PRIMEDIA INC
Form 10-Q
November 07, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______ TO ______

Commission File number: 1-11106

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3647573**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3585 Engineering Drive, Norcross, Georgia	**30092**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (678) 421-3000

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at November 3, 2008
Common Stock, par value $0.01 per share	44,188,810

Table of Contents

PRIMEDIA Inc.

INDEX

Part I. Financial Information:		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheet as of September 30, 2008 and December 31, 2007	1
	Condensed Consolidated Statement of Operations for the three months ended September 30, 2008 and 2007	2
	Condensed Consolidated Statement of Operations for the nine months ended September 30, 2008 and 2007	3
	Condensed Consolidated Statement of Changes in Stockholders Deficiency for the nine months ended September 30, 2008	4
	Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2008 and 2007 (restated)	5
	Notes to Condensed Consolidated Financial Statements	6
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	31
Item 4.	Controls and Procedures	32
Part II. Other Information:		
Item 1A.	Risk Factors	33
Item 6.	Exhibits	33
	Signatures	34

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet (Unaudited)

	September 30, 2008	December 31, 2007
	(Dollars in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 23,370	$ 14,709
Available for sale securities		15,425
Accounts receivable (net of allowance for doubtful accounts of $1,415 and $1,271 at September 30, 2008 and December 31, 2007, respectively)	28,556	27,692
Inventories	1,561	742
Prepaid expenses and other	9,963	8,155
Assets of businesses held for sale		5,793
Total current assets	63,450	72,516
Property and equipment (net of accumulated depreciation and amortization of $79,935 and $82,760 at September 30, 2008 and December 31, 2007, respectively)	17,334	18,424
Intangible assets, net	24,464	26,426
Goodwill	129,305	129,286
Other non-current assets	35,153	10,212
Total assets	$ 269,706	$ 256,864
Liabilities and stockholders deficiency		
Current liabilities:		
Accounts payable	$ 10,766	$ 14,174
Accrued expenses and other	37,962	48,991
Deferred revenue	1,918	1,942
Revolving credit facility	13,200	
Current maturities of long-term debt and capital lease obligations	3,101	5,262
Liabilities of businesses held for sale		2,484
Total current liabilities	66,947	72,853
Long-term debt	246,268	247,575
Deferred revenue	9,775	11,050
Deferred income taxes	13,853	12,264
Other non-current liabilities	56,813	56,947
Total liabilities	393,656	400,689
Commitments and contingencies (Note 16)		
Stockholders deficiency:		
Common stock - par value $0.01; 350,000,000 shares authorized; 45,582,077 and 45,572,518 shares issued at September 30, 2008 and December 31, 2007, respectively; 44,175,009 and 44,165,450 shares outstanding at September 30, 2008 and December 31, 2007, respectively	455	455
Additional paid-in capital (including warrants of $31,690 at September 30, 2008 and December 31, 2007)	2,371,821	2,370,428
Accumulated deficit	(2,418,498)	(2,436,719)
Common stock in treasury, at cost (1,407,068 shares at September 30, 2008 and December 31, 2007)	(75,877)	(75,877)

Accumulated other comprehensive loss	(1,851)	(2,112)
Total stockholders deficiency	(123,950)	(143,825)
Total liabilities and stockholders deficiency	$ 269,706	$ 256,864

The accompanying notes are an integral part of these condensed consolidated financial statements.

1

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Operations (Unaudited)

	Three Months Ended September 30,	
	2008	2007
	(Dollars in thousands, except per share data)	
Revenue, net:		
Advertising	$ 62,932	$ 65,483
Distribution	13,482	14,773
Total revenue, net	76,414	80,256
Operating costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	6,377	7,427
Marketing and selling	17,926	21,169
Distribution and circulation	21,491	21,819
General and administrative expenses	10,964	15,395
Other general expenses	1,617	1,621
Depreciation and amortization of property and equipment	3,774	3,205
Amortization of intangible assets	636	1,070
Provision for restructuring costs	202	6,578
Operating income	13,427	1,972
Other income (expense):		
Interest expense	(4,741)	(13,982)
Amortization of deferred financing costs	(224)	(349)
Other income (expense), net	314	(45,212)
Income (loss) from continuing operations before (provision) benefit for income taxes	8,776	(57,571)
(Provision) benefit for income taxes	(128)	21,214
Income (loss) from continuing operations	8,648	(36,357)
Discontinued operations, net of tax (including gain on sale of businesses, net of tax of $588 and $442,501 in 2008 and 2007, respectively)	3,312	430,109
Net income	$ 11,960	$ 393,752
Basic and diluted earnings (loss) per common share:		
Continuing operations	$ 0.20	$ (0.82)
Discontinued operations	0.07	9.74
Net income	$ 0.27	$ 8.92
Dividends declared per share of common stock outstanding	$ 0.07	$ 2.15
Weighted-average basic shares of common stock outstanding	44,175,009	44,137,802
Weighted-average diluted shares of common stock outstanding	44,188,562	44,137,802

