 |

10. Provision for Severance, Closures and Restructuring Related Costs

In 2006, the Company began new cost reduction initiatives to streamline operations, reduce layers of management and consolidate real estate.

Details of the new initiatives implemented and the payments made related to both the new and previously implemented plans during the nine months ended September 30, 2006 and 2005 are presented in the following tables:

| | Liability as of January 1, 2006 | Net Provision for the Nine Months Ended September 30, 2006 | Payments during the Nine Months Ended September 30, 2006 | Liability as of September 30, 2006 |
|--|---------------------------------------|--|--|--|
| Severance and closures: | | | | |
| Employee-related termination costs | \$ 245 | \$ 1,741 | \$ (1,522) | \$ 464 |
| Termination of leases related to office closures | 29,228 | 467 | (3,379) | 26,316 |
| Total severance and closures | \$ 29,473 | \$ 2,208 | \$ (4,901) | \$ 26,780 |

| | Liability as of January 1, 2005 | Net Provision for the Nine Months Ended September 30, 2005 | Payments during the Nine Months Ended September 30, 2005 | Liability as of September 30, 2005 |
|--|---------------------------------------|--|--|--|
| Severance and closures: | | | | |
| Employee-related termination costs | \$ 1,501 | \$ 1,489 | \$ (2,387) | \$ 603 |
| Termination of leases related to office closures | 34,450 | 67 | (4,262) | 30,255 |
| Total severance and closures | \$ 35,951 | \$ 1,556 | \$ (6,649) | \$ 30,858 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

The remaining liability related to real estate lease commitments for space that the Company no longer occupies, is expected to be paid through 2015. The employee-related termination costs are expected to be paid through 2006. To reduce the lease related costs, the Company has aggressively pursued subleases of its available office space. These leases have been recorded at their net present value amounts and are net of sublease income amounts. The Company evaluates the appropriateness of its reserves on a quarterly basis.

As a result of the implementation of this new plan, the Company has closed 4 office location and has terminated a total of 70 individuals.

Liabilities of \$3,848 and \$3,972 representing the current portion of the provision for severance, closures and restructuring related costs are included in accrued expenses and other on the condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively. Liabilities of \$22,932 and \$25,501 representing the non-current portion of the provision for severance, closures and restructuring related costs are included in other non-current liabilities on the condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively.

For purposes of the Company's bank credit facility and Senior Note agreements, the provision for severance, closures and restructuring related costs is excluded from the Company's calculation of consolidated EBITDA.

11. Income per Common Share

Income per common share for the three and nine months ended September 30, 2006 and 2005 has been determined based on net income divided by the weighted average number of common shares outstanding for all periods presented.

The securities that could potentially dilute basic earnings per share in the future consist of approximately 9,870,000 warrants at September 30, 2006 and 2005, and 20,142,640 and 22,103,785 stock options at September 30, 2006 and 2005, respectively.

12. Commitments and 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 effect on the condensed consolidated financial statements of the Company.

In 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities, however, the Company retained a secondary liability regarding the Carrolton, TX building lease and a lease for satellite time. At the time of the sale the Company received a third party guarantee of up to \$10,000 against those lease obligations to reimburse the Company for lease payments made.

In 2006, the Company made certain lease payments on behalf of Workplace Learning pursuant to its secondary liability. During the second quarter of 2006, the Company determined that it was probable that the Company would be responsible for the lease payments. As a result, as of September 30, 2006, the Company has a receivable of \$10,000 included in prepaid expenses and other current assets for the amount due from the third party guarantor, and a total liability of \$15,231 for the fair value of the future lease payments, net of estimated sublease income, on the accompanying condensed consolidated balance sheet. During the second quarter of 2006, the Company recorded a related provision in discontinued operations of \$5,584 and a charge to discontinued operations of \$1,643 for the net lease payments made by the Company prior to June 30, 2006. As of September 30, 2006, no further provisions were deemed necessary.

13. Business Segment Information

The Company's products compete primarily in the United States, in three principal segments: Enthusiast Media, Consumer Guides and Education. PRIMEDIA believes that this structure aligns its businesses to provide a clearer sense of its strategic focus and operating performance.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The Enthusiast Media segment produces and distributes content through magazines and via the Internet to consumers in various niche and enthusiast markets. It connects buyers and sellers through the Company's consumer magazine brands, Internet, events, video programs, licensing and merchandising.

The Consumer Guides segment is the nation's largest publisher and distributor of free publications, including *Apartment Guide*, *New Home Guide* and *Auto Guide* and operates related Internet sites.

The Education segment consists of the businesses that provide content for schools, universities, government and other public institutions as well as training. It includes Channel One, Films Media Group and PRIMEDIA Healthcare, a continuing medical education business.

The following information 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.

Information regarding the operations of the Company in different business segments 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 segment earnings before interest, taxes, depreciation, amortization and other charges (income) (Segment EBITDA). Other charges (income) include non-cash compensation, provision for severance, closures and restructuring related costs and (gain) loss on sale of businesses and other, net.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues, net: | | | | |
| Enthusiast Media | \$ 162,182 | \$ 154,688 | \$ 467,640 | \$ 449,907 |
| Consumer Guides | 81,352 | 81,310 | 244,036 | 236,429 |
| Education | 10,610 | 10,996 | 40,596 | 48,231 |
| Intersegment Eliminations | (109) | (66) | (225) | (234) |
| Total | \$ 254,035 | \$ 246,928 | \$ 752,047 | \$ 734,333 |
| Segment EBITDA:(1) | | | | |
| Enthusiast Media | \$ 34,354 | \$ 32,417 | \$ 88,287 | \$ 88,348 |
| Consumer Guides | 21,699 | 17,791 | 57,609 | 53,947 |
| Education | (2,952) | (1,738) | (3,064) | 3,969 |
| Corporate Overhead | (6,586) | (6,302) | (20,553) | (19,967) |
| Total Segment EBITDA | 46,515 | 42,168 | 122,279 | 126,297 |
| Depreciation, amortization and other charges(2) | 11,411 | 13,940 | 36,594 | 35,417 |
| Operating income | 35,104 | 28,228 | 85,685 | 90,880 |
| Other income (expense): | | | | |
| Interest expense(3) | (33,574) | (32,440) | (85,855) | (98,266) |
| Interest on shares subject to mandatory redemption(4) | | (4,566) | | (21,920) |
| Amortization of deferred financing costs | (630) | (1,042) | (1,946) | (3,560) |
| Other income (expense), net | 787 | (2,906) | 1,102 | (7,083) |
| Income (loss) from continuing operations before provision for income taxes | \$ 1,687 | \$ (12,726) | \$ (1,014) | \$ (39,949) |

(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 be and should not be considered as an alternative to net income or loss (as determined in conformity with generally accepted accounting principles), or as an indicator of the Company's operating performance. Segment

EBITDA is presented herein because the Company's chief operating decision maker evaluates and measures each business unit's performance based on its Segment EBITDA results. PRIMEDIA believes that Segment EBITDA is an accurate indicator of its segments' results, because it focuses on revenue and operating cost items driven by each operating manager's performance, and excludes items largely outside of the operating manager's control. Segment EBITDA as presented may not be comparable to similarly titled measures reported by other companies since not all companies necessarily calculate Segment EBITDA in an identical manner, and therefore, is not necessarily an accurate measure of comparison between companies.

(2) Other charges include non-cash compensation, provision for severance, closures and restructuring related costs and (gain) loss on sale of businesses and other, net.

(3) Interest expense increased by \$482 for the three months ended September 30, 2006 and was decreased by \$11,559 for the nine months ended September 30, 2006, due to the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the Automotive.com acquisition (See Note 3).

(4) During 2005, the Company redeemed all of its outstanding shares subject to mandatory redemption (liquidation preference of approximately \$475,000 for the year ended December 31, 2005, and \$264,494 for the nine months ended September 30, 2005).

14. Financial Information for Guarantors of the Company's Debt

The information that follows presents condensed consolidating financial information as of September 30, 2006 and December 31, 2005 and for the three and nine months ended September 30, 2006 and 2005 for a) PRIMEDIA Inc. (as the Issuer), b) the guarantor subsidiaries, which are with limited exceptions, the restricted subsidiaries, representing 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), which are with limited exceptions, the unrestricted subsidiaries, d) elimination entries and e) the Company on a consolidated basis.

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 subsidiaries results of operations include: Internet 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.

The Company is herewith providing detailed information and disclosure as to the methodology used in determining compliance with the leverage ratio in the credit facilities agreement and Senior Note agreements. Under its bank credit facilities and Senior Note agreements, the Company is allowed to designate certain businesses as unrestricted subsidiaries to the extent that the value of those businesses does not exceed the permitted amounts, as defined in these agreements. The Company has designated certain of its businesses as unrestricted (the Unrestricted Group), which primarily represent Internet businesses, trademark and content licensing and service companies, new launches (including traditional start-ups), other properties under evaluation for turnaround or shutdown and foreign subsidiaries. Except

for those specifically designated by the Company as unrestricted, all businesses of the Company are restricted (the Restricted Group). Indebtedness under the bank credit facilities and Senior Note agreements is guaranteed by each of the Company's 100%-owned domestic subsidiaries in the Restricted Group in accordance with the provisions and limitations of the Company's bank credit facilities and Senior Note agreements. The guarantees are full, unconditional and joint and several. The Unrestricted Group does not guarantee the bank credit facilities or Senior Notes. Although Automotive.com is included in the Restricted Group under the bank credit facilities agreement and Senior Notes it does not guarantee the debt. For purposes of determining compliance with certain financial covenants under the Company's bank credit facilities, the Unrestricted Group's results (positive or negative), are not reflected in the Consolidated EBITDA of the Restricted Group which, as defined in the bank credit facilities agreement, excludes losses of the Unrestricted Group, non-cash charges and restructuring charges and is adjusted primarily for the trailing four quarters results of acquisitions and divestitures and estimated savings for acquired business.

