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PRIMEDIA INC
Form 10-Q
August 14, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended: June 30, 2001

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

Number of shares of common stock, par value \$.01 per share, outstanding as of July 31, 2001: 217,564,802

The aggregate market value of the common equity of PRIMEDIA Inc. which is held by non-affiliates of PRIMEDIA Inc. at July 31, 2001 was approximately \$471.6 million.

PRIMEDIA Inc.

INDEX

PAGE

PART I. FINANCIAL INFORMATION

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| | | |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------|-------|
| ITEM 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2001 and December 31, 2000 | 2 |
| | Condensed Statements of Consolidated Operations (Unaudited) for the six months ended June 30, 2001 and 2000 | 3 |
| | Condensed Statements of Consolidated Operations (Unaudited) for the three months ended June 30, 2001 and 2000 | 4 |
| | Condensed Statements of Consolidated Cash Flows (Unaudited) for the six months ended June 30, 2001 and 2000 | 5 |
| | Notes to Condensed Consolidated Financial Statements (Unaudited) | 6-27 |
| ITEM 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 28-37 |
| ITEM 3. | Quantitative and Qualitative Disclosures About Market Risk | 38 |
| ITEM 4. | Submission of Matters to a Vote of Security Holders | 39 |
| PART II. OTHER INFORMATION: | | |
| ITEM 6. | Reports on Form 8-K | 40 |
| | Signatures | 41 |

PRIMEDIA INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

| | June 30, 2001 | Dec 31, 2000 |
|--------------------------------------------------------|------------------|-----------------|
| (dollars in thousands) | | |
| per share amount | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,300 | \$ 13,300 |
| Accounts receivable, net | 258,073 | 258,073 |
| Inventories, net | 34,351 | 34,351 |
| Net assets held for sale | 20,677 | 20,677 |
| Prepaid expenses and other | 77,309 | 77,309 |
| Total current assets | 403,710 | 403,710 |
| Property and equipment, net | 188,349 | 188,349 |
| Other intangible assets, net | 528,487 | 528,487 |
| Excess of purchase price over net assets acquired, net | 1,561,146 | 1,561,146 |

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| | | |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Deferred income tax asset, net | 135,000 | |
| Other investments | 163,288 | |
| Other non-current assets | 80,343 | |
| | ----- | ----- |
| | \$ 3,060,323 | \$ 2,000,000 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,787 | \$ |
| Accrued interest payable | 27,165 | |
| Accrued expenses and other | 220,834 | |
| Deferred revenues | 215,796 | |
| Current maturities of long-term debt | 8,074 | |
| | ----- | ----- |
| Total current liabilities | 546,656 | |
| | ----- | ----- |
| Long-term debt | 1,720,207 | 1,000,000 |
| | ----- | ----- |
| Deferred revenues | 62,486 | |
| | ----- | ----- |
| Other non-current liabilities | 19,117 | |
| | ----- | ----- |
| Exchangeable preferred stock | 562,141 | |
| | ----- | ----- |
| Shareholders' equity (deficiency): | | |
| Common stock (\$.01 par value, 223,962,330 shares and 167,798,702 shares issued at June 30, 2001 and December 31, 2000, respectively) | 2,240 | |
| Additional paid-in capital | 2,130,012 | 1,000,000 |
| Accumulated deficit | (1,855,115) | (1,000,000) |
| Accumulated other comprehensive loss | (3,967) | |
| Unearned compensation | (48,589) | |
| Common stock in treasury, at cost (7,467,693 shares and 0 shares at June 30, 2001 and December 31, 2000, respectively) | (74,865) | |
| | ----- | ----- |
| Total shareholders' equity (deficiency) | 149,716 | |
| | ----- | ----- |
| | \$ 3,060,323 | \$ 2,000,000 |
| | ===== | ===== |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

Six Months Ended
June 30,

2001

2000

(dollars in thousands,)

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| | per share amounts | |
|--------------------------------------------------------------------------------------------------------------------------------|-------------------|-------|
| Sales, net | \$ 872,284 | \$ |
| Operating costs and expenses: | | |
| Cost of goods sold | 214,477 | |
| Marketing and selling | 218,415 | |
| Distribution, circulation and fulfillment | 138,949 | |
| Editorial | 77,712 | |
| Other general expenses | 124,768 | |
| Corporate administrative expenses (excluding \$11,041 and \$17,144 of non-cash compensation in 2001 and 2000, respectively) | 16,090 | |
| Depreciation of property and equipment | 30,845 | |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 117,738 | |
| Non-cash compensation and non-recurring charges | 12,727 | |
| Provision for severance, closures and integration costs | 12,502 | |
| Gain on sales of businesses and other, net | (503) | |
| | ----- | ----- |
| Operating income (loss) | (91,436) | |
| Other expense: | | |
| Provision for the impairment of investments | (30,807) | |
| Interest expense | (66,854) | |
| Amortization of deferred financing costs | (9,063) | |
| Other, net | (27,328) | |
| | ----- | ----- |
| Net loss | (225,488) | |
| Preferred stock dividends and related accretion | (27,347) | |
| | ----- | ----- |
| Loss applicable to common shareholders | \$ (252,835) | \$ |
| | ===== | ===== |
| Basic and diluted loss applicable to common shareholders per common share | \$ (1.28) | \$ |
| | ===== | ===== |
| Basic and diluted common shares outstanding | 198,271,477 | 155, |
| | ===== | ===== |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED OPERATIONS (UNAUDITED)

| | Three Months Ended June 30, | |
|------------|-------------------------------------------------|-------|
| | 2001 | 2000 |
| | ----- | ----- |
| | (dollars in thousands, ex per share amounts) | |
| Sales, net | \$ 445,278 | \$ 42 |

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| | | |
|------------------------------------------------------------------------------------------------------------------------------|--------------|--------|
| Operating costs and expenses: | | |
| Cost of goods sold | 112,892 | 10 |
| Marketing and selling | 105,790 | 9 |
| Distribution, circulation and fulfillment | 67,949 | 5 |
| Editorial | 39,020 | 3 |
| Other general expenses | 66,442 | 5 |
| Corporate administrative expenses (excluding \$8,482 and \$2,352 of non-cash compensation in 2001 and 2000, respectively) | 7,875 | |
| Depreciation of property and equipment | 16,029 | 1 |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 75,564 | 3 |
| Non-cash compensation and non-recurring charges | 10,168 | |
| Provision for severance, closures and integration costs | 6,015 | 1 |
| (Gain) loss on sales of businesses and other, net | 24 | (1) |
| | ----- | ----- |
| Operating income (loss) | (62,490) | 2 |
| Other expense: | | |
| Provision for the impairment of investments | (27,559) | |
| Interest expense | (33,694) | (3) |
| Amortization of deferred financing costs | (8,050) | (|
| Other, net | (7,887) | |
| | ----- | ----- |
| Net loss | (139,680) | (|
| Preferred stock dividends and related accretion | (13,673) | (1) |
| | ----- | ----- |
| Loss applicable to common shareholders | \$ (153,353) | \$ (2) |
| | ===== | ===== |
| Basic and diluted loss applicable to common shareholders per common share | \$ (0.72) | \$ |
| | ===== | ===== |
| Basic and diluted common shares outstanding | 213,515,036 | 161,03 |
| | ===== | ===== |