The accompanying notes are an integral part of these condensed consolidated financial statements.

2

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Operations (Unaudited)

	Nine Months Ended September 30,			
	2008		2007	
	(Dollars in thousands, except per share data)			
Revenue, net:				
Advertising	$	189,481	$	192,579
Distribution		41,215		43,088
Total revenue, net		230,696		235,667
Operating costs and expenses:				
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)		20,137		22,104
Marketing and selling		57,543		62,917
Distribution and circulation		64,106		62,620
General and administrative expenses		38,526		44,027
Other general expenses		4,868		4,441
Depreciation and amortization of property and equipment		10,389		9,310
Amortization of intangible assets		2,043		2,663
Provision for restructuring costs		1,898		9,181
Operating income		31,186		18,404
Other income (expense):				
Interest expense		(14,599)		(72,093)
Amortization of deferred financing costs		(697)		(1,517)
Other income (expense), net		843		(41,304)
Income (loss) from continuing operations before (provision) benefit for income taxes		16,733		(96,510)
(Provision) benefit for income taxes		(2,397)		35,869
Income (loss) from continuing operations		14,336		(60,641)
Discontinued operations, net of tax (including gain on sale of businesses, net of tax of $2,052 and $483,761 in 2008 and 2007, respectively)		13,151		564,720
Net income	$	27,487	$	504,079
Basic and diluted earnings (loss) per common share:				
Continuing operations	$	0.32	$	(1.37)
Discontinued operations		0.30		12.80
Net income	$	0.62	$	11.43
Dividends declared per share of common stock outstanding	$	0.21	$	2.15
Weighted-average basic shares of common stock outstanding		44,173,820		44,107,607
Weighted-average diluted shares of common stock outstanding		44,193,870		44,107,607

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders Deficiency (Unaudited)

Nine Months Ended September 30, 2008

	Common Stock		Additional		Common	Accumulated Other	Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Stock in Treasury	Comprehensive Loss	Stockholders Deficiency
	(Dollars in thousands, except per share data)						
Balance at December 31, 2007	45,572,518	$ 455	$ 2,370,428	$ (2,436,719)	$ (75,877)	$ (2,112)	$ (143,825)
Comprehensive income:							
Net income				27,487			27,487
Other comprehensive income							
Change in unrealized net gains and losses on cash flow hedges						261	261
Total comprehensive income							27,748
Non-cash charges for stock-based compensation			1,350				1,350
Issuances of common stock, net	9,559		43				43
Cash dividends declared per share of common stock ($0.21 per share)				(9,266)			(9,266)
Balance at September 30, 2008	45,582,077	$ 455	$ 2,371,821	$ (2,418,498)	$ (75,877)	$ (1,851)	$ (123,950)

Total comprehensive income for the three months ended September 30, 2008 and 2007 was $12.9 million and $393.8 million, respectively.

Total comprehensive income for the nine months ended September 30, 2007 was $504.1 million.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007 (As restated; see Note 1)
	(Dollars in thousands)	
Operating activities:		
Net income	$ 27,487	$ 504,079
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sales of businesses, net	(2,052)	(483,761)
Deferred income taxes	1,589	(60,043)
Loss on redemption of debt	103	44,339
Other, net	18,822	29,618
Changes in operating assets and liabilities	(46,269)	(68,032)
Net cash used in operating activities	(320)	(33,800)
Investing activities:		
Purchases of available for sale securities		(194,800)
Proceeds from sales of available for sale securities	15,425	164,800
Payments for equity investments	(14)	
Additions to property and equipment	(7,884)	(15,785)
Proceeds from sales of businesses	2,369	1,352,626
Payments related to the sale of businesses		(20,816)
Payments for businesses acquired, net of cash acquired		(34,129)
Net cash provided by investing activities	9,896	1,251,896
Financing activities:		
Payment of dividends on common stock	(9,266)	(95,010)
Net borrowings under revolving credit facility	13,200	
Borrowings under credit agreements		282,800
Repayments of borrowings under credit agreements	(1,875)	(528,800)
Capital lease payments	(338)	(696)
Payments for redemption of senior notes	(2,679)	(859,735)
Deferred financing costs paid		(6,263)
Proceeds from issuances of common stock, net	43	718
Other		(114)
Net cash used in financing activities	(915)	(1,207,100)
Increase in cash and cash equivalents	8,661	10,996
Cash and cash equivalents, beginning of period	14,709	5,828
Cash and cash equivalents, end of period	$ 23,370	$ 16,824
Supplemental information:		
Cash paid for interest, including interest on capital and restructured leases	$ 14,594	$ 84,417
Cash paid for income taxes, net of refunds received	$ 11,383	$ 17,627