20

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(UNAUDITED)
September 30, 2006
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|--|---------------|---------------------------|-------------------------------|-----------------|--------------------------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 58,657 | \$ 4,550 | \$ 8,625 | \$ | \$ 71,832 |
| Accounts receivable, net | | 114,124 | 18,234 | | 132,358 |
| Inventories | | 14,355 | 1,658 | | 16,013 |
| Prepaid expenses and other | 14,455 | 19,466 | 7,599 | | 41,520 |
| Total current assets | 73,112 | 152,495 | 36,116 | | 261,723 |
| Property and equipment, net | 4,271 | 38,831 | 11,501 | | 54,603 |
| Investment in and advances to subsidiaries | 1,291,652 | | | (1,291,652) | |
| Intangible assets, net | | 185,846 | 38,885 | | 224,731 |
| Goodwill | | 664,753 | 109,348 | | 774,101 |
| Other non-current assets | 5,487 | 26,451 | 1,115 | | 33,053 |
| Total Assets | \$ 1,374,522 | \$ 1,068,376 | \$ 196,965 | \$ (1,291,652) | \$ 1,348,211 |
| LIABILITIES AND SHAREHOLDERS DEFICIENCY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 4,254 | \$ 43,443 | \$ 1,986 | \$ | \$ 49,683 |
| Intercompany payables | 300,538 | (948,668) | 648,130 | | |
| Accrued expenses and other | 60,230 | 75,151 | 6,173 | | 141,554 |
| Deferred revenues | 1,738 | 99,961 | 6,575 | | 108,274 |
| Current maturities of long-term debt | 10,248 | 1,049 | 28 | | 11,325 |
| Total current liabilities | 377,008 | (729,064) | 662,892 | | 310,836 |
| Long-term debt | 1,368,340 | 1,897 | 102 | | 1,370,339 |
| Intercompany notes payable | | 2,144,642 | | (2,144,642) | |
| Deferred revenues | 13,175 | | | | 13,175 |
| Deferred income taxes | 88,124 | | | | 88,124 |
| Other non-current liabilities | 36,947 | 21,692 | 16,170 | | 74,809 |
| Total Liabilities | 1,883,594 | 1,439,167 | 679,164 | (2,144,642) | 1,857,283 |
| Shareholders' deficiency: | | | | | |
| Common stock | 2,725 | | | | 2,725 |
| Additional paid-in capital | 2,366,126 | | | | 2,366,126 |
| Accumulated deficit | (2,802,046) | (370,791) | (482,199) | 852,990 | (2,802,046) |
| Common stock in treasury, at cost | (75,877) | | | | (75,877) |
| Total Shareholders' Deficiency | (509,072) | (370,791) | (482,199) | 852,990 | (509,072) |
| Total Liabilities and Shareholders Deficiency | \$ 1,374,522 | \$ 1,068,376 | \$ 196,965 | \$ (1,291,652) | \$ 1,348,211 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS
(UNAUDITED)
For the Three Months Ended September 30, 2006
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|----------------------|-----------------------------------|---------------------------------------|---------------------|---|
| Revenues, net | \$ | \$ 202,588 | \$ 54,252 | \$ (2,805) | \$ 254,035 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | | 49,998 | 10,052 | | 60,050 |
| Marketing and selling | | 38,100 | 6,792 | | 44,892 |
| Distribution, circulation and fulfillment | | 30,729 | 16,892 | | 47,621 |
| Editorial | | 14,886 | 2,574 | | 17,460 |
| Other general expenses | 19 | 9,401 | 24,315 | (2,805) | 30,930 |
| Corporate administrative expenses (including non-cash compensation) | 5,493 | | 1,485 | | 6,978 |
| Depreciation and amortization of property and equipment | 439 | 4,759 | 2,031 | | 7,229 |
| Amortization of intangible assets and other | | 1,580 | 1,899 | | 3,479 |
| Provision for severance, closures and restructuring related costs | 11 | 278 | 3 | | 292 |
| Operating income (loss) | (5,962) | 52,857 | (11,791) | | 35,104 |
| Other income (expense): | | | | | |
| Interest expense | (32,776) | (297) | (501) | | (33,574) |
| Amortization of deferred financing costs | | (601) | (29) | | (630) |
| Intercompany management fees and interest | 34,705 | (33,178) | (1,527) | | |
| Other income (expense), net | 764 | 310 | (287) | | 787 |
| Income (loss) from continuing operations before provision for income taxes | (3,269) | 19,091 | (14,135) | | 1,687 |
| Provision for income taxes | (4,947) | (15) | (47) | | (5,009) |
| Equity in losses of subsidiaries | 58,800 | | | (58,800) | |
| Income (loss) from continuing operations | 50,584 | 19,076 | (14,182) | (58,800) | (3,322) |
| Discontinued operations, net of tax | 3,168 | 55,451 | (1,545) | | 57,074 |
| Net income (loss) | \$ 53,752 | \$ 74,527 | \$ (15,727) | \$ (58,800) | \$ 53,752 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS
(UNAUDITED)
For the Nine Month Ended September 30, 2006
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|--|---------------|---------------------------|-------------------------------|--------------|--------------------------------------|
| Revenues, net | \$ | \$ 602,927 | \$ 155,907 | \$ (6,787) | \$ 752,047 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | | 150,143 | 26,645 | | 176,788 |
| Marketing and selling | | 119,480 | 21,287 | | 140,767 |
| Distribution, circulation and fulfillment | | 93,306 | 51,756 | | 145,062 |
| Editorial | | 43,709 | 7,961 | | 51,670 |
| Other general expenses | 48 | 30,435 | 71,281 | (6,787) | 94,977 |
| Corporate administrative expenses (including non-cash compensation) | 18,859 | 48 | 4,545 | | 23,452 |
| Depreciation and amortization of property and equipment | 1,128 | 14,465 | 6,247 | | 21,840 |
| Amortization of intangible assets and other | | 4,617 | 4,953 | | 9,570 |
| Provision for severance, closures and restructuring related costs | 18 | 2,147 | 43 | | 2,208 |
| Loss on sale of businesses and other, net | | 28 | | | 28 |
| Operating income (loss) | (20,053) | 144,549 | (38,811) | | 85,685 |
| Other income (expense): | | | | | |
| Interest expense | (96,384) | (961) | 11,490 | | (85,855) |
| Amortization of deferred financing costs | | (1,858) | (88) | | (1,946) |
| Intercompany management fees and interest | 109,119 | (104,623) | (4,496) | | |
| Other income (expense), net | 2,330 | (787) | (441) | | 1,102 |
| Income (loss) from continuing operations before provision for income taxes | (4,988) | 36,320 | (32,346) | | (1,014) |
| Provision for income taxes | (6,506) | (435) | (196) | | (7,137) |
| Equity in losses of subsidiaries | 74,989 | | | (74,989) | |
| Income (loss) from continuing operations | 63,495 | 35,885 | (32,542) | (74,989) | (8,151) |
| Discontinued operations, net of tax | (4,248) | 73,345 | (1,369) | | 67,728 |
| Cumulative effect of change in accounting principle (from the adoption of Statement of Financial Accounting Standards No.123(R)) | 352 | | (330) | | 22 |
| Net income (loss) | \$ 59,599 | \$ 109,230 | \$ (34,241) | \$ (74,989) | \$ 59,599 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING CASH FLOWS
(UNAUDITED)
For the Nine Month Ended September 30, 2006
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---------------|---------------------------|-------------------------------|--------------|--------------------------------------|
| Operating activities: | | | | | |
| Net income (loss) | \$ 59,599 | \$ 109,230 | \$ (34,241) | \$ (74,989) | \$ 59,599 |
| Cumulative effect of change in accounting principle | (352) | | 330 | | (22) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | (175,842) | 60,609 | 6,042 | 74,989 | (34,202) |
| Changes in operating assets and liabilities | 6,685 | 9,498 | (9,268) | | 6,915 |
| Net cash provided by (used in) operating activities | (109,910) | 179,337 | (37,137) | | 32,290 |
| Investing activities: | | | | | |
| Additions to property and equipment | (1,916) | (10,533) | (5,953) | | (18,402) |
| Proceeds from (payments for) sales of businesses and other | (843) | 153,817 | (1,126) | | 151,848 |
| Payments for businesses acquired, net of cash acquired | (140) | (4,687) | (15,508) | | (20,335) |
| Proceeds from sale of other investments | 1,300 | | | | 1,300 |
| Net cash provided by (used in) investing activities | (1,599) | 138,597 | (22,587) | | 114,411 |
| Financing activities: | | | | | |
| Intercompany activity | 250,276 | (315,743) | 65,467 | | |
| Borrowings under credit agreements | 250,100 | | | | 250,100 |
| Repayments of borrowings under credit agreements | (268,100) | | | | (268,100) |
| Payments for repurchases of senior notes | (62,094) | | | | (62,094) |
| Proceeds from issuances of common stock | 463 | | | | 463 |
| Capital lease payments | (800) | (1,661) | 130 | | (2,331) |
| Other | | (162) | | | (162) |
| Net cash provided by (used in) financing activities | 169,845 | (317,566) | 65,597 | | (82,124) |
| Increase in cash and cash equivalents | 58,336 | 368 | 5,873 | | 64,577 |
| Cash and cash equivalents, beginning of period | 321 | 4,182 | 2,752 | | 7,255 |
| Cash and cash equivalents, end of period | \$ 58,657 | \$ 4,550 | \$ 8,625 | \$ | \$ 71,832 |

PRIMEDIA INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2005
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|--|---------------|---------------------------|-------------------------------|---------------|--------------------------------------|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 321 | \$ 4,182 | \$ 2,752 | \$ | \$ 7,255 |
| Accounts receivable, net | | 117,528 | 17,245 | | 134,773 |
| Inventories | | 19,601 | 1,611 | | 21,212 |
| Prepaid expenses and other | 8,622 | 17,668 | 3,432 | | 29,722 |
| Assets held for sale | | 109,129 | | | 109,129 |
| Total current assets | 8,943 | 268,108 | 25,040 | | 302,091 |
| Property and equipment, net | 3,090 | 42,215 | 11,563 | | 56,868 |
| Investment in and advances to subsidiaries | 471,538 | | | (471,538) | |
| Intangible assets, net | | 186,554 | 44,850 | | 231,404 |
| Goodwill | | 648,185 | 114,992 | | 763,177 |
| Other non-current assets | 4,727 | 28,990 | 2,211 | | 35,928 |
| Total Assets | \$ 488,298 | \$ 1,174,052 | \$ 198,656 | \$ (471,538) | \$ 1,389,468 |
| LIABILITIES AND SHAREHOLDERS DEFICIENCY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 8,140 | \$ 37,949 | \$ 6,895 | \$ | \$ 52,984 |
| Intercompany payables | (588,458) | (867,988) | 1,456,446 | | |
| Accrued expenses and other | 46,975 | 67,395 | 7,949 | | 122,319 |
| Deferred revenues | 1,738 | 94,335 | 11,867 | | 107,940 |
| Current maturities of long-term debt | 5,816 | 1,827 | 34 | | 7,677 |
| Liabilities of businesses held for sale | | 33,203 | | | 33,203 |
| Total current liabilities | (525,789) | (633,279) | 1,483,191 | | 324,123 |
| Long-term debt | 1,454,174 | 2,457 | 139 | | 1,456,770 |
| Intercompany notes payable | | 2,226,286 | | (2,226,286) | |
| Deferred revenues | 14,447 | | | | 14,447 |
| Deferred income taxes | 87,655 | | | | 87,655 |
| Other non-current liabilities | 29,540 | 22,069 | 26,593 | | 78,202 |
| Total Liabilities | 1,060,027 | 1,617,533 | 1,509,923 | (2,226,286) | 1,961,197 |
| Shareholders' deficiency: | | | | | |
| Common stock | 2,722 | | | | 2,722 |
| Additional paid-in capital | 2,363,071 | | | | 2,363,071 |
| Accumulated deficit | (2,861,645) | (443,481) | (1,311,267) | 1,754,748 | (2,861,645) |
| Common stock in treasury, at cost | (75,877) | | | | (75,877) |
| Total Shareholders' Deficiency | (571,729) | (443,481) | (1,311,267) | 1,754,748 | (571,729) |
| Total Liabilities and Shareholders Deficiency | \$ 488,298 | \$ 1,174,052 | \$ 198,656 | \$ (471,538) | \$ 1,389,468 |