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

| | |
|--------------------------------------------------------------------------------|------------|
| | Six M |
| | J |
| | 2001 |
| | ----- |
| | (dollars) |
| OPERATING ACTIVITIES: | |
| Net loss | \$ (225,48 |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 150,39 |
| Accretion of discount on acquisition obligation | |

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| | |
|----------------------------------------------------------------------------|-----------|
| and other | 57 |
| Write-off of deferred financing costs | 7,24 |
| Non-cash revenue related to assets-for-equity transactions | (46,20 |
| Provision for the impairment of investments | 30,80 |
| Non-cash compensation and non-recurring charges | 11,04 |
| Gain on sales of businesses and other, net | (50 |
| Other, net | 28,65 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable, net | 13,01 |
| Inventories, net | (5,46 |
| Prepaid expenses and other | (40,07 |
| Increase (decrease) in: | |
| Accounts payable | (49,78 |
| Accrued interest payable | 8,34 |
| Accrued expenses and other | (38,30 |
| Deferred revenues | 16,25 |
| Other non-current liabilities | (26 |
| | ----- |
| Net cash used in operating activities | (139,75 |
| | ----- |
| INVESTING ACTIVITIES: | |
| Additions to property, equipment and other, net | (26,11 |
| Proceeds from sales of businesses and other, net | 6,73 |
| (Payments) for businesses acquired, net of cash acquired | 86,98 |
| Payments for other investments | (10,39 |
| | ----- |
| Net cash provided by investing activities | 57,20 |
| | ----- |
| FINANCING ACTIVITIES: | |
| Borrowings under credit agreements | 991,80 |
| Repayments of borrowings under credit agreements | (1,363,80 |
| Proceeds from issuance of 8 7/8% Senior Notes, net | 492,68 |
| Payments of acquisition obligation | (8,83 |
| Proceeds from issuances of common stock, net of redemptions | 5,06 |
| Taxes paid associated with stock option exercises | - |
| Dividends paid to preferred stock shareholders | (26,53 |
| Deferred financing costs paid | (15,65 |
| Other | (2,57 |
| | ----- |
| Net cash provided by (used in) financing activities | 72,16 |
| | ----- |
| Increase (decrease) in cash and cash equivalents | (10,39 |
| Cash and cash equivalents, beginning of period | 23,69 |
| | ----- |
| Cash and cash equivalents, end of period | \$ 13,30 |
| | ===== |
| Supplemental information: | |
| Cash interest paid | \$ 59,81 |
| | ===== |
| Businesses acquired: | |
| Fair value of assets acquired | \$ 766,68 |
| Less: Liabilities assumed | 42,27 |
| Less: Stock and stock option consideration for About.com, Inc. acquisition | 700,54 |
| Less: Cash acquired in connection with the About.com, Inc. acquisition | 110,84 |

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| | |
|-----------------------------------------------------------------------------------------------------------------------------------------|--------------------|
| (Payments) for businesses acquired, net of cash acquired | \$ 86,98 ===== |
| Non-cash activities: | |
| Stock option exercise transactions | \$ - ===== |
| Exchange of the Company's common shares and stock options for all outstanding shares and stock options of About.com, Inc. | \$ 700,54 ===== |
| Exchange of the Company's common shares for common shares CMGI, Inc. | \$ - ===== |
| Conversion of the Company's investment in About.com, Inc. common shares held prior to the merger date into the Company's treasury stock | \$ 74,86 ===== |
| Compensatory common shares and stock options issued in connection with About.com, Inc. acquisition | \$ 58,82 ===== |
| Advertising-for-equity transactions | \$ 27,95 ===== |

See notes to condensed consolidated financial statements (unaudited).

6

PRIMEDIA INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. 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, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant 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, 2000, which is included in the Company's annual report on Form 10-K for the year ended December 31, 2000. The operating results for the six and three-month periods ended June 30 are not necessarily indicative of the results that may be expected for a full year. Certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the presentation as of and for the six and three-month periods ended June 30, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the Emerging Issue Task Force ("EITF") issued EITF Consensus No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of a Vendor's Products," which addresses whether consideration from a vendor to a reseller of the vendor's products is an adjustment to the selling price or the cost of the product. The EITF consensus must be adopted no later than January 1, 2002. The Company is currently determining the impact of this new consensus.

On June 29, 2001, the Financial Accounting Standards Board ("FASB") unanimously voted in favor of two new statements, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill

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and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting, eliminates the use of the pooling-of-interests method and requires that the purchase method be used for business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and certain intangible assets no longer be amortized to earnings and that goodwill and intangible assets be reviewed for impairment. Under SFAS No. 142, goodwill acquired in a business combination completed after June 30, 2001 (that is, the date of acquisition is July 1, 2001 or later) will not be amortized. The amortization of goodwill for previous acquisitions will cease upon adoption of the SFAS No. 142, which will be January 1, 2002. We are currently determining the impact of SFAS No. 142 on our existing goodwill and intangible assets. Under SFAS No. 142, any goodwill arising from the proposed acquisition of EMAP USA will not be amortized (see Note 15).

BARTER TRANSACTIONS

The Company trades advertisements in its traditional and online properties in exchange for trade show space and booths and advertising in properties of other companies. Revenue and related expenses from barter transactions are recorded at fair value in accordance with Emerging Issues Task Force No. 99-17, "Accounting for Advertising Barter Transactions." Revenue from barter transactions is recognized in accordance with the Company's revenue recognition policies. Expense from barter transactions is generally recognized as incurred. For the six months ended June 30, 2001 and 2000, revenue and expense from barter transactions were approximately \$26,000 and \$500, respectively.

2. ACQUISITIONS AND DIVESTITURES

On February 28, 2001, the Company completed its merger with About.com, Inc. ("About"). About is a platform comprised of a network of more than 700 highly targeted topic-specific websites. Through the efforts of knowledgeable human guides who manage the sites, the sites provide high-quality original articles, moderated forums and chat rooms

7

and links to related websites. This merger creates an integrated traditional and new media company, providing a vast array of marketing solutions to advertisers and niche content to users.

Under terms of the merger agreement, shareholders of About received approximately 45,000,000 shares of the Company or 2.3409 Company shares for each About share. This transaction is being accounted for under the purchase method of accounting. The preliminary purchase cost allocations for the About acquisition is subject to adjustment and will be finalized once additional information concerning asset and liability valuations is obtained. An independent appraisal will be completed during 2001 and will be used to allocate the purchase price to identifiable intangibles. The final asset and liability fair values may differ from those set forth on the accompanying condensed consolidated balance sheet at June 30, 2001; however, the changes are not expected to have a material effect on the consolidated financial position, results of operations or cash flows of the Company. The excess of purchase price over net assets acquired related to the About merger is being amortized over an estimated useful life of three years. The Company believes that a three-year life is responsive to the rapid rate of change in the Internet industry and is consistent with other recent mergers of a comparable nature. The Company has determined that the value of its shares of common stock issued is \$11.81 per share, based on the weighted-average market values for the two days prior and two days succeeding the acquisition announcement date. The fair value of the vested and unvested options issued was determined using a Black Scholes pricing

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model. The following is a summary of the calculation of the purchase price, as well as the allocation of purchase price to the fair value of net assets acquired:

| | | |
|---------------------------------------------------------------------------------|-------|------------|
| Total number of shares of PRIMEDIA common stock issued to consummate the merger | | 44,951,034 |
| Fair value per share of PRIMEDIA common stock | \$ | 11.81 |
| | ----- | |
| Value of shares of PRIMEDIA common stock issued | \$ | 530,872 |
| Fair value of replacement options issued | | 102,404 |
| Less: Unearned compensation relating to unvested options | | (7,592) |
| Cost of About shares acquired prior to the merger converted to treasury stock | | 74,865 |
| Direct merger costs | | 11,934 |
| | ----- | |
| Total purchase price | | 712,483 |
| Less: Fair value of net tangible assets of About | | 227,981 |
| | ----- | |
| Excess of purchase price over net assets acquired | \$ | 484,502 |
| | ----- | |

In addition, in connection with the acquisition, the Company issued shares of restricted stock and below-market stock options to two key executives of About which resulted in unearned compensation of \$51,235 at the merger completion date. These shares and options vest over four years and will result in non-cash compensation expense as earned over the vesting period (see Note 7).

