PRIMEDIA INC
Form 10-Q
May 10, 2004

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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: March 31, 2004

Commission file number: 1-11106

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-3647573** (I.R.S. Employer Identification No.)
745 Fifth Avenue, New York, New York (Address of principal executive offices)	**10151** (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý   No o

Number of shares of common stock, par value $.01 per share, of PRIMEDIA Inc. outstanding as of April 30, 2004: 260,245,950.

PRIMEDIA Inc.

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PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2004	December 31, 2003
	(Unaudited) (dollars in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,110	$ 8,685
Accounts receivable, net	201,832	194,080
Inventories	18,231	17,500
Prepaid expenses and other	45,306	36,059
Assets held for sale		31,879
Total current assets	284,479	288,203
Property and equipment (net of accumulated depreciation and amortization of $292,571 in 2004 and $280,612 in 2003)	104,652	110,859
Other intangible assets, net	262,799	268,407
Goodwill	909,897	910,534
Other non-current assets	58,134	58,118
Total Assets	$ 1,619,961	$ 1,636,121
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 56,500	$ 78,794
Accrued expenses and other	227,230	218,612
Deferred revenues	162,230	157,853
Current maturities of long-term debt	21,369	22,195
Liabilities of businesses held for sale		16,049
Total current liabilities	467,329	493,503
Long-term debt	1,553,720	1,562,441
Shares subject to mandatory redemption	474,559	474,559
Deferred revenues	34,202	33,604
Deferred income taxes	65,653	61,364
Other non-current liabilities	24,146	23,905
Total Liabilities	2,619,609	2,649,376
Shareholders' deficiency:		
Series J convertible preferred stock ($.01 par value, 1,360,315 shares and 1,319,093 shares issued and outstanding, aggregate liquidation and redemption values of $170,040 and $164,887 at March 31, 2004 and December 31, 2003, respectively)	169,686	164,533
Common stock ($.01 par value, 350,000,000 shares authorized at March 31, 2004 and December 31, 2003 and 268,848,200 shares and 268,333,049 shares issued at March 31, 2004 and December 31, 2003, respectively)	2,688	2,683

	March 31, 2004	December 31, 2003
Additional paid-in capital (including warrants of $31,690 at March 31, 2004 and December 31, 2003)	2,347,518	2,345,152
Accumulated deficit	(3,441,792)	(3,447,710)
Accumulated other comprehensive loss	(186)	(176)
Unearned compensation		(175)
Common stock in treasury, at cost (8,610,491 shares at March 31, 2004 and December 31, 2003)	(77,562)	(77,562)
Total Shareholders' Deficiency	(999,648)	(1,013,255)
Total Liabilities and Shareholders' Deficiency	$ 1,619,961	$ 1,636,121

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2004	**2003**
	(dollars in thousands, except per share amounts)	
Revenues, net:		
Advertising	$ 204,100	$ 203,766
Circulation	75,800	77,784
Other	48,603	46,937
Total revenues, net	328,503	328,487
Operating costs and expenses:		
Cost of goods sold	65,359	72,205
Marketing and selling	75,193	75,376
Distribution, circulation and fulfillment	56,663	58,177
Editorial	27,477	25,881
Other general expenses	49,088	46,562
Corporate administrative expenses (excluding $1,919 and $1,246 of non-cash compensation in 2004 and 2003, respectively)	7,457	7,381
Depreciation of property and equipment	11,911	12,276
Amortization of intangible assets and other	5,997	10,731
Severance related to separated senior executives	658	
Non-cash compensation	1,919	1,246
Provision for severance, closures and restructuring related costs	2,719	1,162
Provision for unclaimed property	5,500	
(Gain) loss on sale of businesses and other, net	(75)	125
Operating income	18,637	17,365
Other expense:		
Interest expense	(28,578)	(33,453)
Interest on shares subject to mandatory redemption	(10,945)	
Amortization of deferred financing costs	(1,102)	(741)
Other income (expense), net	288	(546)
Loss from continuing operations before income tax expense	(21,700)	(17,375)
Income tax expense	(4,390)	(3,718)
Loss from continuing operations	(26,090)	(21,093)
Discontinued operations (including gain (loss) on sale of businesses of $38,035 and ($1,242) in 2004 and 2003, respectively)	37,161	846
Net income (loss)	11,071	(20,247)