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

For the Three Months Ended September 30, 2005

(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---------------|---------------------------|-------------------------------|---------------|--------------------------------------|
| Revenues, net | \$ | \$ 212,645 | \$ 39,585 | \$ (5,302) | \$ 246,928 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | | 53,458 | 2,779 | | 56,237 |
| Marketing and selling | | 41,622 | 5,308 | | 46,930 |
| Distribution, circulation and fulfillment | | 29,895 | 17,791 | | 47,686 |
| Editorial | | 15,852 | 1,729 | | 17,581 |
| Other general expenses | 12 | 15,559 | 19,765 | (5,302) | 30,034 |
| Corporate administrative expenses (including non-cash compensation) | 8,917 | 136 | 1,309 | | 10,362 |
| Depreciation and amortization of property and equipment | 621 | 2,989 | 3,439 | | 7,049 |
| Amortization of intangible assets and other | | 4,307 | (1,662) | | 2,645 |
| Provision for severance, closures and restructuring related costs | | 248 | 8 | | 256 |
| Gain on sale of businesses and other, net | | (80) | | | (80) |
| Operating income (loss) | (9,550) | 48,659 | (10,881) | | 28,228 |
| Other income (expense): | | | | | |
| Interest expense | (32,091) | (333) | (16) | | (32,440) |
| Interest on shares subject to mandatory redemption | (4,566) | | | | (4,566) |
| Amortization of deferred financing costs | (103) | (921) | (18) | | (1,042) |
| Intercompany management fees and interest | 35,277 | (34,580) | (697) | | |
| Other expense, net | (21) | (2,827) | (58) | | (2,906) |
| Income (loss) from continuing operations before provision for income taxes | (11,054) | 9,998 | (11,670) | | (12,726) |
| Provision for income taxes | (4,029) | (58) | (3) | | (4,090) |
| Equity in earnings of subsidiaries | 220,291 | | | (220,291) | |
| Income (loss) from continuing operations | 205,208 | 9,940 | (11,673) | (220,291) | (16,816) |
| Discontinued operations, net of tax | 2,546 | 225,009 | (2,985) | | 224,570 |
| Net income (loss) | \$ 207,754 | \$ 234,949 | \$ (14,658) | \$ (220,291) | \$ 207,754 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS
(UNAUDITED)
For the Nine Months Ended September 30, 2005
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---------------|---------------------------|-------------------------------|---------------|--------------------------------------|
| Revenues, net: | \$ | \$ 639,691 | \$ 113,965 | \$ (19,323) | \$ 734,333 |
| Operating costs and expenses: | | | | | |
| Cost of goods sold (exclusive of depreciation and amortization of property and equipment) | | 153,362 | 6,549 | | 159,911 |
| Marketing and selling | | 128,447 | 14,109 | | 142,556 |
| Distribution, circulation and fulfillment | | 89,707 | 51,079 | | 140,786 |
| Editorial | | 47,026 | 4,576 | | 51,602 |
| Other general expenses | 36 | 52,008 | 60,529 | (19,323) | 93,250 |
| Corporate administrative expenses (including non-cash compensation) | 22,262 | 135 | 4,008 | | 26,405 |
| Depreciation and amortization of property and equipment | 1,986 | 13,355 | 4,838 | | 20,179 |
| Amortization of intangible assets and other | | 7,065 | 223 | | 7,288 |
| Provision for severance, closures and restructuring related costs | (669) | 2,126 | 99 | | 1,556 |
| Gain on sale of businesses and other, net | | (80) | | | (80) |
| Operating income (loss) | (23,615) | 146,540 | (32,045) | | 90,880 |
| Other income (expense): | | | | | |
| Interest expense | (97,245) | (969) | (52) | | (98,266) |
| Interest on shares subject to mandatory redemption | (21,920) | | | | (21,920) |
| Amortization of deferred financing costs | (669) | (2,675) | (216) | | (3,560) |
| Intercompany management fees and interest | 111,424 | (103,578) | (7,846) | | |
| Other expense, net | (3,607) | (3,418) | (58) | | (7,083) |
| Income (loss) from continuing operations before provision for income taxes | (35,632) | 35,900 | (40,217) | | (39,949) |
| Provision for income taxes | (9,626) | (208) | (8) | | (9,842) |
| Equity in earnings of subsidiaries | 621,757 | | | (621,757) | |
| Income (loss) from continuing operations | 576,499 | 35,692 | (40,225) | (621,757) | (49,791) |
| Discontinued operations, net of tax | 1,780 | 628,522 | (2,232) | | 628,070 |
| Net income (loss) | \$ 578,279 | \$ 664,214 | \$ (42,457) | \$ (621,757) | \$ 578,279 |

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENT OF CONSOLIDATING CASH FLOWS
(UNAUDITED)
For the Nine Months Ended September 30, 2005
(dollars in thousands)

| | PRIMEDIA Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | PRIMEDIA Inc. and Subsidiaries |
|---|---------------|---------------------------|-------------------------------|---------------|--------------------------------------|
| Operating activities: | | | | | |
| Net income (loss) | \$ 578,279 | \$ 664,214 | \$ (42,457) | \$ (621,757) | \$ 578,279 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities | (709,600) | (459,096) | 10,234 | 621,757 | (536,705) |
| Changes in operating assets and liabilities | (5,915) | (25,368) | (5,653) | | (36,936) |
| Net cash provided by (used in) operating activities | (137,236) | 179,750 | (37,876) | | 4,638 |
| Investing activities: | | | | | |
| Additions to property, equipment and other, net | (145) | (15,901) | (5,635) | | (21,681) |
| Proceeds from sales of businesses and other | | 795,098 | 21,404 | | 816,502 |
| Payments for businesses acquired, net of cash acquired | | (24,027) | (3,803) | | (27,830) |
| Net cash provided by (used in) investing activities | (145) | 755,170 | 11,966 | | 766,991 |
| Financing activities: | | | | | |
| Intercompany activity | 911,543 | (937,654) | 26,111 | | |
| Borrowings under credit agreements | 979,709 | | | | 979,709 |
| Repayments of borrowings under credit agreements | (960,616) | | | | (960,616) |
| Payments for repurchases of senior notes | (81,017) | | | | (81,017) |
| Proceeds from issuances of common stock | 1,657 | | | | 1,657 |
| Redemption of Series D and F Exchangeable Preferred Stock | (264,494) | | | | (264,494) |
| Deferred financing costs paid | (549) | (266) | (17) | | (832) |
| Capital lease payments | (1,163) | (2,816) | (162) | | (4,141) |
| Other | | (151) | | | (151) |
| Net cash provided by (used in) financing activities | 585,070 | (940,887) | 25,932 | | (329,885) |
| Increase (decrease) in cash and cash equivalents | 447,689 | (5,967) | 22 | | 441,744 |
| Cash and cash equivalents, beginning of period | 3,495 | 9,480 | 25 | | 13,000 |
| Cash and cash equivalents, end of period | \$ 451,184 | \$ 3,513 | \$ 47 | \$ | \$ 454,744 |

15. Subsequent events

Redemption of Senior Notes

During October 2006, the Company redeemed \$5,190 principal amount of its 8% Senior Notes due 2013 in two separate transactions for a total of \$4,790 plus \$164 of accrued interest. As a result, the Company recorded a gain of \$400 net of the write-off of unamortized deferred financing costs.

Filing of Form 10

In late 2005, the Company announced that its Board of Directors authorized management, along with advisors Goldman Sachs and Lehman Brothers, and counsel Simpson Thacher & Bartlett, to explore the separation of its businesses via a tax-free spin-off into two separate publicly-traded companies. The plan being contemplated would spin-off PRIMEDIA's Consumer Guides Segment. In furtherance of the assessment of a potential spin-off, the Board of Directors approved the filing of a ruling request with the Internal Revenue Service and a Form 10 with the Securities and Exchange Commission. The IRS ruling request was filed during the third quarter, and the Form 10 was filed in November 2006. Although the Board has taken these additional steps, there has been no final decision on whether to complete the spin-off.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (dollars in thousands, except share and per share amounts)

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 newsstand sales) and other sources including online lead generation, events, third party distribution, television, radio, list rental, brand licensing and merchandising. PRIMEDIA's Operating expenses, for Segment EBITDA purposes, include cost of goods sold (paper and printing), exclusive of depreciation of property and equipment; marketing and selling; distribution, circulation and fulfillment; editorial; and other general and corporate administrative expenses (collectively referred to as "Operating expenses"). See *Why We Use the Term Segment EBITDA*.

The Company has three reportable segments which best enable it to execute key investment and organic growth initiatives. Those segments are Enthusiast Media, Consumer Guides and Education.

Background

Historically, PRIMEDIA was a broad based media enterprise built primarily from a series of acquisitions and comprised of numerous disparate assets. In recent years, in order to better focus on its core businesses and to reduce debt and shares subject to mandatory redemption while investing in organic growth by primarily making only small Internet acquisitions which accelerate organic growth, the Company has been opportunistically divesting selective properties. As a result, the Company has positioned itself as a highly focused targeted media company which is investing in its businesses to drive growth.

Additionally, to counter the effects of the continued weakness in the overall advertising environment, the Company aggressively attacked its cost structure. The Company realigned and reorganized its management structure to better reflect its emphasis on delivering exceptional products and brands to the marketplace to achieve organic growth while managing 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, creating operational and financial efficiencies.

Overall, these actions have made the Company a more efficient organization with a strengthened balance sheet and improved liquidity.

Business Trends

The Company is currently facing difficult market conditions, specifically in magazine advertising and circulation. Additionally, high levels of condominium conversions coupled with lower mortgage rates are spurring housing purchases and limiting existing and potential customers for Apartment Guide markets while some markets experienced decreased vacancy rates and lower advertising spending.

Company Strategy

Edgar Filing: PRIMEDIA INC - Form 10-Q

The Company's strategy is to focus on its core targeted media businesses and grow by expanding the Internet and leveraging and expanding its market-leading brands. In 2006, the Company continues to make organic growth its top priority. PRIMEDIA believes that it is well positioned to capitalize on the shift away from mass advertising to targeted media.

The Company continues to implement its organic growth strategy through various actions, including:

- improving product quality and circulation performance,
- expanding the Internet, particularly in developing new transactional marketplaces,
- leveraging its dominance in the highly targeted male 18-34 advertising market,
- expanding its well-known brands through extensions including events, television, radio, licensing and merchandising.

At the same time, the Company continues to focus on cost reductions which will be utilized to fund various elements of its growth strategies.

The Company's business segments are highlighted in the segment discussions below and in the Results of Operations section.

Company Explores Separation of its Businesses

In late 2005, the Company announced that its Board of Directors authorized management, along with advisors Goldman Sachs and Lehman Brothers, and counsel Simpson Thacher & Bartlett, to explore the separation of its businesses via a tax-free spin-off into two separate publicly-traded companies. The plan being contemplated would spin-off PRIMEDIA's Consumer Guides Segment. In furtherance of the assessment of a potential spin-off, the Board of Directors approved the filing of a ruling request with the Internal Revenue Service and a Form 10 with the Securities and Exchange Commission (SEC). Both the IRS ruling request and Form 10 have been filed. Although the Board has taken these additional steps, there has been no final decision on whether to complete the spin-off.

Summary of Consolidated Results for the nine months ended September 30, 2006

For the nine months ended September 30, 2006, revenues were \$752,047, up 2.4% as compared to \$734,333 in 2005. Revenues increased in the Company's Enthusiast Media and Consumer Guides segments, by 3.9% and 3.2%, respectively, while revenues decreased in the Education segment by 15.8%. In 2006, Operating Expenses were \$629,768, up 3.6% compared to 2005. In 2006, operating income was \$85,685, down \$5,195 or 5.7% from \$90,880 in 2005. Net income was \$59,599 in 2006 compared to \$578,279 in 2005, the decrease primarily due to the gain on sale of About, Inc. of \$378,906 in the first quarter of 2005 and the gain on sale of the Business Information segment of \$219,000 in the third quarter of 2005.

Forward-Looking Information

This report contains statements that are, or may be considered to be, forward-looking statements. All statements that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. You can identify these forward-looking statements by the use of forward-looking words such as outlook, believes, expects, potential, continues, may, should, seeks, approximately, predicted, plans, estimates, anticipates, foresees or the negative version of those words or other comparable words and phrases. Any forward-looking statements contained in this information statement are based upon our historical performance and on current plans, estimates and expectations. We may make additional written or oral forward-looking statements from time to time in filings with the SEC or otherwise. Forward-looking statements speak only as of the date the statement is made. Forward-looking statements involve risks and uncertainties, and the inclusion of this forward-

looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations contemplated by us will be achieved.