Cash paid for restructuring costs, net of sublease receipts	$	5,965	$	7,516
Noncash investing and financing activities:				
Equipment acquisitions under capital leases	$	1,321	$	
Businesses acquired:				
Fair value of assets acquired	$		$	34,435
(Liabilities assumed) net of deferred purchase price payments				(306)
Payments for businesses acquired, net of cash acquired	$		$	34,129

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

PRIMEDIA INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 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, 2008 and December 31, 2007, the results of consolidated operations of the Company for the three and nine months ended September 30, 2008 and 2007, consolidated changes in stockholders deficiency of the Company for the nine months ended September 30, 2008, and consolidated cash flows of the Company for the nine months ended September 30, 2008 and 2007. 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, 2007 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, 2007 (the 10-K). 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, 2007, which are included in the 10-K. The operating results for the three and nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for a full year. Certain amounts in the prior period s condensed consolidated statement of operations and related notes have been reclassified due to discontinued operations to conform to the presentation for the three and nine months ended September 30, 2008.

The Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on January 1, 2007 and, as a result, recognized a liability for uncertain tax positions and related interest and penalties of $16.1 million, which was accounted for as an increase to the January 1, 2007 balance of accumulated deficit, net of any valuation allowance impact. The total amount of unrecognized tax benefits as of January 1, 2007 was $102.5 million. In addition to the unrecognized tax benefits, the Company had $3.7 million of interest and penalties accrued as of January 1, 2007. The FIN 48 liability is included in other non-current liabilities in the condensed consolidated balance sheet.

Recent Accounting Pronouncements

SFAS No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, which provides guidance on how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under accounting principles generally accepted in the U.S. (GAAP). SFAS No. 157 creates a common definition of fair value to be used throughout GAAP and prescribes methods for measuring fair value, which are intended to make the measurement of fair value more consistent and comparable across companies.

SFAS No. 157 establishes a three-tiered hierarchy to prioritize inputs used to measure fair value. Those tiers are defined as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs are unobservable inputs for the asset or liability.

The highest priority in measuring assets and liabilities at fair value is placed on the use of Level 1 inputs, while the lowest priority is placed on the use of Level 3 inputs.

This statement also expands the related disclosure requirements in an effort to provide greater transparency around fair value measures. SFAS No. 157 is effective as of the beginning of fiscal years beginning after November 15, 2007.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Examples of items to which the deferral would apply include, but are not limited to:

Nonfinancial assets and nonfinancial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods (nonrecurring fair value measurements);

Reporting units measured at fair value in the first step of a goodwill impairment test and nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment test (measured at fair value on a recurring basis, but not necessarily recognized or disclosed in the financial statements at fair value);

Table of Contents

Indefinite-lived intangible assets measured at fair value for impairment assessment (measured at fair value on a recurring basis, but not necessarily recognized or disclosed in the financial statements at fair value);

Long-lived assets (asset groups) measured at fair value for an impairment assessment (nonrecurring fair value measurements); and

Liabilities for exit or disposal activities initially measured at fair value (nonrecurring fair value measurements).

The Company adopted SFAS No. 157 on January 1, 2008 for its financial assets and liabilities, and the adoption did not have a material impact on the Company s financial condition, results of operations or cash flows. The Company is still evaluating the impact of the items deferred by FSP FAS 157-2 (see Note 6 for information and related disclosures regarding the Company s fair value measurements).