	Three Months Ended March 31,	
Preferred stock dividends and related accretion, net	(5,153)	(16,433)
Income (loss) applicable to common shareholders	$ 5,918	$ (36,680)
Per common share:		
Loss from continuing operations	$ (0.12)	$ (0.14)
Discontinued operations	0.14	
Basic and diluted income (loss) applicable to common shareholders	$ 0.02	$ (0.14)
Basic and diluted common shares outstanding	259,894,408	258,886,845

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2004	**2003**
	(dollars in thousands)	
Operating activities:		
Net income (loss)	$ 11,071	$ (20,247)
Adjustments to reconcile net income (loss) to net cash used in operating activities	(12,176)	34,609
Changes in operating assets and liabilities	(30,395)	(21,514)
Net cash used in operating activities	(31,500)	(7,152)
Investing activities:		
Additions to property, equipment and other, net	(6,153)	(8,986)
Proceeds from sale of businesses and other	58,077	44
Payments for businesses acquired, net of cash acquired	(1,117)	(2,186)
Proceeds from (payments for) other investments, net	547	(132)
Net cash provided by (used in) investing activities	51,354	(11,260)
Financing activities:		
Borrowings under credit agreements	93,000	169,500
Repayments of borrowings under credit agreements	(100,000)	(47,500)
Payments for repurchases of senior notes		(84,175)
Proceeds from issuances of common stock, net	628	493
Purchases of common stock for the treasury		(4,244)
Dividends paid to preferred stock shareholders		(11,527)
Capital lease obligations	(2,822)	(961)
Other	(235)	(77)
Net cash provided by (used in) financing activities	(9,429)	21,509
Increase in cash and cash equivalents	10,425	3,097
Cash and cash equivalents, beginning of period	8,685	18,553
Cash and cash equivalents, end of period	$ 19,110	$ 21,650
Supplemental information:		
Cash interest paid	$ 5,469	$ 22,268
Cash interest paid on shares subject to mandatory redemption	$ 10,945	$

	Three Months Ended March 31,	
Cash taxes paid, net of refunds	$ 101	$ 423
Accretion in carrying value of exchangeable and convertible preferred stock	$	$ 349
Payments of dividends-in-kind on Series J Convertible Preferred Stock	$ 5,153	$ 4,556

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA Inc.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

1. *Summary of Significant Accounting Policies*

Basis of Presentation

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

Stock Based Compensation

The Company has a stock-based employee compensation plan. Effective January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", as amended by SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure", using the prospective method. Upon adoption, the Company began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. The adoption of SFAS 123 increased the loss from continuing operations for the three months ended March 31, 2004 by $590. The impact of the adoption of SFAS 123 was not significant for the three months ended March 31, 2003.

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

	Three Months Ended March 31,	
	2004	**2003**
Reported net income (loss) applicable to common shareholders	$ 5,918	$ (36,680)
Add: stock-based employee compensation expense included in reported net income (loss)	765	841
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(3,161)	(6,569)
Pro forma net income (loss) applicable to common shareholders	$ 3,522	$ (42,408)
Per common share:		
Reported basic and diluted income (loss)	$ 0.02	$ (0.14)
Pro forma basic and diluted income (loss)	$ 0.01	$ (0.16)

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options granted on or before December 31, 2002 under the fair value method of SFAS 123. The fair value of these options was estimated at the date of grant using the Black-Scholes pricing model. The following weighted-average assumptions were used for options granted in 2004 and 2003, respectively: risk-free interest rates of 2.18% and 3.91%; dividend yields of 0.0% and 0.0%; volatility factors of the expected market price of the Company's common stock of 89% and 79%, and a weighted-average expected life of the options of three and five years. The estimated fair value of options granted during the three months ended March 31, 2004 and 2003 was $8 and $10, respectively.

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

Recent Accounting Pronouncement

On July 1, 2003, the Company prospectively adopted SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 requires the Company to classify as long-term liabilities its Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock (collectively the "Exchangeable Preferred Stock") and to classify dividends from this Exchangeable Preferred Stock as interest expense.