Why We Use the Term Segment EBITDA

Segment EBITDA represents each segment's earnings before interest, taxes, depreciation, amortization and other charges (income) (Segment EBITDA). Other charges (income) include non-cash compensation, provision for severance, closures and restructuring related costs and (gain)/loss on sale of businesses and other, net. PRIMEDIA believes that Segment EBITDA is an accurate indicator of its segments' results, because it focuses on revenue and operating cost items driven by operating managers' performance, and excludes items largely outside of operating managers' control. Internally, the Company's chief operating decision maker, its Chairman, President and Chief Executive Officer (CEO), and the executive team measure performance primarily based on Segment EBITDA.

Segment EBITDA is not intended to be and should not be considered as an alternative to net income or loss, as determined in conformity with accounting principles generally accepted in the United States of America, as an indicator of the Company's operating performance. Segment EBITDA, as presented, may not be comparable to similarly titled measures reported by other companies since not all companies necessarily calculate Segment EBITDA in an identical manner, and therefore, it is not necessarily an accurate measure of comparison between companies. See reconciliation of Segment EBITDA to net in *Segment Data* below.

Why We Use the Term Free Cash Flow

Free Cash Flow is defined as net cash provided by operating activities adjusted for additions to property, equipment and other, net and capital lease obligations (Free Cash Flow).

The Company believes that the use of Free Cash Flow enables the Company's chief operating decision maker, its Chairman, President and CEO, and the executive team to make decisions based on the Company's cash resources. Free Cash Flow also is considered to be an indicator of the Company's liquidity, including its ability to reduce debt and make strategic investments.

Free Cash Flow is not intended to represent cash flows from operating activities as determined in conformity with accounting principles generally accepted in the United States of America. Free Cash Flow as presented may not be comparable to similarly titled measures reported by other companies since not all companies necessarily calculate Free Cash Flow in an identical manner, and therefore, is not necessarily an accurate measure of comparison between companies.

Intersegment Transactions

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

Discontinued Operations

During the first quarter of 2005, the Company completed the sales of About.com and the Bankers Training Division of Workplace Learning. On April 1, 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities. Also during 2005, the Company sold its Business Information Segment, including Ward's Automotive Group, discontinued the operations of two magazines in the Enthusiast Media segment, discontinued the operations of its Software on Demand division within

Edgar Filing: PRIMEDIA INC - Form 10-Q

the Education segment, and decided to pursue the sales of its Crafts and History groups within the Enthusiast Media segment.

During the first quarter of 2006, the Company completed the sale of the History group and during the third quarter of 2006, the Company completed the sale of the Crafts group. Additionally, during the third quarter of 2006, the Company discontinued and sold its Gems group, reflecting the Company's continued focus on growing its properties that reach the valuable 18-34 male demographic.

Financial results for these divestitures are reported in discontinued operations on the condensed statements of consolidated operations for all periods presented.

Segment Data

The following table presents the results of the Company's three operating segments and Corporate:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------------|------------------------------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues, net: | | | | |
| Enthusiast Media | \$ 162,182 | \$ 154,688 | \$ 467,640 | \$ 449,907 |
| Consumer Guides | 81,352 | 81,310 | 244,036 | 236,429 |
| Education | 10,610 | 10,996 | 40,596 | 48,231 |
| Intersegment Eliminations | (109) | (66) | (225) | (234) |
| Total | \$ 254,035 | \$ 246,928 | \$ 752,047 | \$ 734,333 |
| Segment EBITDA:(1) | | | | |
| Enthusiast Media | \$ 34,354 | \$ 32,417 | \$ 88,287 | \$ 88,348 |
| Consumer Guides | 21,699 | 17,791 | 57,609 | 53,947 |
| Education | (2,952) | (1,738) | (3,064) | 3,969 |
| Corporate Overhead | (6,586) | (6,302) | (20,553) | (19,967) |
| Total Segment EBITDA | 46,515 | 42,168 | 122,279 | 126,297 |
| Depreciation, amortization and other charges(2) | 11,411 | 13,940 | 36,594 | 35,417 |
| Operating income | 35,104 | 28,228 | 85,685 | 90,880 |
| Other income (expense): | | | | |
| Interest expense(3) | (33,574) | (32,440) | (85,855) | (98,266) |
| Interest on shares subject to mandatory redemption(4) | | (4,566) | | (21,920) |
| Amortization of deferred financing costs | (630) | (1,042) | (1,946) | (3,560) |
| Other income (expense), net | 787 | (2,906) | 1,102 | (7,083) |
| Income (loss) from continuing operations before provision for income taxes | \$ 1,687 | \$ (12,726) | \$ (1,014) | \$ (39,949) |

(1) Segment EBITDA represents the segments' earnings before interest, taxes, depreciation, amortization and other charges (income) (see Note 2 below).

(2) Other charges include non-cash compensation, provision for severance, closures and restructuring related costs and (gain) loss on sale of businesses and other, net.

(3) Interest expense increased by \$482 for the three months ended September 30, 2006 and was decreased by \$11,559 for the nine months ended September 30, 2006, due to the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the Automotive.com acquisition. (See Note 3 of Notes to the Condensed Consolidated Financial Statements (unaudited) included herein).

(4) During 2005, the Company redeemed all of its outstanding shares subject to mandatory (liquidation preference of approximately \$475,000 for the year ended December 31, 2005, and \$264,494 for the nine months ended September 30, 2005).

Results of Operations

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Consolidated Results:

Revenues, Net

Consolidated revenues were \$254,035 in the three months ended September 30, 2006 compared to \$246,928 in the same period of 2005:

| | Three Months Ended September 30, | | Percent Change |
|----------------|-------------------------------------|------------|-------------------|
| | 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 159,754 | \$ 159,508 | 0.2 % |
| Circulation | 51,508 | 51,446 | 0.1 % |
| Other | 42,773 | 35,974 | 18.9 % |
| Total | \$ 254,035 | \$ 246,928 | 2.9 % |

Advertising revenues increased slightly by \$246 in the third quarter of 2006 compared to 2005 due to increases of \$402 and \$280 in the Enthusiast Media and Consumer Guides segments, respectively, partially offset by an decrease of \$436 in the Education segment. Circulation revenues, which are generated entirely by the Enthusiast Media segment, increased by \$62 in 2006. Other revenues, including distribution and non-print revenues, increased \$6,799 in 2006 compared to 2005, primarily due to an increase in the Enthusiast Media segment of \$6,987. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income

Operating income was \$35,104 in 2006 compared to \$28,228 in 2005. The increase of \$6,876 in operating income in 2006 primarily resulted from increased segment EBITDA in the Consumer Guides segment, increased revenues in the Enthusiast Media segment, mainly due to the acquisition of Automotive.com in the fourth quarter of 2005, partially offset by a related increase in cost of good sold in the Enthusiast Media segment. In addition, there was a decrease in non-cash compensation expense in the third quarter of 2006 primarily due a modification of existing stock options in the third quarter of 2005, which resulted in an increase of non-cash compensation during that period.

Net Income

The Company had net income of \$53,752 in the three months ended September 30, 2006 compared to \$207,754 in 2005.

Interest expense increased to \$33,574 in 2006 from \$32,440 in 2005. The increase in interest expense of \$1,134 is partially due to the increase in the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the Automotive.com acquisition, of \$482 in the third quarter of 2006. In addition, the Company's interest expense on its long-term debt increased slightly versus prior year, due to higher interest rates partially offset by lower average debt levels.

Interest on shares subject to mandatory redemption was \$0 and \$4,566 for the three months ended September 30, 2006 and 2005, respectively, as the Company redeemed all of its outstanding shares subject to mandatory redemption during 2005.

Segment Results:

Enthusiast Media Segment (Includes Automotive, Outdoors and Other groups)

Revenues, Net

Enthusiast Media revenues were \$162,182 or 63.8% and \$154,688 or 62.6% of the Company's consolidated revenues for the three months ended September 30, 2006 and 2005, respectively. Enthusiast Media revenues increased \$7,494 or 4.8% in the third quarter of 2006 compared to the same period of 2005 as follows:

| | Three Months Ended | | Percent Change |
|-----------------------|--------------------|------------|----------------|
| | September 30, 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 88,733 | \$ 88,331 | 0.5 % |
| Circulation | 51,508 | 51,446 | 0.1 % |
| Other | 21,832 | 14,845 | 47.1 % |
| Intersegment revenues | 109 | 66 | |
| Total | \$ 162,182 | \$ 154,688 | 4.8 % |

Enthusiast Media's advertising revenue is consistent with prior year as increases in the Consumer Automotive Group were offset by declines in the International Automotive Group. Circulation revenues increased in the Performance Automotive Group and Soaps, offset by softness in the International Automotive Group. Growth in other revenue reflects continued success in expanding the Segment's non-print businesses, driven primarily by the acquisitions of Automotive.com and Equine.com, partially offset by declines in licensing revenue. Automotive.com continues to make progress as auto dealers seek increased car sale leads. Equine.com is tracking well to generate additional synergies from its proprietary technology and unique marketing tools.

Automotive: Automotive Group revenue grew 12% in the third quarter. This revenue growth is primarily due to a significant increase in print advertising revenue in the Consumer Automotive Group, strong newsstand performance in the Performance Automotive Group, licensing fees from the producer of *Motor Trend TV*, and the impact of the acquisition of Automotive.com, which occurred in November, 2005. Continued weakness in almost all areas of the International Automotive Group continued to reduce results.

In the Consumer Automotive Group, the increase in advertising revenue was primarily due to increased advertising in *Motor Trend* and *Automobile* as well as the sale of two additional issues of *Motor Trend Classic* in the quarter. The increase in television and radio revenue for the Group was attributable to licensing fees from *Motor Trend TV*. During the third quarter, Automotive.com continued to grow advertising revenue and lead generation profitability. Increases in sales volumes and lead pricing, combined with reduced lead acquisition costs, drove the growth in lead generation profitability.

In the Performance Automotive Group, the increases in newsstand and print advertising revenue were largely due to the Company's redesign efforts, including strong performance by the newly redesigned *Hot Rod* and *Car Craft*, and the expanded frequency of the Company's *Diesel Power* magazine. In addition, overall Group performance was driven by strong results in events, partially offset by a slight decrease in television and radio revenue.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The Company's reliance on automaker print advertising has historically been, and continues to be, relatively small. U.S. automaker print advertising in the quarter was just 5% of the Segment's total print advertising revenue. Total automaker print advertising in the quarter was 11% of the Segment's total, and non-automaker automotive print advertising (aftermarket parts and accessories, as examples) was 51% of the Segment's total. These percentages reflect little change from last year.

Outdoors: Outdoors Group revenue declined 0.7% in the third quarter, primarily due to declines in subscriber and event revenue, offset primarily by the impact of the acquisition of Equine.com, which occurred in October, 2005, and growth in television and radio. Action Sports newsstand revenue was down due to a special edition of *Snowboarder Magazine* produced in the third quarter of 2005 that was not produced in 2006. Excluding this edition, Outdoors newsstand revenue was essentially flat. The subscription revenue decline was due to a deliberate cut in direct marketing, as subscription levels in the Group's rate-base publications exceeded rate-based requirements. The savings in direct marketing expense more than offset the loss in revenue. Despite new or increased revenue from non-endemic advertisers including Honda ATV, Suzuki ATV, and Activision video games, non-endemic advertising in the Outdoors Group declined due to the loss of non-endemic automaker advertising. Outdoors online revenue grew over 20% organically during the quarter. The Outdoors Group is capitalizing on the migration of brokerage advertising from print to internet with its October launch of *Power & Motoryacht's* online brokerage site, leveraging technology and management from the Company's acquisition of Equine.com.