The Company's consolidated results of operations includes results of operations of About from the merger date. The results of About are included in the Company's consumer segment. The unaudited proforma information below presents the consolidated results of operations as if the merger with About had occurred as of January 1, 2000. The unaudited pro

8

forma information has been included for comparative purposes and is not indicative of the results of operations of the consolidated Company had the merger occurred as of January 1, 2000, nor is it necessarily indicative of future results.

| | | |
|--|---------------------------------------------------|-------|
| | Six Months Ended June 30 | |
| | ----- | |
| | 2001 | 2000 |
| | ----- | ----- |
| | (dollars in thousands, except as otherwise noted) | |

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| | per share amounts) | |
|--------------------------------------------------------------------------------------------------------------|--------------------|----------|
| Sales, net | \$ 854,569 | \$ 872 |
| Loss applicable to common shareholders | \$ (342,161) | \$ (191) |
| Basic and diluted loss applicable to common shareholders per common share | \$ (1.60) | \$ (1) |
| Weighted average shares used in basic and diluted loss applicable to common shareholders per common share | 213,378,759 | 198,783 |

| | Three Months Ended June | |
|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------|
| | 2001 | 2000 |
| | (dollars in thousands, except per share amounts) | |
| Sales, net | \$ 445,278 | \$ 449 |
| Loss applicable to common shareholders | \$ (153,353) | \$ (80) |
| Basic and diluted loss applicable to common shareholders per common share | \$ (0.72) | \$ (1) |
| Weighted average shares used in basic and diluted loss applicable to common shareholders per common share | 213,515,036 | 205,829 |

In addition, during the six months ended June 30, 2001, the Company completed several other smaller acquisitions. These smaller acquisitions are not material to the proforma disclosures above and are therefore not included therein.

In April 2001, the Company completed the sale of QWIZ, Inc. for \$7,000 of cash. As of June 30, 2001, the gain on the sale of QWIZ, Inc. approximates \$300 and is included in (gain) loss on sales of businesses and other, net on the accompanying condensed statement of consolidated operations for the six and three months ended June 30, 2001.

9

3. INVENTORIES, NET

Inventories consist of the following:

| | June 30, 2001 | December 31, 2000 |
|----------------------------------|------------------|----------------------|
| | ----- | ----- |
| Finished goods | \$ 8,806 | \$10,556 |
| Work in process | 77 | 78 |
| Raw materials | 27,368 | 21,233 |
| | ----- | ----- |
| | 36,251 | 31,867 |
| Less: Allowance for obsolescence | 1,900 | 3,186 |
| | ----- | ----- |

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\$34,351
=====

\$28,681
=====

4. OTHER INVESTMENTS

Other investments consist of the following:

| | June 30, 2001 ----- | December 31, 2000 ----- |
|-------------------------------|---------------------------|-------------------------------|
| Cost method investments | \$ 96,622 | \$161,433 |
| Equity method investments | 50,323 | 73,703 |
| Available-for-sale securities | 13,817 | 19,708 |
| Advances and other | 2,526 | 10,624 |
| | ----- | ----- |
| | \$163,288 | \$265,468 |
| | ===== | ===== |

Available-for-sale securities consist of the following:

| | Cost ----- | Unrealized Gains ----- | Unrealized Losses ----- | Market Value ----- |
|----------------------|---------------|------------------------------|-------------------------------|--------------------------|
| At June 30, 2001 | \$11,922 | \$2,013 | \$ 118 | \$13,817 |
| | ===== | ===== | ===== | ===== |
| At December 31, 2000 | \$19,015 | \$ 693 | \$ -- | \$19,708 |
| | ===== | ===== | ===== | ===== |

In the first quarter of 2000, the Company sold two investments in marketable securities for total proceeds of \$11,279 and realized a gain of \$10,689, which is included in gain on sales of businesses and other, net on the accompanying condensed statement of consolidated operations for the six months ended June 30, 2000. The Company recorded an unrealized (gain) loss of \$(1,202) and \$172,629 for the six months ended June 30, 2001 and 2000, respectively, related to investments in marketable securities. In addition, for the six months ended June 30, 2001, the Company recorded a realized loss of \$3,969 related to its investment in CMGI, Inc. as the decline in the market value of the investment was deemed to be other than temporary. The unrealized gains and losses are recorded as a component of other comprehensive income (loss) ("OCI") within shareholders' equity (deficiency) (see Note 9).

ASSETS-FOR-EQUITY TRANSACTIONS

During 2000, the Company began making strategic investments in companies ("Investees") which included various assets-for-equity transactions. Under these transactions, the Company provides promotional services, such as print

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advertising, content licensing, customer lists, online advertising and other services in exchange for equity in these entities. Additionally, the Company made cash investments in certain of these Investees. The Company's investments in Investees, included in other investments on the accompanying condensed consolidated balance sheets, totaled approximately \$129,000 (approximately \$79,000 representing cost method investments, approximately \$47,000 representing equity method investments and approximately \$3,000 representing available-for-sale securities) and \$213,000 (approximately \$140,000 representing cost method investments and approximately \$73,000 representing equity method investments) at June 30, 2001 and December 31, 2000, respectively. At December 31, 2000, \$67,000 of these cost method investments represented assets-for-equity transactions with About which were eliminated in consolidation upon the completion of the merger. Including advances to the Investees, approximately \$36,000 and \$39,000 of the investment as of June 30, 2001 and December 31, 2000, respectively, was in cash. The remainder represents advertising, content licensing and other services to be rendered by the Company in exchange for the equity in these entities. The Company recognizes these amounts as revenue in accordance with the Company's revenue recognition policies. During the six months ended June 30, 2001 and 2000, the Company recorded revenue from these agreements approximating \$46,000 and \$3,500, respectively. The 2001 revenue amount includes revenue from the Company's transactions with About for the first two months of 2001 (approximately 45% of total) as well as revenue from the Company's equity method Investees. At June 30, 2001 and December 31, 2000, respectively, approximately \$75,000 and \$146,000 relating to these agreements is included as deferred revenues on the accompanying condensed consolidated balance sheets.