As a result of the adoption by the Company of SFAS 150, the Series D Exchangeable Preferred Stock, Series F Exchangeable Preferred Stock and Series H Exchangeable Preferred Stock are now collectively described as "shares subject to mandatory redemption" on the accompanying condensed consolidated balance sheets as of March 31, 2004 and December 31, 2003. Dividends on these shares, subsequent to the adoption of SFAS 150, are now described as "interest on shares subject to mandatory redemption" and are included in loss from continuing operations for the three months ended March 31, 2004, whereas previously they were presented below net income (loss) as preferred stock dividends. The adoption of SFAS 150 increased the loss from continuing operations for the three months ended March 31, 2004 by $11,281 which represents interest on shares subject to mandatory redemption ($10,945) and amortization of issuance costs ($336) which is included in the amortization of deferred financing costs on the accompanying condensed statement of consolidated operations. If SFAS 150 was adopted on January 1, 2003, loss from continuing operations for the three months ended March 31, 2003 would have increased by $11,876. This adoption did not have an impact on income (loss) applicable to common shareholders or income (loss) per common share for any of the periods presented on the accompanying condensed statements of consolidated operations.

2. *Divestitures*

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

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

In February 2004, the Company completed the sale of Kagan World Media, part of the Business Information segment, the results of which have been classified as discontinued operations for all periods presented. Proceeds from the sale of approximately $2,200, subject to standard post-closing adjustments, were used to pay down the Company's borrowings under its bank credit facilities.

The results of the Company's divestiture of certain properties in 2004 and 2003 have been included in discontinued operations on the accompanying condensed statements of consolidated operations. Discontinued operations include revenues of $1,639 and $47,314 for the three months ended March 31, 2004 and 2003, respectively.

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

3. *Accounts Receivable, Net*

Accounts receivable, net, consisted of the following:

	March 31, 2004	December 31, 2003
Accounts receivable	$ 220,988	$ 212,144
Less: Allowance for doubtful accounts	11,739	10,798
Allowance for returns and rebates	7,417	7,266
	$ 201,832	$ 194,080

4. *Inventories*

Inventories consisted of the following:

	March 31, 2004	December 31, 2003
Finished goods	$ 9,159	$ 8,008
Work in process		230
Raw materials	9,072	9,262
	$ 18,231	$ 17,500

5. *Goodwill, Other Intangible Assets and Other*

As required under SFAS 142, "Goodwill and Other Intangible Assets", the Company continues to assess goodwill and indefinite lived intangible assets for impairment at least annually since its initial adoption of SFAS 142 on January 1, 2002. The Company established October 31 as the annual impairment test date. In addition to the annual impairment test, an assessment is also required whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the three months ended March 31, 2004 and 2003, there were no events or changes in circumstances requiring the Company to perform an impairment test related to goodwill, intangible assets or other finite lived assets, and accordingly, there were no impairments recorded.

Historically, the Company did not need a valuation allowance for the portion of the tax effect of net operating losses equal to the amount of deferred tax liabilities related to tax-deductible goodwill and trademark amortization expected to occur during the carryforward period of the net operating losses based on the timing of the reversal of these taxable temporary differences. Upon adoption of SFAS 142, the Company recorded a valuation allowance in excess of its net deferred tax assets to the extent the difference between the book and tax basis of indefinite-lived intangible assets is not expected to reverse during the net operating loss carryforward period. With the adoption of SFAS 142, the Company no longer amortizes the book basis in the indefinite-lived intangibles, but will continue to amortize these intangibles for tax purposes. For the three months ended March 31, 2004 and 2003, income tax expense primarily consisted of deferred income taxes of $4,289 and $3,325, respectively, related to the increase in the Company's net deferred tax liability for the tax effect of the net increase in the difference between the book and tax basis in the indefinite-lived intangible assets.

In addition, since amortization of tax-deductible goodwill and trademarks ceased on January 1, 2002, the Company will have deferred tax liabilities that will arise each quarter because the taxable temporary differences related to the amortization of these assets will not reverse prior to the expiration period of the Company's deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. The Company expects that it will record a total of approximately $13,100 to increase deferred tax liabilities during the remaining nine months of 2004.