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits companies to choose, at specified election dates, to measure eligible items, which include most recognized financial assets and liabilities and firm commitments, at fair value with unrealized gains and losses on items for which the fair value option has been elected reported in earnings at each subsequent reporting date. Generally, the decision about whether to elect the fair value option must be:

Applied instrument by instrument;

Irrevocable; and

Applied only to an entire instrument and not to only specified risks, specific cash flows or portions of that instrument.

A company may decide whether to elect the fair value option for each eligible item on its election date. Alternatively, a company may elect the fair value option according to a preexisting policy for specified types of eligible items. A company may choose to elect the fair value option for an eligible item only on the date that certain events occur, including when:

A company first recognizes the eligible item;

A company enters into an eligible firm commitment;

Financial assets that have been reported at fair value with unrealized gains and losses included in earnings because of specialized accounting principles cease to qualify for that specialized accounting; or

The accounting treatment for an investment in another entity changes.

This statement is effective as of the beginning of fiscal years that begin after November 15, 2007. The Company did not elect the fair value option for any of its financial assets or liabilities upon adoption of SFAS No. 159 on January 1, 2008, resulting in no impact on its financial condition, results of operations or cash flows.

SFAS No. 141(R)

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, which establishes new principles and disclosure requirements pertaining to business combinations. Primary changes to existing accounting include requirements for the acquirer to recognize:

- Assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date;

- Identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values, in a step acquisition;

- Assets acquired and liabilities assumed arising from contractual contingencies as of the acquisition date, measured at their acquisition-date fair values;

- Goodwill as of the acquisition date, measured as a residual, which in most types of business combinations will result in measuring goodwill as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired;

- Contingent consideration at the acquisition date, measured at its fair value at that date;

- The effect of a bargain purchase in earnings; and

- Changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances.

SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is not permitted. The Company does not presently expect this statement will have a material impact on its financial condition, results of operations and cash flows.

7

Table of Contents

SFAS No. 160

In December 2007, the FASB also issued a related statement, SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement establishes accounting and reporting standards that require:

- Ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled and presented in the consolidated balance sheet within equity, but separate from the parent s equity;
- The amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations;
- Changes in a parent s ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently;
- When a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary be initially measured at fair value;
- Gains or losses on the deconsolidation of a subsidiary to be measured using the fair value of any noncontrolling equity investment rather than the carrying amount of the retained investment; and
- Entities to provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners.

SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted. This statement must be applied prospectively as of the beginning of the year of adoption, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. The Company does not presently expect this statement will have a material impact on its financial condition, results of operations or cash flows.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial condition, results of operations and cash flows.

SFAS No. 161 amends existing disclosure requirements to provide users of financial statements with an enhanced understanding of:

- How and why an entity uses derivative financial instruments;
- How derivative financial instruments and related hedged items are accounted for; and
- How derivative financial instruments and related hedged items affect an entity s financial position, financial performance and cash flows.

To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivative financial instruments, quantitative disclosures about fair value amounts of and gains and losses on derivative financial instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. In years after initial adoption, SFAS No. 161 requires comparative disclosures only for periods subsequent to initial adoption. The enhanced disclosures required by this statement will not have a material impact on the Company s financial condition, results of operations and cash flows.

FASB Staff Position 142-3

In April 2008, the FASB issued FASB Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*, which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset with a finite useful life. Rather than considering legal, regulatory or contractual provisions that enable renewal or extension of the asset s legal or contractual life without substantial cost, FSP FAS 142-3 requires an entity to use, among other factors, its own historical experience in renewing or extending similar arrangements, regardless of whether those arrangements have explicit renewal or extension provisions, in determining the useful life of the asset. If an entity does not have its own historical experience, it should consider the assumptions that market participants would use about renewal or extension (consistent with the highest and best use of the asset by market participants), adjusted for any identified entity-specific factors.

FSP FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is not permitted. This FSP must be applied prospectively as of the beginning of the year of adoption, to all intangible assets acquired after the effective date. The Company does not presently expect this FSP will have a material impact on its financial condition, results of operations or cash flows.

Table of Contents

Correction of Error

Subsequent to the issuance of the its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2007, the Company discovered an error in its reporting of cash and cash equivalents and available for sale securities in its condensed consolidated balance sheet and of cash flows from investing activities and net increase in cash and cash equivalents in its condensed consolidated statement of cash flows due to the inclusion of auction rate securities as a cash equivalent. This error had no impact on the Company s condensed consolidated statement of operations or cash flows from operating activities for any period.