These transactions are recorded at the fair value of the equity securities received. As an observable market price does not exist for equity securities of private companies, estimates of fair value of such securities are more subjective than for securities of public companies. For significant transactions involving equity securities in private companies, the Company obtains and considers independent third-party valuations where appropriate. Such valuations use a variety of methodologies to estimate fair value, including comparing the security with the securities of publicly traded companies in similar lines of business, comparing the nature of security, price, and related terms of investors in the same round of financing, applying price multiples to estimated future operating results for the private company, and then also estimating discounted cash flows for that company. Using these valuations and other information available to the Company, such as the Company's knowledge of the industry and knowledge of specific information about the Investee, the Company determines the estimated fair value of the securities received. As required by EITF No. 00-8, "Accounting by a Grantee for an Equity Instrument to Be Received in Conjunction with Providing Goods and Services," the fair value of the equity securities received is determined as of the earlier of the date a performance commitment is reached or the vesting date.

The Company continually evaluates all of its investments for potential impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". If an investment is deemed to be permanently impaired, its carrying value will be reduced to fair market value. During the six months ended June 30, 2001, the Company recorded a provision for impairment of its investments in certain Investees of \$18,704 as the decline in value of the investments was deemed to be other than temporary.

During the six months ended June 30, 2001 and 2000, respectively, the Company recorded approximately \$28,000 and \$0 of equity method losses from Investees, which is included in other, net on the accompanying condensed statements of consolidated operations and consolidated cash flows, and during the six months ended June 30, 2001 and 2000, respectively, the Company recognized approximately \$6,100 and \$0 of revenue related to the equity method Investees.

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11

INVESTMENTS IN ABOUT

In 2000, the Company entered into additional business arrangements with About whereby the Company has provided or will provide approximately \$89,000 of advertising and promotional services, over a five-year period, in exchange for an aggregate of 2,873,595 shares of common stock of About. In addition, prior to the merger, the Company had purchased 316,500 shares of About on the open market for approximately \$7,800. The Company and About have also entered into certain agreements pursuant to which the Company has agreed to purchase advertising and promotional sales on the About network. These agreements provide for payments to About in the aggregate of \$15,900. At the merger completion date, these agreements became intercompany agreements, resulting in the elimination of the About investment and deferred revenue balances with all future activity to be eliminated in consolidation. At December 31, 2000, the Company's total investment in About, including assets-for-equity transactions and open market purchases, approximated \$74,000.

5. LONG-TERM DEBT

Long-term debt consists of the following:

| | June 30, 2001 | December 31, 2000 |
|--------------------------------------------|------------------|----------------------|
| | ----- | ----- |
| Borrowings under credit facilities | \$ 558,000 | \$ 930,000 |
| 10 1/4% Senior Notes due 2004 | 100,000 | 100,000 |
| 8 1/2% Senior Notes due 2006 | 299,288 | 299,226 |
| 7 5/8% Senior Notes due 2008 | 248,944 | 248,879 |
| 8 7/8% Senior Notes due 2011 | 492,685 | -- |
| | ----- | ----- |
| | 1,698,917 | 1,578,105 |
| Obligation under capital leases | 29,364 | 31,478 |
| Acquisition obligation payable | -- | 9,070 |
| | ----- | ----- |
| | 1,728,281 | 1,618,653 |
| Less: Current maturities of long-term debt | 8,074 | 115,465 |
| | ----- | ----- |
| | \$1,720,207 | \$1,503,188 |
| | ===== | ===== |

8 7/8% SENIOR NOTES DUE 2011

On May 8, 2001, the Company completed a private offering of \$500,000 of 8 7/8% Senior Notes. Proceeds from this offering were used to repay borrowings under the revolving credit facilities. The 8 7/8% Senior Notes mature on May 15, 2011, with no sinking fund requirements, and have interest payable semi-annually in May and November at an annual rate of 8 7/8%. The 8 7/8% Senior Notes are fully, unconditionally and jointly and severally guaranteed by each of our domestic restricted subsidiaries. The notes are secured by a pledge of stock of PRIMEDIA Companies Inc., an intermediate holding company, owned directly by the Company, which owns all shares of PRIMEDIA subsidiaries. Beginning in 2006, the 8 7/8% Senior Notes are redeemable at 104.438% with annual reductions to 100% in 2009 plus accrued and unpaid interest.

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If the Company becomes subject to a change of control, each holder of the notes will have the right to require the Company to purchase any or all of the notes at a purchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to the date of purchase.

12

NEW CREDIT AGREEMENT

On June 20, 2001, the Company completed a refinancing of its existing bank credit facilities pursuant to new bank credit facilities with The Chase Manhattan Bank, Bank of America, N.A., The Bank of New York, and The Bank of Nova Scotia, as agents. The debt under the new credit agreement (as well as certain of our other equally and ratably secured indebtedness) is secured by a pledge of the stock of PRIMEDIA Companies Inc. Borrowings under the bank credit facilities are guaranteed by each of our wholly owned domestic restricted subsidiaries. The guarantees are full, unconditional and joint and several. Certain of our subsidiaries, which primarily represent Internet assets and businesses, including About.com, as well as our foreign subsidiaries, are not guarantors of the bank credit facilities.

The borrowings under the bank credit facilities may be used for general corporate and working capital purposes as well as to finance certain future acquisitions. The bank credit facilities consist of the following:

- o a \$475,000 revolving loan facility, of which \$33,000 was outstanding at June 30, 2001;
- o a term loan A, of which \$100,000 was outstanding at June 30, 2001; and
- o a term loan B, of which \$425,000 was outstanding at June 30, 2001.

As of June 30, 2001, the Company had \$558,000 borrowings outstanding, \$22,000 letters of credit outstanding and unused bank commitments of approximately \$420,000 under the bank credit facilities.

With the exception of the term loan B, the amounts borrowed bear interest, at the Company's option, at either the higher of 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%. Additionally, until the Company issues financial statements for the period ending December 31, 2001, the applicable margin for the amounts borrowed will be a minimum of 0.75% for the base rate option and 1.75% for the Eurodollar rate option. The term loan B bears interest at the base rate plus 1.75% or LIBOR plus 2.75%. At June 30, 2001, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 6.46%.

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 new credit agreement, on the daily average aggregate unutilized commitment under the revolving loan commitment. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee.

The commitments under the revolving loan commitment are subject to mandatory reductions semi-annually on June 30 and December 31, commencing December 31, 2004 with the final reduction on June 30, 2008. The aggregate mandatory reductions of the revolving loan commitments under the bank credit facilities are \$23,750 in 2004, \$47,500 in 2005, \$71,250 in 2006, \$142,500 in 2007 and a final reduction of \$190,000 in 2008. To the extent that the total revolving credit loans outstanding exceed the reduced commitment amount, these loans must

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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. Aggregate term loan payments under the bank credit facilities are \$2,125 in 2001, \$4,250 in 2002 and 2003, \$16,750 in 2004, \$29,250 in 2005, 2006 and 2007, \$16,750 in 2008 and \$393,125 in 2009.

The bank credit facilities, among other things, limit the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers, consolidations or transactions with affiliates, make investments in or loans to certain subsidiaries, issue guarantees and make certain restricted payments including dividend payments on our common stock in excess of \$75,000 in any given year. Under the most restrictive debt covenants, the Company must maintain a minimum interest coverage ratio of 1.80 to 1 and a minimum fixed charge coverage ratio of 1.05 to 1. The Company's maximum allowable debt leverage ratio is 6.0 to 1. The maximum leverage ratio decreases to 5.75 to 1, 5.5

13

to 1, 5.0 to 1 and 4.5 to 1, respectively, on July 1, 2003, January 1, 2004, January 1, 2005 and January 1, 2006. The minimum interest coverage ratio increases to 2.0 to 1, 2.25 to 1 and 2.5 to 1, respectively, on July 1, 2003, January 1, 2004 and January 1, 2005.