Changes in the carrying amount of goodwill for the three months ended March 31, 2004, by operating segment, are as follows:

	Enthusiast Media	Consumer Guides	Business Information	Education and Training	Total
Balance as of January 1, 2004	$ 695,340	$ 95,808	$ 119,386	$	$ 910,534
Purchase price allocation adjustments per final valuation reports		94			94
Goodwill written off related to the sale of businesses			(731)		(731)
Balance as of March 31, 2004	$ 695,340	$ 95,902	$ 118,655	$	$ 909,897

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

		March 31, 2004			December 31, 2003		
	Range of Lives	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	3	$ 21,013	$ 21,013	$	$ 21,013	$ 19,845	$ 1,168
Membership, subscriber and customer lists	2-20	348,346	318,243	30,103	348,346	315,860	32,486
Non-compete agreements	1-10	137,829	134,785	3,044	137,829	134,093	3,736
Trademark license agreements	2-15	2,984	2,904	80	2,984	2,899	85
Copyrights	3-20	20,550	19,723	827	20,550	19,609	941
Databases	2-12	9,353	8,725	628	9,353	8,627	726
Advertiser lists	5-20	135,978	123,811	12,167	135,978	122,852	13,126
Distribution agreements	1-7	10,410	10,410		10,410	10,410	
Other	1-5	9,804	9,804		9,804	9,804	
		$ 696,267	$ 649,418	$ 46,849	$ 696,267	$ 643,999	$ 52,268

Intangible assets not subject to amortization had a carrying value of $215,950 and $216,139 at March 31, 2004 and December 31, 2003, respectively, and consisted primarily of trademarks. Amortization expense for intangible assets still subject to amortization was $5,634 and $8,808 for the three months ended March 31, 2004 and 2003, respectively. Amortization of deferred wiring costs of $363 and $1,923 for the three months ended March 31, 2004 and 2003, respectively, has also been included in amortization of intangible assets and other on the accompanying condensed statements of consolidated operations. At March 31, 2004, estimated future amortization expense of intangible assets still subject to amortization, excluding deferred wiring costs, is as follows: approximately $12,000 for the remaining nine months of 2004 and approximately $11,000, $7,000, $5,000 and $4,000 for 2005, 2006, 2007 and 2008, respectively.

6. ***Long-term Debt***

Long-term debt consisted of the following:

	March 31, 2004	December 31, 2003
Borrowings under bank credit facilities	$ 552,906	$ 559,906
$7^5/_8$% Senior Notes Due 2008	225,475	225,443
$8^7/_8$% Senior Notes Due 2011	469,958	469,820
8% Senior Notes Due 2013	300,000	300,000
	1,548,339	1,555,169
Obligation under capital leases	26,750	29,467
	1,575,089	1,584,636
Less: Current maturities of long-term debt	21,369	22,195
	$ 1,553,720	$ 1,562,441

Under the most restrictive covenants as defined in the bank credit facilities agreement, the Company must maintain a minimum interest coverage ratio, as defined, of 2.25 to 1 and a minimum fixed charge coverage ratio, as defined, of 1.05 to 1. The maximum allowable debt leverage ratio, as defined, is 6.0 to 1. The maximum leverage ratio decreases to 5.75 to 1, 5.5 to 1, 5.0 to 1 and 4.5 to 1, respectively, on July 1, 2004, January 1, 2005, January 1, 2006 and January 1, 2007. The minimum interest coverage ratio increases to 2.5 to 1 on January 1, 2005. The Company is in compliance with all of the financial and operating covenants of its financing arrangements.

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

7. ***Series J Convertible Preferred Stock***

As of March 31, 2004 and December 31, 2003, the Company had $169,686 and $164,533 of Series J Convertible Preferred Stock outstanding, respectively. The Company paid dividends-in-kind of 41,222 and 36,448 shares of Series J Convertible Preferred Stock valued at $5,153 and $4,556 during the three months ended March 31, 2004 and 2003, respectively.

8. ***Common Stock and Related Options***

The following table summarizes information about stock options outstanding and exercisable at March 31, 2004:

Range of Exercise Prices		Number Outstanding at 3/31/04	Number Exercisable at 3/31/04	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price for Outstanding Options		Weighted Average Exercise Price of Exercisable Options
$	0.08 - $0.43	68,612	68,612	4	$	0.29	$	0.29
$	1.01 - $1.80	5,270	3,395	6		1.44		1.50
$	1.85 - $1.98	1,151,211	593,981	7		1.85		1.85
$	2.02 - $2.99	2,958,969	705,219	6		2.82		2.80
$	3.09 - $3.69	2,086,213	43,785	8		3.10		3.23
$	4.00 - $5.95	7,292,577	5,146,046	6		4.73		4.82
$	6.00 - $9.83	4,476,423	2,661,949	7		6.85		7.21
$	10.04 - $19.81	9,654,416	8,780,695	6		13.44		13.16
$	20.00 - $28.94	213,212	208,981	6		26.08		26.18
$	30.01 - $36.52	24,877	24,877	6		32.61		32.61
	Total	27,931,780	18,237,540	6	$	7.81	$	9.27