The error resulted in an overstatement of cash and cash equivalents and a corresponding understatement of available for sale securities as of September 30, 2007. The error also resulted in an understatement of purchases of available for sale securities and proceeds from sales of available for sale securities during the nine months ended September 30, 2007. Additionally, the error resulted in an overstatement of net cash provided by investing activities and increase in cash and cash equivalents for the nine months ended September 30, 2007.

A summary of the effects of the correction of these errors is as follows (dollars in thousands):

	As Previously Reported	Correction Adjustment	As Corrected
BALANCE SHEET			
Cash and cash equivalents	$ 46,824	$ (30,000)	$ 16,824
Available for sale securities		30,000	30,000
STATEMENT OF CASH FLOWS			
Purchases of available for sale securities	$	$ (194,800)	$ (194,800)
Proceeds from sales of available for sale securities		164,800	164,800
Net cash provided by investing activities	1,281,896	(30,000)	1,251,896
Increase in cash and cash equivalents	40,996	(30,000)	10,996
Cash and cash equivalents, end of period	46,824	(30,000)	16,824

The condensed consolidated financial statements have been corrected consistent with the As Corrected amounts above.

Note 2. Divestitures

The Company has classified the results of divested entities as of September 30, 2008 as discontinued operations in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

In the fourth quarter of 2006, the Company announced that it had agreed to sell its Outdoors group, part of the Enthusiast Media segment, which consisted primarily of its hunting, fishing and shooting titles, for $170.0 million in cash. The transaction was completed in January 2007 and resulted in a gain of $57.5 million.

In the fourth quarter of 2006, the Company announced that it would classify the results of operations of its Education segment as discontinued operations, due to the Company actively pursuing the sale of this segment. The Company s Education segment was comprised of Channel One, a proprietary network for secondary schools; Films Media Group, a source of educational video; and PRIMEDIA Healthcare, a medical education business. During the second quarter of 2007, the Company completed the sale of Channel One, and the Company recorded a loss of $7.1 million, of which $5.0 million was recorded during the first quarter of 2007, and completed the sale of Films Media Group for a net gain of $0.2 million. During the first quarter of 2008, the Company sold certain assets and liabilities of PRIMEDIA Healthcare for approximately $0.2 million, resulting in a gain of $0.1 million, and shut down the remaining operations, resulting in a loss of approximately $0.4 million. The assets and liabilities of PRIMEDIA Healthcare are included in assets and liabilities of businesses held for sale in the condensed consolidated balance sheet as of December 31, 2007 (see *Held for Sale* discussion below).

In February 2007, the Company announced its intent to explore the sale of its Enthusiast Media segment, and on August 1, 2007, it completed the sale for $1,177.9 million, resulting in an estimated gain of approximately $461.4 million. The Company applied the net proceeds from the sale to pay down debt. During the third quarter of 2008, final adjustments to the net proceeds from the sale were settled and resulted in an additional gain of $0.6 million, which was recorded in discontinued operations.

In the fourth quarter of 2007, the Company classified the results of operations of its Auto Guides division as discontinued operations due to its intent to dispose of the Auto Guides division by June 2008. During the second quarter of 2008, the Company sold certain assets and liabilities of

its Auto Guides division for approximately $2.1 million, resulting in an estimated gain of approximately $0.1 million, and shut down the remaining operations, resulting in a loss of approximately $0.6 million. The Company recorded an additional loss on disposal of assets of $0.2 million related to the Auto Guides division in the third quarter of 2008. The assets and liabilities of the Auto Guides division are included in assets and liabilities of businesses held for sale in the condensed consolidated balance sheet as of December 31, 2007 (see *Held for Sale* discussion below).

Table of Contents

The operating results of all of these operations have been classified as discontinued operations for all periods presented.

Total revenue, net and income (loss) before (provision) benefit from income taxes included in discontinued operations for the three and nine months ended September 30, 2008 and 2007 in the condensed consolidated statement of operations are as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Total revenue, net	$	$ 55,729	$ 3,353	$ 353,752
Income (loss) before (provision) benefit for income taxes (1)	$ (1,653)	$ 8,316	$ (4,513)	$ 57,198

(1) Income (loss) before (provision) benefit from income taxes above excludes gain on sale of businesses.
The gain on sale of businesses, net of tax, was $0.6 million and $442.5 million for the three months ended September 30, 2008 and 2007, respectively. The gain on sale of businesses, net of tax, was $2.1 million and $483.8 million for the nine months ended September 30, 2008 and 2007, respectively.