As a result of the refinancing of the Company's existing bank credit facilities, the Company wrote-off the remaining balances of deferred financing costs originally recorded. This amount is included in amortization of deferred financing costs on the accompanying condensed statement of consolidated operations for the six and three months ended June 30, 2001.

6. EXCHANGEABLE PREFERRED STOCK

Exchangeable Preferred Stock consists of the following:

| | June 30, 2001 ----- | December 31, 2000 ----- |
|-----------------------------------------------|---------------------------|-------------------------------|
| \$10.00 Series D Exchangeable Preferred Stock | \$196,407 | \$196,133 |
| \$9.20 Series F Exchangeable Preferred Stock | 121,571 | 121,361 |
| \$8.625 Series H Exchangeable Preferred Stock | 244,163 | 243,830 |
| | ----- | ----- |
| | \$562,141 | \$561,324 |
| | ===== | ===== |

\$10.00 SERIES D EXCHANGEABLE PREFERRED STOCK

The Company authorized 2,000,000 shares of \$.01 par value \$10.00 Series D Exchangeable Preferred Stock, all of which was issued and outstanding at June 30, 2001 and December 31, 2000. The liquidation and redemption value at June 30, 2001 and December 31, 2000 was \$200,000.

\$9.20 SERIES F EXCHANGEABLE PREFERRED STOCK

The Company authorized 1,250,000 shares of \$.01 par value \$9.20 Series F Exchangeable Preferred Stock, all of which was issued and outstanding at June

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30, 2001 and December 31, 2000. The liquidation and redemption value at June 30, 2001 and December 31, 2000 was \$125,000.

\$8.625 SERIES H EXCHANGEABLE PREFERRED STOCK

The Company authorized 2,500,000 shares of \$.01 par value \$8.625 Series H Exchangeable Preferred Stock, all of which was issued and outstanding at June 30, 2001 and December 31, 2000. The liquidation and redemption value at June 30, 2001 and December 31, 2000 was \$250,000.

7. NON-CASH COMPENSATION AND NON-RECURRING CHARGES

During the six months ended June 30, 2001, the Company recorded \$12,727 of non-cash compensation and non-recurring charges relating primarily to the retention of certain key executives. These non-cash compensation charges consist of a \$8,894 charge related to certain restricted stock and option grants to key executives of About, a \$1,344 charge related to the intrinsic value of unvested "in-the-money" options issued in connection with the About merger, an \$803 charge related to the vesting of stock in connection with an acquisition and a \$1,686 charge related to certain non-recurring compensation arrangements with certain senior executives.

During the six months ended June 30, 2000, the Company recorded \$17,144 of non-cash compensation charges relating

14

to the hiring and retention of certain key executives. These non-cash compensation charges consist of a \$4,706 pro-rata charge related to 1,380,711 shares of common stock granted to a senior executive in 1999, and a \$12,438 charge related to the extension of stock option expiration periods for a senior executive during the first quarter of 2000.

During the second quarter of 2000, the Company recorded \$7,400 of non-cash non-recurring charges relating to the recoverability of certain assets of our business-to-business segment.

8. PROVISION FOR SEVERANCE, CLOSURES AND INTEGRATION COSTS

During 2000 and 2001, the Company implemented plans to integrate the Company and consolidate many back office functions. The Company expects that these plans will continue to result in future savings. All integration charges were expensed as incurred. \$4,304 of integration costs primarily related to the About merger and Company-wide integration efforts have been reclassified to other general expenses in the accompanying condensed statements of consolidated operations for the six and three months ended June 30, 2001. A summary of the status of these plans as of June 30, 2001 is presented below.

2001 PLAN

With the acquisition of About coupled with other cost initiatives, during the first quarter of 2001, the Company announced the details of plans that would continue to implement and expand upon the initiatives enacted during 2000. In the first quarter of 2001, the Company recorded a restructuring charge of \$3,034 and integration costs of \$3,453. The Company continued to implement these initiatives in the second quarter of 2001, recording severance and closure charges of \$4,535 and integration costs of \$5,784. Details of the initiatives implemented in the six months ended June 30, 2001 are presented in the following table:

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For the Six Months Ended and as of June 30, 2001

| | Provision ----- | Payments ----- | Ending Liability ----- |
|--------------------------------------------------|--------------------|-------------------|---------------------------|
| Severance and closures: | | | |
| Employee-related termination costs | \$ 4,661 | \$ 1,331 | \$ 3,330 |
| Termination of leases related to office closures | 1,391 | 130 | 1,261 |
| Termination of contracts | 1,517 | 1,096 | 421 |
| | ----- | ----- | ----- |
| | 7,569 | 2,557 | 5,012 |
| | ----- | ----- | ----- |
| Integration: | | | |
| Consulting services | 4,817 | 4,570 | 247 |
| Relocation, recruiting and other employee costs | 3,858 | 3,783 | 75 |
| Other | 562 | 562 | -- |
| | ----- | ----- | ----- |
| | 9,237 | 8,915 | 322 |
| | ----- | ----- | ----- |
| Total severance, closures and integration costs | \$ 16,806 | \$ 11,472 | \$ 5,334 |
| | ===== | ===== | ===== |

A significant portion of the remaining costs are expected to be paid during the remainder of 2001 with the balance to be paid through 2003. The Company is currently developing additional initiatives aimed largely at the consolidation of

15

certain functions and the further integration of the Company, including initiatives attributable to the expected consummation of the EMAP acquisition (see Note 15), and accordingly expects to record additional severance, closures and integration charges during 2001.

2000 PLAN

During 2000, the Company announced the implementation of a plan to integrate the Company and consolidate many back office functions. Details of the 2001 payments related to the initiatives implemented during 2000 are presented in the following table:

| Liability as of December 31, 2000 ----- | Payments during the Six Months Ended June 30, 2001 ----- |
|-----------------------------------------------|----------------------------------------------------------------------|
|-----------------------------------------------|----------------------------------------------------------------------|

Severance and closures:

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| | | |
|-------------------------------|----------|----------|
| Employee-related | | |
| termination contract costs | \$ 7,063 | \$ 4,637 |
| Termination of | | |
| contracts | 1,519 | 44 |
| Termination of leases | | |
| related to office closures | 1,531 | 147 |
| Other | 96 | 9 |
| | ----- | ----- |
| | 10,209 | 4,837 |
| | ----- | ----- |
| Integration: | | |
| Consulting services | 498 | 498 |
| Relocation, recruiting | | |
| and other employee costs | 462 | 455 |
| | ----- | ----- |
| | 960 | 953 |
| | ----- | ----- |
| Total severance, closures and | | |
| integration costs | \$11,169 | \$ 5,790 |
| | ===== | ===== |

The majority of the remaining costs incurred in connection with the 2000 plan are expected to be paid by the end of 2001 with the balance to be paid through the end of 2003.