9. ***Non-Cash Compensation***

	Three Months Ended March 31,			
	2004		2003	
Restricted stock(1)	$	1,154	$	
Stock options(2)		590		
Amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About acquisition(3)		175		507
Restricted stock and stock options About(4)				739
Total	$	1,919	$	1,246

(1) During the three months ended March 31, 2004, the Company recognized $1,154 of non-cash compensation charges related to the Company's grant of shares of restricted common stock to certain executives during 2003, as well as a grant of shares of restricted common stock to certain employees in 2003 in exchange for their options in the Company's Internet subsidiaries. These grants were valued at $9,536 at the date of grant and are being expensed ratably over their related vesting periods.

(2) As a result of the adoption of SFAS 123 effective January 1, 2003, the Company recorded a non-cash compensation charge of $590 for the three months ended March 31, 2004, relating to stock options and the PRIMEDIA Employee Stock Purchase Plan. The impact of the adoption of SFAS 123 was not significant for the three months ended March 31, 2003.

(3) In connection with the acquisition of About in 2001, the Company recorded charges of $175 and $507 related to the amortization of the intrinsic value of unvested "in the money" options for the three months ended March 31, 2004 and 2003, respectively. As of March 31, 2004, these options are fully vested.

(4)

For the three months ended March 31, 2003, the Company recognized $405 and $334 related to the vesting of certain restricted stock and stock options, respectively, granted in connection with the acquisition of About in 2001.

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

Senior Executives Severance

During the first quarter 2004, the Company recorded $658 of severance relating to the finalization of the separation agreements of the former Chief Executive Officer and the former President and Interim Chief Executive Officer.

Provision for Severance, Closures and Restructuring Related Costs

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

Details of the initiatives implemented and the payments made in furtherance of these plans during the three-months ended March 31, 2004 and 2003 are presented in the following tables:

	Liability as of January 1, 2004	Net Provision for the Three Months Ended March 31, 2004	Payments during the Three Months Ended March 31, 2004	Liability as of March 31, 2004
Severance and closures:				
Employee-related termination costs	$ 2,982	$ 422	$ (1,784)	$ 1,620
Termination of contracts	467			467
Termination of leases related to office closures	36,900	2,297	(2,359)	36,838
Total severance and closures	$ 40,349(1)	$ 2,719(2)	$ (4,143)	$ 38,925

	Liability as of January 1, 2003	Net Provision for the Three Months Ended March 31, 2003	Payments during the Three Months Ended March 31, 2003	Liability as of March 31, 2003
Severance and closures:				
Employee-related termination costs	$ 3,733	$ 1,016	$ (1,384)	$ 3,365
Termination of contracts	575		(97)	478
Termination of leases related to office closures	41,366	146	(2,225)	39,287
Total severance and closures	$ 45,674(1)	$ 1,162(2)	$ (3,706)	$ 43,130

(1)

Reduced for liabilities relating to discontinued operations totaling $3,465 and $3,760 at January 1, 2004 and 2003, respectively.

(2)

Adjusted to exclude net provisions related to discontinued operations totaling $9 and $228 for the three months ended March 31, 2004 and 2003, respectively.

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

As a result of the implementation of these plans, the Company has closed and consolidated, to date, 22 office locations and has notified a total of 2,023 individuals that they would be terminated under these plans. As of March 31, 2004, all of these individuals have been terminated.

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

11. ***Comprehensive Income (Loss)***

Comprehensive income (loss) for the three months ended March 31, 2004 and 2003 is presented in the following table:

	Three Months Ended March 31,	
	2004	**2003**
Net income (loss)	$ 11,071	$ (20,247)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10)	24
Total comprehensive income (loss)	$ 11,061	$ (20,223)

12. ***Income (loss) per Common Share***

Income (loss) per common share for the three months ended March 31, 2004 and 2003 has been determined based on net income (loss) available to common shareholders, divided by the weighted average number of common shares outstanding for all periods presented. The effect of the assumed exercise of stock options and warrants and the conversion of convertible preferred stock were not included in the computation of per share amounts because the effect of their inclusion would be antidilutive. If the Company had recognized income from continuing operations for the three months ended March 31, 2004 and 2003, shares attributable to these antidilutive instruments would have increased diluted shares outstanding by 62,100,000 and 60,900,000, respectively.