Licensing and Merchandising: Declines in toy sales caused a decline in group revenue, partially offset by strong retail performance of apparel and accessories lines, and the continued expansion of creative licensing programs launched under the Motor Trend and Lowrider brands. Also this quarter, the group contracted to develop a line of Surfer-branded apparel and headwear and an In-Fisherman men's apparel line.

The Company continues to execute its growth strategies:

Thus far in 2006, the Company has implemented significant product improvements on 24 magazines, primarily in the Performance and International Automotive Groups where challenges have been the greatest. Product improvements have been made on titles representing approximately 25% of year-to-date print advertising and circulation revenue.

The Company continues to build multiple online revenue streams, including transactions, lead generation, and online advertising. Online is also generating print subscriptions as magazine subscriber acquisitions via the Company's websites grew more than 15% in the third quarter compared to last year.

Circulation results are improving as the Company works to improve the ratio of the number of copies sent to newsstands location-by-location (draw) to the number sold and adjust the draw for the seasonality of its titles. PRIMEDIA continues to optimize circulation draw and distribution to improve profitability. In the third quarter, PRIMEDIA reduced draw by 4.6 million copies, or 9.4%.

Segment EBITDA

Enthusiast Media Segment EBITDA increased 6.0% to \$34,354 in the third quarter of 2006 from \$32,417 in 2005. This increase resulted primarily from increased Other revenues, including online and events revenue, as well as improvements in circulation profitability. As a result, Segment EBITDA margin increased slightly to 21.2% in 2006 from 21.0% in 2005. In addition, in the third quarter of 2006, the Company recorded \$371 as a charge to compensation expense resulting from the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the CEO of Automotive.com, and \$114 of CEO-related compensation expense due to the recording of the additional purchase price of Automotive.com.

Operating Income

Operating income was \$28,838 for the three months ended September 30, 2006 compared to \$28,276 in the same period of 2005, an increase of \$562, or 2.0%. This increase was primarily driven by the increase in Segment EBITDA discussed above, partially offset by an increase in depreciation and amortization expenses, primarily due to the acquisition of Automotive.com.

Consumer Guides Segment (includes *Apartment Guide*, *New Home Guide*, *Auto Guide*, *Rentclicks*, *AmericanHomeGuides.com*, *Rentals.com*, and the *DistribuTech* distribution business)

Revenues, Net

Consumer Guides revenues were \$81,352 or 32.0% and \$81,310 or 32.9% of the Company's consolidated revenues for the three months ended September 30, 2006 and 2005, respectively. Consumer Guides revenues increased \$42 or 0.1% in 2006 compared to 2005 as follows:

| | Three Months Ended | | Percent Change |
|----------------|--------------------|-----------|----------------|
| | September 30, 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 67,308 | \$ 67,028 | 0.4 % |
| Other | 14,044 | 14,282 | (1.7)% |
| Total | \$ 81,352 | \$ 81,310 | 0.1 % |

Consumer Source's third quarter advertising revenue growth was driven primarily by growth in the New Home and Auto Guide divisions, offset by declines in the Segment's Apartment division. Other revenue's slight decline reflects DistribuTech's optimization of distribution locations, which is continually evaluated to best meet the distribution needs of Consumer Source's core guides business.

Apartment Guide, ApartmentGuide.com, RentClicks.com: The Segment's largest business, representing 76% of advertising revenue, *Apartment Guide/ApartmentGuide.com*, continues to face challenging market conditions in the multi-family housing industry. Total advertising revenue in the quarter declined 5.6%, primarily due to high occupancy rates across over half of the markets along with a reduced advertiser base as a result of continued losses from condominium conversions. Although the rate of condominium conversions has slowed considerably from this time last year, the lost advertiser base from conversions in prior periods continued to negatively impact the business in the third quarter. RentClicks serves the small unit rental property marketplace, which consists of rental houses, townhomes, condos and single-unit apartments, and accounts for approximately 70% of the total rental market. RentClicks performed well in the third quarter, organically growing revenue 30% versus the previous quarter. The Company continued adding sales resources during the quarter as part of the overall strategy for growing the business.

New Home Guide, NewHomeGuide.com: The Segment's New Home Guide/NewHomeGuide.com business, representing 18% of advertising revenue, continued to deliver strong results with total revenue growth of 24% in the quarter. This strong growth reflects New Home Guide having established itself as one of the most cost-effective and attractive media channels for home builders. The New Home division continues to rapidly grow its online presence. The NewHomesGuide.com portfolio of sites is the largest on the Internet, and had the fastest growing number of unique visitors versus the prior quarter according to Nielsen's Media Metrix.

Auto Guide, AutoGuide.com: During the third quarter, the Segment's Auto Guide business, representing 6% of advertising revenue, generated total revenue growth of 31%. This new division represents a \$17 million business based on annualized revenue in the third quarter, and continues to have strong growth potential both within its existing markets and through new market expansion.

DistribuTech: All of PRIMEDIA's Consumer Source properties continue to benefit from the Company's leading distribution business, DistribuTech. Consumer Source's strategy is to continually optimize distribution for its own guides at minimal cost. DistribuTech's strategy to optimize its distribution locations to best meet the distribution needs of the Consumer Source guides has historically and will continue to cause DistribuTech revenue to fluctuate.

Segment EBITDA

Consumer Guides Segment EBITDA increased \$3,908 or 22.0% in 2006, to \$21,699 from \$17,791 in 2005. This increase is primarily due to the increase in New Home Guide and Auto Guide revenues in the quarter and DistribuTech profitability improvements, partially offset by expenses associated with New Home Guide launches, and the revenue declines in Apartment Guide advertising. Segment EBITDA margin increased to 26.7% in 2006 from 21.9% in 2005.

Operating Income

Operating income increased \$3,093 or 21.1% to \$17,747 in 2006 from \$14,654 in 2005. This increase was primarily driven by the increase in Segment EBITDA, partially offset by increases in depreciation and amortization expenses, due to the acquisitions in the fourth quarter 2005 and during 2006.

Education Segment (includes Channel One, Films Media Group (FMG) and PRIMEDIA Healthcare)

Revenues, Net

Education revenues were \$10,610 or 4.2% and \$10,996 or 4.5% of the Company's consolidated revenues for 2006 and 2005, respectively. Education revenues decreased \$386 or 3.5% in 2006 compared to 2005 as follows:

| | Three Months Ended | | Percent Change |
|----------------|--------------------|-----------|----------------|
| | September 30, 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 3,713 | \$ 4,149 | (10.5)% |
| Other | 6,897 | 6,847 | 0.7 % |
| Total | \$ 10,610 | \$ 10,996 | (3.5)% |

Education advertising revenues, which are generated entirely by Channel One, declined \$436, or 10.5% in the third quarter of 2006 compared to the third quarter of 2005. Channel One's decline in advertising revenue is mainly attributable to the ongoing impact of the expiration of large advertising contracts in late 2005 and last year's loss of a large portion of its government advertising. Additionally, selling efforts in the current year haven't been progressing as fast as anticipated. Channel One's strategy is to broaden its revenue base beyond traditional advertising through creative sponsorships and the Internet, and to target organizational support for its public affairs programming.

Other revenue was up slightly, by 0.7% in the third quarter of 2006 and primarily consists of revenue from PRIMEDIA Healthcare and FMG. PRIMEDIA Healthcare's quarter-over-quarter revenue increased 30.2%, as PRIMEDIA Healthcare has contracted more revenue in 2006 than in 2005, partially offset by FMG revenues, which were down 8.2% quarter-over-quarter.

Segment EBITDA

Education Segment EBITDA decreased \$1,214 to \$(2,952) for the third quarter of 2006, primarily due to decreased revenue, as well as increased expenses. Segment EBITDA margin decreased to (27.8)% in the third quarter of 2006 compared to (15.8)% in the third quarter of 2005.

Operating Loss

Education segment operating loss for the third quarter of 2006 was \$4,032 compared to \$3,844 in 2005. This decline was primarily due to the decrease in Segment EBITDA as discussed above, partially offset by decreases in depreciation and amortization expenses, due to write-offs of the related assets during the fourth quarter of 2005.

Corporate

Corporate Administrative expenses

Corporate administrative expenses were \$6,586 for the third quarter of 2006, up from \$6,302 in the same period of 2005, primarily due to reduced compensation expense resulting from headcount reductions, and lower professional fees, offset by professional fees incurred related to the exploration of the separation of the Company's businesses via a tax-free spin-off.

Operating Loss

Corporate operating loss was \$7,449 for the third quarter of 2006, down 31.4% compared to \$10,858 for the third quarter of 2005. The decrease was mainly due to the decrease in non-cash compensation during 2006, primarily due a modification of existing stock options in the third quarter of 2005, which resulted in an increase of non-cash compensation during that period.

Discontinued Operations

In accordance with SFAS No. 144, the Company has classified the operating results of all of its divested entities and businesses held for sale as discontinued operations for all periods presented.

Enthusiast Media

The Company discontinued the following entities within the Enthusiast Media segment during 2005: About, Inc, Ward's Automotive Group, the Crafts and History groups and two magazine titles (shut down). In February 2006, the Company completed the sale of the History group. In the third quarter of 2006, the Company completed the sale of the Crafts group.

During the third quarter of 2006, the Company discontinued and sold its Gems group, part of the Enthusiast Media segment.

Discontinued operations of the Enthusiast Media segment for the three months ended September 30, 2006 and 2005 include revenue of \$15,415 and \$22,274, respectively. Operating income for the three months ended September 30, 2006 and 2005, of \$60,587 and \$2,940, respectively, includes gains on sales of businesses, net of tax, of \$52,464 and \$171, respectively.

Education

The Company discontinued the operations of its Software on Demand division during 2005. Additionally, the Company completed the sale of its Workplace Learning division in 2005, excluding PRIMEDIA Healthcare.

Discontinued operations of the Education segment for the three months ended September 30, 2005 include an operating loss of \$1,126. For the three months ended September 30, 2005, discontinued operations include a loss on sale of business. This loss on sale of business, net of tax, was \$132 related to the sale of the Company's Workplace Learning division.

Business Information

The Company sold its Business Information segment during the third quarter of 2005. Business Information segment revenues of \$48,424 are included in discontinued operations for the three months ended September 30, 2005. Operating income of \$221,412 includes a gain on sale of business. This gain on sale of business, net of tax, was \$219,000 for the three months ended September 30, 2005.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Consolidated Results:

Revenues, Net

Consolidated revenues were \$752,047 in the nine months ended September 30, 2006 compared to \$734,333 in the same period of 2005:

| | Nine Months Ended September 30, | | Percent Change |
|----------------|--|-------------------|---------------------------|
| | 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 474,787 | \$ 476,837 | (0.4)% |
| Circulation | 149,709 | 150,742 | (0.7)% |
| Other | 127,551 | 106,754 | 19.5 % |
| Total | \$ 752,047 | \$ 734,333 | 2.4 % |

Advertising revenues decreased by \$2,050 in the nine months ended September 30, 2006 compared to 2005 due to decreases of \$2,382 and \$6,612 in the Enthusiast Media and Education segments, respectively, partially offset by an increase of \$6,944 in the Consumer Guides segment. Circulation revenues, which are generated entirely by the Enthusiast Media segment, decreased \$1,033 in 2006 due to continued weakness in single copy sales. Other revenues, including distribution and non-print revenues, increased \$20,797 in 2006 compared to 2005, primarily due to an increase in the Enthusiast Media segment of \$21,134, primarily due to the acquisition of Automotive.com in the fourth quarter of 2005. Revenue trends within each segment are further detailed in the segment discussions below.