During the six months ended June 30, 2000, the Company recorded approximately \$6,500 of integration costs relating to a management reorganization. These integration costs consisted of approximately \$5,000 for consultants related to sourcing and integration initiatives, approximately \$1,400 related to recruiting for senior executives hired during the first six months of 2000 and approximately \$100 related to other costs.

During the second quarter of 2000, in conjunction with these plans, the Company recorded a pre-tax severance and closure charge of approximately \$10,200. The charge recorded on the accompanying condensed consolidated statements of operations, is comprised of the following: approximately \$6,700 of severance and other employee costs, approximately \$1,700 of lease obligations, approximately \$1,600 of contract termination costs related to pre-press and licensing agreements and approximately \$200 of other exit costs.

As a result of the 2000 and 2001 plans already put in place, the Company will close and consolidate in excess of fifteen office locations and will terminate approximately 630 individuals. All individuals who will be terminated under these plans have been notified. As of June 30, 2001, approximately 550 of those individuals have been terminated.

During the first quarter of 1999, the Company discontinued five unprofitable PRIMEDIA Workplace Learning product lines, as part of a program to return the Company's focus to accreditation-oriented vocational networks and associated products. In relation to these discontinuances, the Company recorded a \$22,000 charge including \$9,000 related to transponder and office site leases and \$8,810 related to the recoverability of the related excess of purchase price over net assets acquired and certain other assets. During the fourth quarter of 2000, the Company reversed \$3,302 of the original \$22,000 charge as the liabilities ultimately settled at amounts less than originally recorded. Through June 30, 2001, \$9,711 of the cash payments have been made. The remaining \$177 is expected

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to be paid during the remainder of 2001.

The liabilities representing the provision for severance, closures and integration costs are included in accrued expenses and other on the accompanying condensed consolidated balance sheets.

9. COMPREHENSIVE LOSS

Comprehensive loss for the six and three months ended June 30, 2001 and 2000 is presented in the following tables:

| | Six Months Ended | |
|---------------------------------------------------------|--------------------|--------------|
| | June 30, 2001 | June 2000 |
| Net loss | \$ (225,488) | \$ (46 |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on available-for-sale securities | 1,202 | (172 |
| SFAS No.133 derivative adjustments | (3,186) | |
| Foreign currency translation adjustments | (425) | |
| | ----- | ----- |
| Total comprehensive loss | \$ (227,897) | \$ (219 |
| | ===== | ===== |
| | | |
| | Three Months Ended | |
| | June 30, 2001 | June 2000 |
| Net loss | \$ (139,680) | \$ (7 |
| Other comprehensive income (loss): | | |
| Unrealized gain (loss) on available-for-sale securities | 1,704 | (107 |
| SFAS No.133 derivative adjustments | (620) | |
| Foreign currency translation adjustments | 105 | |
| | ----- | ----- |
| Total comprehensive loss | \$ (138,491) | \$ (115 |
| | ===== | ===== |

10. LOSS PER COMMON SHARE

Loss per share for the six and three-month periods ended June 30, 2001 and 2000 has been determined based on net loss after preferred stock dividends and related accretion, divided by the weighted average number of common shares outstanding for all periods presented. The effect of the assumed exercise of non-qualified stock options was not included in the computation of diluted loss per share because the effect of inclusion would be antidilutive.

11. DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No.133, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.

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SFAS No.133 requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value regardless of the purpose or intent for holding them. If a derivative is designated as a fair-value hedge, changes in the fair value of the derivative and the hedged item are recognized in earnings. If a derivative is designated as a cash-flow hedge, changes in the fair value of the derivative are recorded in OCI and are recognized in the condensed statements of consolidated operations when the hedged item affects earnings. SFAS No.133 defines new requirements for designation and documentation of hedging relationships as well as ongoing effectiveness assessments in order to use hedge accounting. For a derivative that does not qualify as a hedge, changes in fair value are recognized in earnings.

Effective January 1, 2001, the Company recorded approximately \$27 as a cumulative transition adjustment to earnings, which is included in other, net on the condensed statement of consolidated operations, relating to derivatives not designated as hedges prior to the adoption of SFAS No.133, and approximately \$1,247 in OCI as a cumulative transition adjustment for derivatives designated as cash flow-type hedges prior to adopting SFAS No.133.

INTEREST RATE SWAP CONTRACTS

The Company uses derivative financial instruments, principally interest rate swap contracts, to manage the risks associated with interest rate fluctuations on its floating rate borrowings. Interest rate swap contracts are used to adjust the proportion of total debt that is subject to variable interest rates. Under the terms of its interest rate swap contracts, the Company agrees to pay an amount equal to a specified fixed-rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable-rate of interest times the same notional principal amount. The notional amounts of the contract are not exchanged. No other cash payments are made unless the contract is terminated prior to maturity, in which case the amount paid or received in settlement is established by agreement at the time of termination, and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. Any gains or losses upon early termination of the contracts are deferred and amortized over the shorter of the remaining life of the hedged existing debt obligation or the original life of the interest rate swap contract. Interest rate swap contracts are entered into with major financial institutions in order to minimize credit risk. Prior to entering into any interest rate swap contracts, the Company considers, among other things, swap terms including the reference rate, payment and maturity dates and the notional amount in determining if the interest rate swap contract will be effective at modifying an existing debt obligation.

The Company's interest rate swap contracts are considered to be a hedge against changes in the amount of future cash flows associated with the Company's interest payments. Accordingly, the interest rate swap contracts are reflected at fair value on the Company's condensed consolidated balance sheet and the related gains and losses on these contracts are deferred in shareholders' equity (deficiency) as a component of OCI. These gains and losses are then amortized as an adjustment to interest expense over the same period in which the related interest payments being hedged are recognized in operations. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the interest payments being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income. The net effect of this accounting on the Company's operating results is that interest expense on the portion of variable-rate debt being hedged is generally recorded based on fixed interest rates.

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At June 30, 2001, the Company had interest rate swap contracts to pay fixed-rates of interest (average rate of 6.30%) and receive variable-rates of interest (average rate of 4.88%) on \$200,000 of notional amounts of indebtedness, which resulted in approximately 21% of the Company's total debt being subject to variable interest rates. For the six months ended June 30, 2001, the Company's interest rate swap contracts were considered to be highly effective. Accordingly, the increase in fair value of these contracts of \$1,939 and \$620 for the six and three months ended June 30, 2001, respectively, were deferred and recognized as a component of OCI. As a result of the fact that the Company's interest rate swap contracts are expected to be highly effective in the future, the Company does not expect to reclassify any material amounts from OCI to earnings during the next twelve-month period. The only transaction that would result in such a reclassification would be the cancellation and subsequent unwinding of the interest rate swap contracts.

18

NON-HEDGING DERIVATIVES

During 2000, in connection with certain of the Company's strategic investments in Investees, the Company received options and/or warrants representing the Company's right to acquire additional equity interests in certain Investees in exchange for cash, additional advertising space or other services. In accordance with SFAS No. 133, those options/warrants which permit "net settlement" qualify as derivatives. Accordingly, those option/warrant agreements which qualify as derivatives are reflected at fair value on the Company's condensed consolidated balance sheet as of June 30, 2001 and the change in fair value of these derivatives are recognized in earnings. For the six and three months ended June 30, 2001, the decrease in fair value of the non-hedging derivatives were \$106 and \$24, respectively, and are included on the condensed statement of consolidated operations as other, net.