13. ***Contingencies***

Based on an initial internal assessment at the end of 2003, the Company believed that certain business units may have unclaimed property that should have been remitted to one or more states under their respective escheatment laws. The property in question related primarily to unused advertising credits and outstanding accounts payable checks. The Company hired an outside consultant to assist in estimating the potential risk. It was premature to estimate the extent of the financial risk at the end of 2003, but the Company believed that the risk would not have a material impact on its results of operations or financial position. Upon completion of the initial phase of this assessment, the Company recorded an estimated provision for unclaimed property of $5,500. The Company has entered the next phase of the assessment whereby the consultant will assist in refining the estimated provision and in negotiating settlements under voluntary compliance agreements with the relevant states.

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

14. ***Business Segment Information***

The Company's strategy is to focus on its core businesses and grow through leveraging and expanding its market leading brands. This organic growth strategy requires a segment structure that better aligns the Company's businesses to provide a clearer sense of its strategic focus and operating performance. Accordingly, the Company adopted this structure, effective in the fourth quarter of 2003, and has reclassified prior year results to reflect this redesigned operating structure into four reportable segments. The Company's four principal segments are Enthusiast Media, Consumer Guides, Business Information and Education and Training.

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

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

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

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

Information regarding the operations of the Company by business 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 earnings before interest, taxes, depreciation, amortization and other (income) charges ("EBITDA"). Other (income) charges include severance related to separated senior executives, non-cash compensation, provision for severance, closures and restructuring related costs, provision for unclaimed property and (gain) loss on sale of businesses and other, net.

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

	Three Months Ended March 31,	
	2004	2003
Revenues, net:		
Enthusiast Media	$ 174,228	$ 173,373
Consumer Guides	71,845	67,924
Business Information	55,992	57,469
Education and Training	26,773	32,140
Intersegment Eliminations	(335)	(2,419)
Total	$ 328,503	$ 328,487
Segment EBITDA(1):		
Enthusiast Media	$ 30,459	$ 24,607
Consumer Guides	19,917	17,568
Business Information	4,504	3,821
Education and Training	(123)	4,334
Corporate Overhead	(7,491)	(7,425)
Total	$ 47,266	$ 42,905

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

	Three Months Ended March 31,	
	2004	2003
Segment EBITDA(1):	$ 47,266	$ 42,905
Depreciation of property and equipment	11,911	12,276
Amortization of intangible assets and other	5,997	10,731
Severance related to separated senior executives	658	
Non-cash compensation	1,919	1,246
Provision for severance, closures and restructuring related costs	2,719	1,162
Provision for unclaimed property	5,500	
(Gain) loss on sale of businesses and other, net	(75)	125
Operating income	$ 18,637	$ 17,365

(1) Segment EBITDA represents the segments' earnings before interest, taxes, depreciation, amortization and other (income) charges. Other (income) charges include severance related to separated senior executives, non-cash compensation, provision for severance, closures and restructuring related costs, provision for unclaimed property and (gain) loss on sale of businesses and other, net. Segment EBITDA is not intended to represent cash flows from operating activities and should not be considered as an alternative to net income or loss (as determined in conformity with generally accepted accounting principles), as an indicator of the Company's operating

performance or to cash flows as a measure of liquidity. Segment EBITDA is presented herein because the Company's chief operating decision maker, who is the President and CEO, and the executive team evaluate and measure each business unit's performance based on its Segment EBITDA results. PRIMEDIA believes that Segment EBITDA is the most accurate indicator of its segments' results, because it focuses on revenue and operating cost items driven by each operating managers' performance, and excludes items largely outside of the operating managers' control. Segment EBITDA may not be available for the Company's discretionary use as there are requirements to redeem preferred stock and repay debt, among other payments. 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.