Operating Income

Operating income was \$85,685 for the nine months ended September 30, 2006 compared to \$90,880 for the same period of 2005. The decrease in operating income in 2006 primarily resulted from increased depreciation and amortization expenses due to the acquisition of Automotive.com, partially offset by a decrease in the provision for severance, closures and restructuring related costs at Enthusiast Media, as well as the decrease in Segment EBITDA primarily resulting from lower revenues in the Education segment. These reductions were partially offset by a decrease in non-cash compensation, primarily due to a modification of existing stock options in the third quarter of 2005, which resulted in an increase of non-cash compensation during that period at Corporate.

Net Income

The Company had net income of \$59,599 in the nine months ended September 30, 2006 compared to \$578,279 in the same period of 2005. The decrease in net income was primarily due to the net gains of \$378,906 from the sale of About in the first quarter of 2005, and \$219,000 from the sale of the Business Information segment in the third quarter of 2005.

Interest expense was \$85,855 in the nine months ended September 30, 2006 down from \$98,266 in the same period of 2005. In the nine months ended September 30, 2006, the Company recorded \$11,559 as a reduction to interest expense for the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the Automotive.com acquisition. Excluding this reduction, the Company's interest expense in 2006 slightly decreased, due to lower average debt levels, partially offset by higher interest rates.

Discontinued Operations

Statement of Accounting Pronouncement (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires sales, disposals of long-lived assets and businesses held for sale that meet certain criteria to be classified on the condensed statement of consolidated operations as discontinued operations and to reclassify prior periods accordingly. During the first quarter of 2005, the Company completed the sales of About.com and Bankers Training & Consulting Company and the financial services division of PRIMEDIA Workplace Learning. On April 1, 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities. Also during 2005, the Company sold its Business Information Segment, including Ward's Automotive Group, discontinued the operations of two magazines in the Enthusiast Media segment, discontinued the operations of its Software on Demand division within the Education segment, and decided to pursue the sales of its Crafts and History groups within the Enthusiast Media segment.

In the first quarter of 2006, the Company completed the sale of the History group and in the third quarter of 2006, the Company completed the sale of the Crafts group.

In the third quarter of 2006, the Company discontinued and sold its Gems group.

In accordance with SFAS No. 144, the financial results of all of these operations have been classified as discontinued operations on the condensed statements of consolidated operations for all periods presented. For the nine months ended September 30, 2006 and 2005, discontinued operations include a net gain on sale of businesses of \$66,015 and \$601,499, respectively.

Cumulative Effect of Change in Accounting Principle

Effective January 1, 2006, the Company adopted SFAS No. 123(R), *Share-Based Payment*, using the modified prospective method. Prior to the adoption of this statement, the Company expensed the fair value of stock based compensation for all grants, modifications or settlements made on or after January 1, 2003 in accordance with the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, adopted on January 1, 2003 using the prospective method. Upon adoption of SFAS No. 123(R), the Company is also required to expense the fair value of any awards that were granted prior to January 1, 2003 and were not fully vested as of January 1, 2006. The cumulative effect of adopting this change in accounting principle, as required by SFAS No. 123(R), was \$22, included in the nine months ended September 30, 2006.

Segment Results:**Enthusiast Media Segment (Includes Automotive, Outdoors, and Other groups)***Revenues, Net*

Enthusiast Media revenues were \$467,640 or 62.2% and \$449,907 or 61.3% of the Company's consolidated revenues for the nine months ended September 30, 2006 and 2005, respectively. Enthusiast Media revenues increased \$17,733 or 3.9% in the the nine months ended September 30, 2006 compared to the same period of 2005 as follows:

| | Nine Months Ended September 30, | | Percent Change |
|-----------------------|--|-------------|---------------------------|
| | 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 256,040 | \$ 258,422 | (0.9)% |
| Circulation | 149,709 | 150,742 | (0.7)% |
| Other | 61,666 | 40,532 | 52.1 % |
| Intersegment revenues | 225 | 211 | |
| Total | \$ 467,640 | \$ 449,907 | 3.9 % |

Enthusiast Media's advertising revenue decline primarily reflects continued challenges in the International Auto Group and in the smaller publication groups. Growth in other revenue reflects continued success in expanding the Segment's non-print businesses, driven primarily by the acquisitions of Automotive.com and Equine.com. Automotive.com continues to make substantial progress as auto dealers seek increased car sale leads. Equine.com is tracking well to generate additional synergies from its proprietary technology and unique marketing tools.

Automotive: Automotive Group revenue grew 8% in the nine months ended September 30, 2006. This revenue growth is primarily due to a significant increase in print advertising revenue in the Consumer Automotive Group, strong newsstand performance in the Performance Automotive Group, licensing fees from the producer of *Motor Trend TV*, and the impact of the acquisition of Automotive.com, which occurred in November, 2005. Continued weakness in almost all areas of the International Automotive Group continued to reduce results.

In the Consumer Automotive Group, the increase in advertising revenue was primarily due to increased advertising in *Motor Trend and Automobile* as well as the sale of five additional issues of *Motor Trend Classic* in the nine months ended September 30, 2006. The increase in television and radio revenue for the Group was attributable to licensing fees from *Motor Trend TV*.

In the Performance Automotive Group, the increases in newsstand revenue was largely due to the Company's redesign efforts, including strong performance by the newly redesigned *Hot Rod* and *Car Craft*, and the expanded frequency of the Company's *Diesel Power* magazine. In addition, overall Group performance was driven by strong results in events, partially offset by a slight decrease in television and radio revenue.

The Company's reliance on automaker print advertising has historically been, and continues to be, relatively small. U.S. automaker print advertising in the nine months ended September 30, 2006 was just 4% of the Segment's total print advertising revenue. Total automaker print advertising in the nine months ended September 30, 2006 was 11% of the Segment's total, and non-automaker automotive print advertising (aftermarket parts and accessories, as examples) was 53% of the Segment's total. These percentages reflect little change from last year. Through the nine months ended September 30, 2006, automaker print advertising revenue across the entire Enthusiast Media segment grew 2%.

Outdoors: Outdoors Group revenue grew 0.2% in the nine months ended September 30, 2006, primarily due to due to the acquisition of Equine.com, which occurred in October, 2005, and growth in television and radio, offset by declines in subscriber and event revenue. The subscription revenue decline was due to a deliberate cut in direct marketing, as subscription levels in the Group's rate-base publications exceeded rate-based requirements. The savings in direct marketing expense more than offset the loss in revenue. Despite new or increased revenue from non-endemic advertisers including Honda ATV, Suzuki ATV, and Activision video games, non-endemic advertising in the Outdoors Group declined due to the loss of non-endemic automaker advertising. Outdoors' online revenue grew 25% organically during the nine months ended September 30, 2006. The Outdoors Group is capitalizing on the migration of brokerage advertising from print to internet with its October launch of *Power & Motoryacht's* online brokerage site, leveraging technology and management from the Company's acquisition of Equine.com.

Licensing and Merchandising: Declines in toy sales caused a decline in group revenue, partially offset by strong retail performance of apparel and accessories lines, and the continued expansion of creative licensing programs launched under the Motor Trend and Lowrider brands.

Segment EBITDA

Enthusiast Media Segment EBITDA decreased 0.1% to \$88,287 in the nine months ended September 30, 2006 from \$88,348 in the same period of 2005. This decrease resulted primarily from lower print advertising revenues and increases in paper, ink and postage costs, partially offset by growth in non-print revenues and improvements in circulation profitability. In addition, in the nine months ended September 30, 2006, the Company recorded \$852 of compensation expense resulting from the quarterly fair value measurement of the deferred purchase price liability arising from the forward agreement related to the CEO of Automotive.com, and \$176 of CEO-related compensation expense due to the recording of the additional purchase price of Automotive.com. As a result, Segment EBITDA margin decreased to 18.9% for the nine months ended September 30, 2006 from 19.6% for the same period of 2005.

Operating Income

Operating income was \$70,865 for the nine months ended September 30, 2006 compared to \$74,987 for the same period of 2005, a decrease of \$4,122, or 5.5%. This decrease was primarily driven by increased depreciation and amortization expenses due to the acquisition of Automotive.com, partially offset by a decrease in the provision for severance, closures and restructuring related costs.

Consumer Guides Segment (includes Apartment Guide, New Home Guide, Auto Guide, Rentclicks, AmericanHomeGuides.com, Rentals.com, and the DistribuTech distribution business)*Revenues, Net*

Consumer Guides revenues were \$244,036, or 32.4% and \$236,429, or 32.2% of the Company's consolidated revenues for the nine months ended September 30, 2006 and 2005, respectively. Consumer Guides revenues increased \$7,607, or 3.2% in the nine months ended September 30, 2006 compared to the same period of 2005, as follows:

| | Nine Months Ended | | Percent Change |
|----------------|-----------------------|------------|-------------------|
| | September 30, 2006 | 2005 | |
| Revenues, net: | | | |
| Advertising | \$ 201,691 | \$ 194,747 | 3.6 % |
| Other | 42,345 | 41,682 | 1.6 % |
| Total | \$ 244,036 | \$ 236,429 | 3.2 % |

Consumer Source's advertising revenue growth was driven primarily by strong performance in the Segment's New Home Guide and Auto Guide divisions, partially offset by declines in the Segment's Apartment division. Other revenue's increase reflects DistribuTech's continued optimization of distribution locations that were unprofitable and not critical to Consumer Source's core guides business.

Apartment Guide, ApartmentGuide.com, RentClicks.com: The Segment's largest business, representing 77% of advertising revenue, Apartment Guide/ApartmentGuide.com continues to face challenging market conditions in the multi-family housing industry. Total advertising revenue in the nine months ended September 30, 2006 declined 5%, primarily due to high occupancy rates across over half of the markets along with a reduced advertiser base as a result of continued losses from condominium conversions. Although the rate of condominium conversions has slowed considerably from this time last year, the lost advertiser base from conversions in prior periods continued to negatively impact the business in 2006. RentClicks performed well in the nine months ended September 30, 2006, organically growing revenue 94% versus last year, as the Company continued to add sales resources as part of the overall strategy for growing the business.

New Home Guide, NewHomeGuide.com: The Segment's New Home Guide/NewHomeGuide.com business, representing 17% of advertising revenue, continued to deliver strong results with total revenue growth of 39% in the nine months ended September 30, 2006. This strong growth reflects New Home Guide having established itself as one of the most cost-effective and attractive media channels for home builders. The New Home division continues to rapidly grow its online presence.

Auto Guide, AutoGuide.com: During the nine months ended September 30, 2006, the Segment's Auto Guide business, representing 6% of advertising revenue, generated total revenue growth of 99%. This new division represents a \$17 million business based on annualized revenue in the third quarter, and continues to have strong growth potential both within its existing markets and through new market expansion.

DistribuTech: All of PRIMEDIA's Consumer Source properties continue to benefit from the Company's leading distribution business, DistribuTech. Consumer Source's strategy is to continually optimize distribution for its own guides at minimal cost. DistribuTech's strategy to optimize its distribution locations to best meet the distribution needs of the Consumer Source guides has historically and will continue to cause DistribuTech revenue to fluctuate.