During the first nine months of 2008, the Company recorded a gain, net of tax of $1.4 million related to the sale of the Auto Guides division, $0.1 million related to the sale of PRIMEDIA Healthcare, as well as the $0.6 million discussed above related to the final adjustment to the net proceeds from the sale of the Enthusiast Media segment.

During the first quarter of 2007, the Company recorded a tax benefit of approximately $61.0 million related to the Enthusiast Media segment. This benefit, which was recorded as a component of discontinued operations, represents the tax consequences of the recharacterization of certain indefinite-lived intangible assets to definite-lived in connection with the reclassification of the Enthusiast Media segment as held for sale during the first quarter of 2007 and was recorded when it became apparent that certain taxable temporary differences would reverse.

During first nine months of 2008, the Company recognized a tax benefit of $14.8 million in discontinued operations as a result of its ability to carry back a projected 2008 net operating loss (NOL) against taxes paid on a portion of the 2007 gain on divestitures of certain subsidiaries. The current year NOL arises primarily from the reversal of differences between the book and tax basis in a group of PRIMEDIA Healthcare intangible assets triggered by the sale of those assets during the nine months ended September 30, 2008. Further adjustments to the tax benefit reported in discontinued operations related to the NOL carry back, and adjustments to the Company s valuation allowance, are possible as estimations regarding 2008 taxable income change. The Company also recognized a tax benefit of $5.1 million in discontinued operations during the first nine months of 2008, primarily as a result of changes in its estimate of its ability to utilize certain NOLs to offset 2007 taxable income.

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, 2007 have been classified as held for sale in the condensed consolidated balance sheet. As of December 31, 2007, businesses held for sale represent the assets and liabilities of PRIMEDIA Healthcare and the Auto Guides division. As of September 30, 2008, there were no assets and liabilities of businesses held for sale.

	December 31, 2007 (Dollars in thousands)
Assets	
Accounts receivable, net	$ 2,474
Prepaid expenses and other	91
Property and equipment, net	1,882
Intangible assets	1,327

Other non-current assets		19
Assets of businesses held for sale	$	5,793
Liabilities		
Accounts payable	$	228
Accrued expenses and other		2,250
Other non-current liabilities		6
Liabilities of businesses held for sale	$	2,484

Table of Contents

As discussed above, in the first quarter of 2008, the Company completed the sale of certain assets and liabilities of PRIMEDIA Healthcare and shut down the remaining operations. During the second quarter of 2008, the Company completed the sale of certain assets and liabilities of the Auto Guides division and shut down the remaining operations.

Note 3. Acquisitions

Acquisition of Rentalhouses.com

In February 2007, the Company acquired the assets of RentalHouses.com for approximately $9.0 million in cash and the assumption of liabilities. The Company allocated the total purchase price of the acquisition to the following asset classes (dollars in thousands):

	Amortization Period	Amount Allocated
Goodwill		$ 4,356
Advertiser lists	11 years	4,400
Website	3 years	250
Non-compete agreements	3 years	130
Trademarks	3 years	85
		$ 9,221

This acquisition did not have a material impact on the Company s results of operations for the three and nine months ended September 30, 2007, nor were the operations of this acquisition material during 2007 prior to the acquisition.

Other Acquisitions

In January 2007, the Company acquired Modified Automotive Group, publisher of *Modified Magazine*, *Modified Luxury & Exotics Magazine*, *Modified Mustangs Magazine*, and their related event partnerships and websites for approximately $15.0 million in cash, including acquisition related expenses. This acquisition was part of the Enthusiast Media segment, which was sold during the third quarter of 2007.

During the nine months ended September 30, 2007, the Company made two small acquisitions totaling approximately $1.5 million. In addition, during the same period, the Company made approximately $8.6 million in other payments relating to prior year acquisitions.

Note 4. Available for Sale Securities

As of September 30, 2008, the Company had no available for sale securities. During the first quarter of 2008, the Company sold all of its available for sale securities with no realized gain or loss.

As of December 31, 2007, the amortized cost and fair value of available for sale securities, with gross unrealized gains and losses, were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
Auction rate securities	$ 15,425	$	$	$ 15,425
Total available for sale securities	$ 15,425	$	$	$ 15,425

Table of Contents

Note 5. Other Intangible Assets

Intangible assets subject to amortization consist of the following:

	Weighted-Average Amortization Period (Years)