15. ***Financial Information for Guarantors of the Company's Debt***

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

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

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING BALANCE SHEET

(UNAUDITED)

March 31, 2004

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
ASSETS					
Current assets:					
Cash and cash equivalents	$ 7,834	$ 10,929	$ 347	$	$ 19,110
Accounts receivable, net		188,996	12,836		201,832
Intercompany receivables	1,610,571	377,813	118,211	(2,106,595)	
Inventories		17,512	719		18,231
Prepaid expenses and other	3,008	29,220	13,078		45,306
Total current assets	1,621,413	624,470	145,191	(2,106,595)	284,479
Property and equipment, net	6,547	84,910	13,195		104,652
Investment in and advances to subsidiaries	550,467			(550,467)	
Other intangible assets, net		261,446	1,353		262,799
Goodwill		894,672	15,225		909,897
Other non-current assets	11,179	34,669	12,286		58,134
Total Assets	$ 2,189,606	$ 1,900,167	$ 187,250	$ (2,657,062)	$ 1,619,961
LIABILITIES AND SHAREHOLDERS' DEFICIENCY					
Current liabilities:					
Accounts payable	$ 6,264	$ 39,480	$ 10,756	$	$ 56,500
Intercompany payables	959,199	414,032	733,364	(2,106,595)	
Accrued expenses and other	112,376	110,522	4,332		227,230
Deferred revenues	1,738	150,890	9,602		162,230
Current maturities of long-term debt	15,999	5,370			21,369
Total current liabilities	1,095,576	720,294	758,054	(2,106,595)	467,329
Long-term debt	1,534,411	19,309			1,553,720
Intercompany notes payable		2,927,094	69,650	(2,996,744)	
Shares subject to mandatory redemption	474,559				474,559
Deferred revenues		34,202			34,202
Deferred income taxes	65,653				65,653
Other non-current liabilities	19,055	4,311	780		24,146
Total Liabilities	3,189,254	3,705,210	828,484	(5,103,339)	2,619,609
Shareholders' deficiency:					
Series J convertible preferred stock	169,686				169,686
Common stock	2,688				2,688
Additional paid-in capital	2,347,518				2,347,518

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
Accumulated deficit	(3,441,792)	(1,805,037)	(641,054)	2,446,091	(3,441,792)
Accumulated other comprehensive loss	(186)	(6)	(180)	186	(186)
Common stock in treasury, at cost	(77,562)				(77,562)
Total Shareholders' Deficiency	(999,648)	(1,805,043)	(641,234)	2,446,277	(999,648)
Total Liabilities and Shareholders' Deficiency	$ 2,189,606	$ 1,900,167	$ 187,250	$ (2,657,062)	$ 1,619,961

PRIMEDIA INC. AND SUBSIDIARIES

CONDENSED STATEMENT OF CONSOLIDATING OPERATIONS

(UNAUDITED)

For the Three Months Ended March 31, 2004

(dollars in thousands)

	PRIMEDIA Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	PRIMEDIA Inc. and Subsidiaries
Revenues, net	$	$ 302,977	$ 40,927	$ (15,401)	$ 328,503
Operating costs and expenses:					
Cost of goods sold		59,296	6,063		65,359
Marketing and selling		63,208	11,985		75,193
Distribution, circulation and fulfillment		41,685	14,978		56,663
Editorial		23,825	3,652		27,477
Other general expenses	34	45,528	18,927	(15,401)	49,088
Corporate administrative expenses (excluding non-cash compensation)	5,748		1,709		7,457
Depreciation of property and equipment	684	8,871	2,356		11,911
Amortization of intangible assets and other		5,914	83		5,997
Severance related to separated senior executives	658				658
Non-cash compensation	1,919				1,919
Provision for severance, closures and restructuring related costs	1,606	856	257		2,719
Provision for unclaimed property	56	5,444			5,500
(Gain) loss on sale of businesses and other, net		(75)			(75)
Operating income (loss)	(10,705)	48,425	(19,083)		18,637
Other income (expense):					
Interest expense	(27,417)	(1,151)	(10)		(28,578)
Interest on shares subject to mandatory redemption	(10,945)				(10,945)
Amortization of deferred financing costs	(336)	(762)	(4)		(1,102)
Equity in income of subsidiaries	27,293			(27,293)	
Intercompany management fees and interest	37,120	(36,906)	(214)		
Other income (expense), net	349	(53)	(8)		288