Segment EBITDA

Consumer Guides Segment EBITDA increased \$3,662, or 6.8% to \$57,609 in the nine months ended September 30, 2006 from \$53,947 in the same period of 2005. The increase in EBITDA is primarily due to increases revenues as discussed above, partially offset by an increase in operating costs over prior year, due to the acquisitions in 2005 and early 2006. Segment EBITDA margin increased to 23.6% in 2006 from 22.8% in 2005.

Operating Income

Operating income increased \$1,008 or 2.2%, to \$46,564 in the nine months ended September 30, 2006 from \$45,556 in the same period of 2005. This increase was primarily driven by the increase in Segment EBITDA, partially offset by increased depreciation and amortization expenses due to the acquisitions in 2005 and early 2006, as well as increased charges for provision for severance, closures and restructuring related costs.

Education Segment (includes Channel One, FMG and PRIMEDIA Healthcare)*Revenues, Net*

Education revenues were \$40,596 or 5.4% and \$48,231 or 6.6% of the Company's consolidated revenues for the nine months ended September 30, 2006 and 2005, respectively. Education revenues decreased \$7,635 or 15.8% in the nine months ended September 30, 2006 compared to the same period of 2005 as follows:

| | Nine Months Ended | | |
|-----------------------|--------------------------|-------------|----------------|
| | September 30, | 2005 | Percent |
| | 2006 | | Change |
| Revenues, net: | | | |
| Advertising | \$ 17,056 | \$ 23,668 | (27.9)% |
| Other | 23,540 | 24,540 | (4.1)% |
| Intersegment revenues | | 23 | |
| Total | \$ 40,596 | \$ 48,231 | (15.8)% |

Education advertising revenues, which are generated entirely by Channel One, declined \$6,612, or 27.9% in the nine months ended September 30, 2006 compared to the same period of 2005. Channel One's decline in advertising revenue is mainly attributable to the ongoing impact of the expiration of large advertising contracts in late 2005 and last year's loss of a large portion of its government advertising. Additionally, selling efforts in the current year haven't been progressing as fast as anticipated. Channel One's strategy is to broaden its revenue base beyond traditional advertising through creative sponsorships and the Internet, and to target organizational support for its public affairs programming.

Other revenue was down 4.1% in the nine months ended September 30, 2006 and primarily consists of revenue from PRIMEDIA Healthcare and FMG. PRIMEDIA Healthcare's revenue increased 11% in the first nine months of 2006, due to management changes made and new strategic initiatives launched in late 2004. PRIMEDIA Healthcare has contracted more revenue in 2006 than in 2005. This increase was offset by a decrease in FMG's revenue by 8.0% in the nine months ended September 30, 2006, due to lower direct mail revenues.

Segment EBITDA

Education Segment EBITDA decreased \$7,033 to \$(3,064) for the the nine months ended September 30, 2006 compared to the same period of 2005, primarily due to the decrease in revenues as described above.

Operating Loss

Education segment operating loss for the the nine months ended September 30, 2006 was \$7,145 compared to \$2,040 in the same period of 2005. This increase was primarily due to the decrease in Segment EBITDA primarily resulting from lower revenues as discussed above.

Corporate

Corporate Administrative expenses

Corporate administrative expenses were \$20,553 for the the nine months ended September 30, 2006, up from \$19,967 for the the nine months ended September 30, 2005, primarily due to reduced compensation expense resulting from headcount reductions and lower professional fees, offset by professional fees incurred related to the exploration of the separation of the Company's businesses via a tax-free spin-off, and to a New York office consolidation.

Operating Loss

Corporate operating loss was \$24,599 for the the nine months ended September 30, 2006, down 10.9% compared to \$27,623 for the the nine months ended September 30, 2005. The decrease was mainly due to a decrease in non-cash compensation, primarily due to a modification of existing stock options in the third quarter of 2005, which resulted in an increase of non-cash compensation during that period.

Discontinued Operations

In accordance with SFAS No. 144, the Company has classified the operating results of all of its divested entities and businesses held for sale as discontinued operations for all periods presented.

Enthusiast Media

The Company discontinued the following entities within the Enthusiast Media segment during 2005: About, Inc, Ward's Automotive Group, the Crafts and History groups and two magazine titles (shut down). In February 2006, the Company completed the sale of the History group and during the third quarter of 2006, the Company completed the sale of the Crafts group.

During the third quarter of 2006, the Company discontinued and sold its Gems group, part of the Enthusiast Media segment.

Discontinued operations of the Enthusiast Media segment for the nine months ended September 30, 2006 and 2005 include revenue of \$47,676 and \$70,656, respectively. Operating income for the nine months ended September 30, 2006 and 2005, of \$79,201 and \$391,089, respectively, includes gains on sales of businesses, net of tax, of \$66,132 and \$379,076, respectively.

Education

The Company discontinued the operations of its Software on Demand division during 2005. Additionally, the Company completed the sale of its Workplace Learning division in 2005, excluding PRIMEDIA Healthcare.

Discontinued operations of the Education segment for the nine months ended September 30, 2006 and 2005 include revenue of \$0 and \$9,367, respectively, and operating income of \$13 and \$1,854, respectively. For the nine months ended September 30, 2005, discontinued operations include a gain on sale of business. This gain on sale of businesses, net of tax, was \$3,423, and related to the sale of Workplace Learning's Bankers Training Division.

Business Information

The Company sold its Business Information segment during the third quarter of 2005. Business Information segment revenues of \$164,967 are included in discontinued operations for the nine months ended September 30, 2005. Operating income of \$235,915 includes a gain on sale of business. This gain on sale of business, net of tax, was \$219,000 for the nine months ended September 30, 2005.

Liquidity, Capital and Other Resources

As of September 30, 2006, the Company had cash and unused credit facilities of \$327,512, as further detailed below under Financing Arrangements, compared to \$250,889 as of December 31, 2005. The use of this cash and unused credit facilities is subject to customary conditions in the Company's debt agreements. The Company's asset sales, debt redemption and investment in organic growth have facilitated its strategy to become a better strategically focused company while strengthening its balance sheet.

The Company believes its liquidity, capital resources and cash flow from operations are sufficient to fund planned capital expenditures, working capital requirements, interest and principal payments on its debt and other anticipated expenditures for the remainder of 2006 and for the foreseeable future. The Company has no significant required debt repayments until 2010.

In connection with the evaluation of a possible spin-off of the Consumer Guides segment, the Company is reviewing the amount of its net operating losses (NOLs) as of December 31, 2005. Although the review is in process, the Company believes that it has substantial NOLs.

Working Capital

Consolidated working capital, which includes current maturities of long-term debt, was a deficit of \$39,333 at September 30, 2006 compared to a deficit of \$22,032 at December 31, 2005.

Cash Flow 2006 Compared to 2005

Net cash provided by operating activities increased \$27,652, to \$32,290 in 2006, from \$4,638 in 2005. This change is primarily due to lower debt service and improved working capital management, partially offset by decreased Segment EBITDA. For purposes of calculating net cash provided by operating activities, discontinued operations are included until sold or shut down. Hence, the results of the Business Information segment, About, PRIMEDIA Workplace Learning's Bankers Training division and the remainder of PWPL were included in this calculation for the first three quarters of 2005 but not in the first three quarters of 2006 as these units were sold during 2005.

Net cash provided by investing activities decreased to \$114,411 from \$766,991 for the nine months ended September 30, 2006 and 2005, respectively. The primary reason for the decrease is the reduced proceeds from sales of businesses in the first three quarters of 2006 versus 2005. Proceeds were \$151,848 in 2006 versus \$816,502 in 2005.

Net cash used in financing activities was \$82,124 for the first three quarters of 2006, compared to \$329,885 for the first three quarters of 2005. The primary reason for the decrease is the redemption of Series D and F Exchangeable Preferred Stock in the second quarter of 2005.

Free Cash Flow

The following table presents the Company's Free Cash Flow for the nine months ended September 30, 2006 and 2005, respectively:

| | Nine Months Ended September 30, | |
|---|--|--------------|
| | 2006 | 2005 |
| Net cash provided by operating activities | \$ 32,290 | \$ 4,638 |
| Additions to property and equipment | (18,402) | (21,681) |
| Capital lease payments | (2,331) | (4,141) |
| Free Cash Flow | \$ 11,557 | \$ (21,184) |
| Supplemental information: | | |
| Cash interest paid, including interest on capital and restructured leases | \$ 82,439 | \$ 82,997 |
| Cash interest paid on shares subject to mandatory redemption(1) | \$ | \$ 26,457 |
| Cash income taxes paid, net of refunds received | \$ 4,503 | \$ 4,280 |
| Cash paid for severance, closures and restructuring related costs | \$ 4,901 | \$ 7,869 |

(1) During 2005, the Company redeemed all of its outstanding shares subject to mandatory redemption (liquidation preference of approximately \$475,000 for the year ended December 31, 2005 and \$264,494 for the nine months ended September 30, 2005).

The Company's Free Cash Flow improved in 2006 primarily due to lower debt service and improved working capital management, partially offset by decreased Segment EBITDA.

Financing Arrangements

Bank Credit Facilities

The bank credit facilities consisted of the following as of September 30, 2006:

| | Revolver | Term B | Total |
|-------------------------------|-----------------|---------------|--------------|
| Bank Credit Facilities | \$ 276,795 | \$ 495,000 | \$ 771,795 |
| Borrowings Outstanding | | (495,000) | (495,000) |
| Letters of Credit Outstanding | (20,963) | | (20,963) |
| Unused Bank Commitments | \$ 255,832 | \$ | \$ 255,832 |

The term loan B bears interest at the base rate plus 1.25% or LIBOR plus 2.25% per year. At September 30, 2006, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 7.7%.

Under the bank credit facilities, the Company has agreed to pay commitment fees at a per annum rate of either 0.375% or 0.5%, depending on its debt to EBITDA ratio, as defined in the bank credit facilities agreement, on the daily average aggregate unutilized commitment under the revolving loan commitment. For the nine months ended September 30, 2006, the Company's commitment fees were paid at a weighted average rate of 0.5%. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee. From time to time, the Company may pay amendment fees under its bank credit facilities.

The commitments under the revolving loan portion of the bank credit facilities are subject to mandatory reductions semi-annually on June 30 and December 31, with the final reduction on June 30, 2008. The aggregate remaining mandatory reductions of the revolving loan commitments under the bank

credit facilities are \$118,627 in 2007 and a final reduction of \$158,168 in 2008. To the extent that the total revolving credit loans outstanding exceed the reduced commitment amount, these loans must be paid down to an amount equal to or less than the reduced commitment amount. However, if the total revolving credit loans outstanding do not exceed the reduced commitment amount, then there is no requirement to pay down any of the revolving credit loans. Remaining aggregate term loan payments under the bank credit facilities are \$5,000 in 2007 through 2012 and \$465,000 in 2013.

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

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

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

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

Senior Notes and Senior Note Redemptions

8⁷/₈% Senior Notes. In the first quarter of 2006, the Company repurchased \$7,025 principal amount of its 8⁷/₈% Senior Notes due May 15, 2011 in three different transactions for \$6,832 plus \$200 of accrued interest. In the second quarter of 2006, the Company repurchased \$56,615 principal amount of its 8⁷/₈% Senior Notes for \$55,262 plus \$400 of accrued interest. As a result of these transactions, the Company recorded a gain of \$336 net of the write-off of unamortized bond discount during the nine months ended September 30, 2006. The gain of \$282 is included in the other income (expense), net line on the accompanying condensed statement of consolidated operations for the nine months ended September 30, 2006.