12. NET ASSETS HELD FOR SALE

During the six months ended June 30, 2001, the Company decided to divest certain businesses as well as certain titles of The Business Magazines & Media Group, Consumer Guides, and PRIMEDIA Enthusiast Group. In addition, the Company has restructured or consolidated several new media properties, including IndustryClick, whose value can be realized with far greater efficiency by having select functions absorbed by the core operations. The net assets held for sale are recorded at their carrying value on the accompanying condensed consolidated balance sheets.

13. BUSINESS SEGMENT INFORMATION

The Company's operations have been classified into two business segments: consumer and business-to-business. The Company's consumer segment produces and distributes magazines, guides and videos for consumers in various niche markets. The Company's business-to-business segment produces and distributes magazines, books, directories, databases and vocational training materials to business professionals in such fields as communications, agriculture, professional services, media, transportation and healthcare. These segment results are regularly reviewed by the Company's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance. The Company's non-core businesses ("Non-Core Businesses") include QWIZ, Inc., Pictorial, Inc., certain business directories, certain titles of The Business Magazines & Media Group, Consumer Guides, PRIMEDIA Enthusiast Group and the Youth Entertainment Group, and certain other businesses to be divested or discontinued. In addition, the Company has restructured or consolidated several new media properties, including IndustryClick, whose value can be realized with

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far greater efficiency by having select functions absorbed by the core operations. The Company has segregated the Non-Core Businesses from the aforementioned segments because the Company's chief operating decision-maker views these businesses separately when evaluating and making decisions regarding ongoing operations. Information as to the operations of the Company in different business segments is set forth below based 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 (income) charges ("EBITDA"). Other (income) charges include non-cash compensation and non-recurring charges, provision for severance, closures and integration costs and gain (loss) on sales of businesses and other, net.

19

Certain amounts in the prior periods have been reclassified to conform to the presentation for the six and three-month periods ended June 30, 2001.

| | Six Months Ended June 30, | | |
|--------------------------|------------------------------|------------|--------|
| | 2001 | 2000 | |
| | ----- | ----- | ----- |
| SALES, NET: | | | |
| Consumer | \$ 634,990 | \$ 545,753 | \$ 330 |
| Business-to-Business | 248,783 | 245,550 | 122 |
| Eliminations | (31,737) | (15,955) | (16) |
| Other: | | | |
| Non-Core Businesses | 20,248 | 54,629 | 9 |
| | ----- | ----- | ----- |
| Total | \$ 872,284 | \$ 829,977 | \$ 445 |
| | ===== | ===== | ===== |
| EBITDA (1): | | | |
| Consumer | \$ 81,002 | \$ 97,437 | \$ 44 |
| Business-to-Business (2) | 44,890 | 53,284 | 22 |
| Other: | | | |
| Corporate | (16,238) | (16,315) | (8) |
| Non-Core Businesses | (23,477) | (6,108) | (9) |
| | ----- | ----- | ----- |
| Total | \$ 86,177 | \$ 128,298 | \$ 49 |
| | ===== | ===== | ===== |

The following is a reconciliation of EBITDA to operating income (loss):

| | Six Months Ended June 30, | | |
|--------------------------------------------------------------------------------|------------------------------|------------|-------|
| | 2001 | 2000 | |
| | ----- | ----- | ----- |
| Total EBITDA (1) | \$ 86,177 | \$ 128,298 | \$ 49 |
| Depreciation of property and equipment | (30,845) | (26,906) | (16) |
| Amortization of intangible assets, excess of purchase price over net assets | | | |

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| | | | |
|-----------------------------------------------------------------------------|-------------|-----------|---------|
| acquired and other | (117,738) | (66,422) | (75) |
| Non-cash compensation and non-recurring charges | (12,727) | (24,544) | (10) |
| Provision for severance, closures and integration costs | (12,502) | (16,718) | (6) |
| Other integration costs included in general and administrative expenses (3) | (4,304) | -- | (4) |
| Gain (loss) on sale of businesses and other, net | 503 | 28,482 | |
| | ----- | ----- | ----- |
| Operating income (loss) | \$ (91,436) | \$ 22,190 | \$ (62) |
| | ===== | ===== | ===== |

- (1) EBITDA represents earnings before interest, taxes, depreciation, amortization and other (income) charges. EBITDA is not intended to represent cash flow 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. The Company believes EBITDA is a

20

standard measure commonly reported and widely used by analysts, investors and other interested parties in the media industry. Accordingly, this information has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance relative to other companies in its industry. EBITDA should not be considered in isolation or as a substitute for other measures of financial performance or liquidity. The primary difference between EBITDA and cash flow provided by (used in) operating activities relates to changes in working capital requirements and payments made for interest and income taxes. Additionally, EBITDA is not available for the Company's discretionary use as there are legal requirements to pay preferred stock dividends and repay debt, among other payments. EBITDA as presented may not be comparable to similarly titled measures reported by other companies, since not all companies necessarily calculate EBITDA in identical manners, and therefore, is not necessarily an accurate measure of comparison between companies.

- (2) Includes the reversal of a \$4,000 sales tax accrual that was no longer required. The reversal was recorded during the three months ended March 31, 2001.
- (3) Includes certain integration costs primarily related to the About merger and other Company-wide integration efforts. These costs principally represent consultants related to the centralization of certain support functions and implementation of certain standardized technology. They also include branding campaigns and certain internal personnel costs specifically identified as merger or integration related.

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT

The information that follows presents condensed consolidating financial information as of June 30, 2001 and December 31, 2000 and for the six months ended June 30, 2001 and 2000 for a) PRIMEDIA Inc. (as the Issuer), b) the guarantor subsidiaries, c) the foreign non-guarantor subsidiaries, d) the unrestricted non-guarantor subsidiaries, e) elimination entries and f) the Company on a consolidated basis.

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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 financial position, results of operations and cash flows that these entities would have achieved on a stand-alone basis and should be read in connection with the condensed consolidated financial statements of the Company.

21

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

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

For the Six Months Ended June 30, 2001
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Fore Non-Gu Subsid |
|---------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------|--------------------------|
| | ----- | ----- | ----- |
| Sales, net | \$ -- | \$ 842,835 | \$ 1, |
| Operating costs and expenses: | | | |
| Cost of goods sold | -- | 198,378 | |
| Marketing and selling | -- | 184,936 | |
| Distribution, circulation and fulfillment | -- | 136,951 | |
| Editorial | -- | 70,434 | |
| Other general expenses | -- | 95,695 | |
| Corporate administrative expenses (excluding non-cash compensation) | 15,636 | -- | |
| Depreciation of property and equipment | 777 | 19,482 | |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 267 | 55,747 | |
| Non-cash compensation and non-recurring charges | 11,924 | 803 | |
| Provision for severance, closures and integration costs | 5,207 | 3,489 | |
| Gain on sales of businesses and other, net | - | (786) | |
| Operating income (loss) | (33,811) | 77,706 | (|
| Other income (expense): | | | |
| Provision for the impairment of investments | (22,674) | -- | |
| Interest expense | (65,261) | (1,593) | |
| Amortization of deferred financing costs | (73) | (8,990) | |
| Equity in losses of subsidiaries | (182,245) | -- | |
| Intercompany management fees and interest | 103,781 | (103,781) | |
| Other, net | (25,205) | (1,462) | |
| Net loss | \$ (225,488) | \$ (38,120) | \$ (|
| | ----- | ----- | ----- |
| | Primedia Inc. and Subsidiaries | | |
| | ----- | | |
| Sales, net | \$ 872,284 | | |