8% Senior Notes. During October 2006, the Company redeemed \$5,190 principle amount of its 8% Senior Notes due 2013 in two separate transactions for a total of \$4,790 plus \$164 of accrued interest. As a result, the Company recorded a gain of \$400 net of the write-off of unamortized deferred financing costs and bond discount.

Contractual Obligations

There are no required significant debt repayments until 2010. The following are certain contractual obligations of the Company as of September 30, 2006:

| Contractual Obligations | Total | Payments Due by Period | | | After 5 years |
|--|---------------------|------------------------|-------------------|-------------------|-------------------|
| | | Less than 1 year | 1-3 years | 4-5 years | |
| Long-term debt obligations (net of unamortized discount) | \$ 1,378,411 | \$ 10,190 | \$ 10,000 | \$ 593,411 | \$ 764,810 |
| Interest on long-term debt obligations(1) | 672,873 | 115,185 | 225,465 | 188,024 | 144,199 |
| Capital lease obligations | 3,253 | 1,135 | 1,365 | 753 | |
| Fair value of forward agreement(2) | 13,303 | | 13,303 | | |
| Interest on capital lease obligations | 470 | 217 | 208 | 45 | |
| Operating lease obligations(3) | 194,578 | 43,382 | 60,007 | 35,433 | 55,756 |
| Workplace Learning lease obligations(4) | 15,231 | 5,262 | 3,704 | 3,101 | 3,164 |
| Total Contractual Obligations | \$ 2,278,119 | \$ 175,371 | \$ 314,052 | \$ 820,767 | \$ 967,929 |

- (1) Interest payments are based on the Company's projected interest rates and estimated principal amounts outstanding for the periods presented.
- (2) Present value of expected future payments related to the acquisition of Automotive.com.
- (3) Future rental commitments for the above operating leases have not been reduced by minimum noncancelable sublease rentals aggregating \$64,868 as of September 30, 2006.
- (4) Present value of expected future payments related to Workplace Learning lease obligations, exclusive of a third party guarantee for up to \$10,000 to be applied to the Company's secondary liability. See *Contingencies* below for further detail.

The Company had no borrowings outstanding at September 30, 2006 under the revolving loan portion of the bank credit facility. The revolving loan portion of the bank credit facility matures in 2008, and the term loan B matures in 2013.

The Company has other commitments in the form of letters of credit of \$21,115 aggregate face value which expire on or before September 30, 2007.

Off Balance Sheet Arrangements

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

Covenant Compliance

As defined in the amended bank credit facilities agreement, the maximum allowable debt leverage ratio was amended to 6.25 to 1 and decreases to 6.00 to 1 on October 1, 2007. The amendment to the bank credit facilities also sets the minimum interest coverage ratio, as defined in the bank credit facilities, at 1.75 to 1 through maturity. The minimum fixed charge coverage ratio, as defined, remains unchanged at 1.05 to 1 through maturity.

The Company is herewith providing detailed information and disclosure as to the methodology used in determining compliance with the leverage ratio in the bank credit facility agreement. Under its bank credit facility and Senior Note agreements, the Company is allowed to designate certain businesses as unrestricted subsidiaries to the extent that the value of those businesses does not exceed the permitted amounts, as defined in these agreements. The Company has designated certain of its businesses as

unrestricted (the Unrestricted Group), which represent primarily Internet businesses, trademark and content licensing and service companies, new launches (including traditional start-ups), other properties under evaluation for turnaround or shutdown and foreign subsidiaries. Except for those specifically designated by the Company as unrestricted, all businesses of the Company are restricted (the Restricted Group). Indebtedness under the bank credit facility and Senior Note agreements is guaranteed by each of the Company's domestic subsidiaries in the Restricted Group (excluding Automotive.com) in accordance with the provisions and limitations of the Company's bank credit facility and Senior Note agreements. The guarantees are full, unconditional and joint and several. The Unrestricted Group does not guarantee the bank credit facility or Senior Notes. For purposes of determining compliance with certain financial covenants under the Company's bank credit facility, the Unrestricted Group's results (positive or negative) are not reflected in the Consolidated EBITDA of the Restricted Group which, as defined in the bank credit facility agreement, excludes losses of the Unrestricted Group, non-cash charges and restructuring charges and is adjusted primarily for the trailing four quarters results of acquisitions and divestitures and estimated savings for acquired businesses.

The following represents a reconciliation of EBITDA of the Restricted Group for purposes of the leverage ratio as defined in the bank credit facilities agreement to operating income:

| | For the Three Months Ended September 30, 2006 | For the Twelve Months Ended September 30, 2006 |
|--|--|---|
| EBITDA of the Restricted Group | \$ 59,625 | \$ 224,299 |
| EBITDA loss of the Unrestricted Group | (10,105) | (45,012) |
| Divestiture and other adjustments | (3,005) | (7,501) |
| Depreciation of property and equipment | (7,229) | (33,137) |
| Amortization of intangible assets and other | (3,479) | (21,396) |
| Severance related to separated senior executives | | (1,775) |
| Non-cash compensation | (411) | (2,563) |
| Provision for severance, closures and restructuring related costs | (292) | (2,468) |
| Gain on the sales of businesses and other, net | | 101 |
| Operating income | 35,104 | 110,548 |
| Other income (expense): | | |
| Interest expense | (33,574) | (118,116) |
| Interest on shares subject to mandatory redemption | | (2,283) |
| Amortization of deferred financing costs | (630) | (2,677) |
| Other income (expense), net | 787 | (5,371) |
| Income (loss) from continuing operations before (provision) benefit for income taxes | 1,687 | (17,899) |
| (Provision) benefit for income taxes | (5,009) | (2,502) |
| Income (loss) from continuing operations | (3,322) | (20,401) |
| Discontinued operations | 57,074 | 66,317 |
| Cumulative effect of change in accounting principle | | 22 |
| Net income | \$ 53,752 | \$ 45,938 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

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

| | For the Three Months Ended September 30, 2006 | For the Twelve Months Ended September 30, 2006 |
|--|--|---|
| Internet properties | \$ 3,879 | \$ 14,715 |
| Traditional turnaround and start-up properties | 4,741 | 24,513 |
| Related overhead and other charges | 1,485 | 5,784 |
| | \$ 10,105 | \$ 45,012 |

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

The calculation of the Company's leverage ratio, as required under the bank credit facilities agreement for covenant purposes, is defined as the Company's consolidated debt divided by the EBITDA of the Restricted Group. At September 30, 2006, this leverage ratio was approximately 6.0 to 1.

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 effect on the condensed consolidated financial statements of the Company.

In 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities, however, the Company retained a secondary liability regarding the Carrollton, TX building lease and a lease for satellite time. At the time of the sale the Company received a third party guarantee of up to \$10,000 against those lease obligations to reimburse the Company for lease payments made.

In 2006, the Company made certain lease payments on behalf of Workplace Learning pursuant to its secondary liability. During the second quarter of 2006, the Company determined that it was probable that the Company would be responsible for the lease payments. As a result, as of September 30, 2006, the Company has a receivable of \$10,000 included in prepaid expenses and other current assets for the amount due from the third party guarantor, and a total liability of \$15,231 for the fair value of the future lease payments, net of estimated sublease income, on the accompanying condensed consolidated balance sheet. During the second quarter of 2006, the Company recorded a related provision in discontinued operations of \$5,584 and a charge to discontinued operations of \$1,643 for the net lease payments made by the Company prior to June 30, 2006. As of September 30, 2006, no further provisions were deemed necessary.

Critical Accounting Policies and Estimates

During the third quarter of 2006, there were no significant changes related to the Company's critical accounting policies and estimates as disclosed in the Company's annual report on Form 10-K for the year ended December 31, 2005.

Recent Accounting Pronouncements

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes

In July of 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective for fiscal years beginning after December 15, 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also requires entities to make further disclosures about uncertainties in their income tax position, and to include a rollforward of the tax benefits taken that do not qualify for financial statement recognition. The Company is in the process of assessing the impact of this Interpretation on its consolidated financial statements.

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not anticipate any material impact on its consolidated financial statements upon the adoption of this standard.

Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

The SEC issued Staff Accounting Bulletin (SAB) No. 108 in October of 2006, to address diversity in practice regarding the quantification of financial statement misstatements. SAB 108 requires that a company use both the rollover and iron curtain method (the two most commonly used methods) when quantifying misstatement amounts. The SEC staff believes that reliance on only one of these methods does not appropriately quantify all misstatements that could be material to financial-statement users. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006

Subsequent Events

Redemption of Senior Notes

During October 2006, the Company redeemed \$5,190 principal amount of its 8% Senior Notes due 2013 in two separate transactions for a total of \$4,790 plus \$164 of accrued interest. As a result, the Company recorded a gain of \$400 net of the write-off of unamortized deferred financing costs.

Filing of Form 10

In late 2005, the Company announced that its Board of Directors authorized management, along with advisors Goldman Sachs and Lehman Brothers, and counsel Simpson Thacher & Bartlett, to explore the separation of its businesses via a tax-free spin-off into two separate publicly-traded companies. The plan being contemplated would spin-off PRIMEDIA's Consumer Guides Segment. In furtherance of the assessment of a potential spin-off, the Board of Directors approved the filing of a ruling request with the Internal Revenue Service and a Form 10 with the Securities and Exchange Commission (SEC). The IRS ruling request was filed during the third quarter, and the Form 10 was filed in November 2006. Although the Board has taken these additional steps, there has been no final decision on whether to complete the spin-off.

Impact of Inflation and Other Costs

The impact of inflation was immaterial during the first nine months of 2006. Postage, however, for product distribution and direct mail solicitations is a significant expense of the Company. The Company uses the U.S. Postal Service for distribution of many of its products and marketing materials. Postal rates increased 5.4% in 2006. In the past, the effects of inflation on operating expenses including postage increases have substantially been offset by PRIMEDIA's ability to increase selling prices. No assurances can be given that the Company can pass such cost increases through to its customers in the future. In addition to pricing actions, the Company is continuing to examine all aspects of the manufacturing and purchasing processes to identify ways to offset price increases. The Company's paper expense decreased approximately 1.3% in the third quarter of 2006 compared to 2005. Paper cost represented approximately 9.9% and 10.2% of the Company's total operating expenses for the third quarter of 2006 and 2005, respectively.

Seasonality

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the third quarter of 2006, there were no significant changes related to the Company's market risk exposure.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2006, there have not been any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes to the Company's risk factors during the third quarter of 2006.

Item 6. EXHIBITS

(a) Exhibits

- 10.1 Employment Agreement, dated September 15, 2006, between PRIMEDIA Inc. and Steven R. Parr(1)
- 31.1 Certification by Dean B. Nelson Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
- 31.2 Certification by Kevin J. Neary Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
- 31.3 Certification by Robert J. Sforzo Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
- 32.1 Certification by Dean B. Nelson Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)
- 32.2 Certification by Kevin J. Neary Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)
- 32.3 Certification by Robert J. Sforzo Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)

(*) Filed herewith.

- (1) Incorporated by reference to PRIMEDIA Inc.'s Current Report on Form 8-K, filed September 15, 2006.

SIGNATURES

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

| | | |
|-------|------------------|---|
| Date: | November 9, 2006 | PRIMEDIA INC. (Registrant) /s/ DEAN B. NELSON (Dean B. Nelson) <i>Chairman, Chief Executive Officer and President (Principal Executive Officer)</i> |
| Date: | November 9, 2006 | /s/ KEVIN J. NEARY (Kevin J. Neary) <i>Senior Vice President and Chief Financial Officer (Principal Financial Officer)</i> |
| Date: | November 9, 2006 | /s/ ROBERT J. SFORZO (Robert J. Sforzo) <i>Senior Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)</i> |