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| | |
|---------------------------------------------------------------------------------------------------|--------------|
| Operating costs and expenses: | |
| Cost of goods sold | 214,477 |
| Marketing and selling | 218,415 |
| Distribution, circulation and fulfillment | 138,949 |
| Editorial | 77,712 |
| Other general expenses | 124,768 |
| Corporate administrative expenses (excluding non-cash compensation) | 16,090 |
| Depreciation of property and equipment | 30,845 |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 117,738 |
| Non-cash compensation and non-recurring charges | 12,727 |
| Provision for severance, closures and integration costs | 12,502 |
| Gain on sales of businesses and other, net | (503) |
| | ----- |
| Operating income (loss) | (91,436) |
| Other income (expense): | |
| Provision for the impairment of investments | (30,807) |
| Interest expense | (66,854) |
| Amortization of deferred financing costs | (9,063) |
| Equity in losses of subsidiaries | - |
| Intercompany management fees and interest | - |
| Other, net | (27,328) |
| | ----- |
| Net loss | \$ (225,488) |
| | ===== |

22

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(UNAUDITED)

June 30, 2001
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Fore Non-Gu Subsid |
|--------------------------------------------|---------------|---------------------------|--------------------------|
| | ----- | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 3,537 | \$ 8,378 | \$ 1, |
| Accounts receivable, net | 903 | 243,138 | |
| Intercompany receivables | 1,280,673 | 531,037 | (|
| Inventories, net | -- | 34,214 | |
| Net assets held for sale | -- | 20,677 | |
| Prepaid expenses and other | 5,963 | 57,923 | |
| | ----- | | |
| Total current assets | 1,291,076 | 895,367 | |
| Property and equipment, net | 6,267 | 116,549 | |
| Investment in and advances to subsidiaries | 1,660,560 | -- | |
| Other intangible assets, net | 1,902 | 469,749 | |
| Excess of purchase price over net assets | | | |

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| | | | |
|--------------------------------|----------|-----------|----|
| acquired, net | (12,887) | 1,136,730 | 2, |
| Deferred income tax asset, net | 135,000 | -- | |
| Other investments | 148,261 | -- | |
| Other non-current assets | 16,233 | 63,322 | |

| | | |
|--------------|-------------|-------|
| \$ 3,246,412 | \$2,681,717 | \$ 3, |
|--------------|-------------|-------|

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

Current liabilities:

| | | | |
|--------------------------------------|----------|-----------|-------|
| Accounts payable | \$ 2,954 | \$ 67,172 | \$ 3, |
| Intercompany payables | 694,264 | 946,930 | |
| Accrued interest payable | 27,165 | -- | |
| Accrued expenses and other | 55,642 | 136,067 | |
| Deferred revenues | 55,160 | 181,654 | |
| Current maturities of long-term debt | 4,365 | 3,706 | |

| | | | |
|---------------------------|---------|-----------|----|
| Total current liabilities | 839,550 | 1,335,529 | 4, |
|---------------------------|---------|-----------|----|

| | | | |
|----------------|-----------|--------|--|
| Long-term debt | 1,695,005 | 25,201 | |
|----------------|-----------|--------|--|

| | | | |
|----------------------------|----|-----------|--|
| Intercompany notes payable | -- | 2,331,100 | |
|----------------------------|----|-----------|--|

| | | | |
|-------------------|----|--------|--|
| Deferred revenues | -- | 62,486 | |
|-------------------|----|--------|--|

| | | | |
|-------------------------------|----|--------|--|
| Other non-current liabilities | -- | 17,927 | |
|-------------------------------|----|--------|--|

| | | | |
|------------------------------|---------|----|--|
| Exchangeable preferred stock | 562,141 | -- | |
|------------------------------|---------|----|--|

Shareholders' equity (deficiency):

| | | | |
|--------------------------------------|-------------|-------------|-----|
| Common stock | 2,240 | -- | |
| Additional paid-in capital | 2,130,012 | -- | |
| Accumulated deficit | (1,855,115) | (1,088,312) | (1, |
| Accumulated other comprehensive loss | (3,967) | (2,214) | (|
| Unearned compensation | (48,589) | -- | |
| Common stock in treasury, at cost | (74,865) | -- | |

| | | | |
|-----------------------------------------|---------|-------------|-----|
| Total shareholders' equity (deficiency) | 149,716 | (1,090,526) | (1, |
|-----------------------------------------|---------|-------------|-----|

| | | |
|--------------|-------------|-------|
| \$ 3,246,412 | \$2,681,717 | \$ 3, |
|--------------|-------------|-------|

Primedia Inc.
and
Subsidiaries

ASSETS

Current assets:

| | |
|----------------------------|-----------|
| Cash and cash equivalents | \$ 13,300 |
| Accounts receivable, net | 258,073 |
| Intercompany receivables | -- |
| Inventories, net | 34,351 |
| Net assets held for sale | 20,677 |
| Prepaid expenses and other | 77,309 |

| | |
|----------------------|---------|
| Total current assets | 403,710 |
|----------------------|---------|

| | |
|-----------------------------|---------|
| Property and equipment, net | 188,349 |
|-----------------------------|---------|

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| | |
|-----------------------------------------------------------|--------------|
| Investment in and advances to subsidiaries | -- |
| Other intangible assets, net | 528,487 |
| Excess of purchase price over net assets acquired, net | 1,561,146 |
| Deferred income tax asset, net | 135,000 |
| Other investments | 163,288 |
| Other non-current assets | 80,343 |
| | ----- |
| | \$ 3,060,323 |
| | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)

| | |
|-----------------------------------------|--------------|
| Current liabilities: | |
| Accounts payable | \$ 74,787 |
| Intercompany payables | -- |
| Accrued interest payable | 27,165 |
| Accrued expenses and other | 220,834 |
| Deferred revenues | 215,796 |
| Current maturities of long-term debt | 8,074 |
| | ----- |
| Total current liabilities | 546,656 |
| | ----- |
| Long-term debt | 1,720,207 |
| | ----- |
| Intercompany notes payable | -- |
| | ----- |
| Deferred revenues | 62,486 |
| | ----- |
| Other non-current liabilities | 19,117 |
| | ----- |
| Exchangeable preferred stock | 562,141 |
| | ----- |
| Shareholders' equity (deficiency): | |
| Common stock | 2,240 |
| Additional paid-in capital | 2,130,012 |
| Accumulated deficit | (1,855,115) |
| Accumulated other comprehensive loss | (3,967) |
| Unearned compensation | (48,589) |
| Common stock in treasury, at cost | (74,865) |
| | ----- |
| Total shareholders' equity (deficiency) | 149,716 |
| | ----- |
| | \$ 3,060,323 |
| | ===== |

23

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

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

For the Six Months Ended June 30, 2001
(dollars in thousands)

Fore

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| | Primedia Inc. | Guarantor Subsidiaries | Non-Gu Subsidi |
|-------------------------------------------------------------------------------------------|---------------|---------------------------|-------------------|
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ (225,488) | \$ (38,120) | \$ (|
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 1,117 | 76,972 | |
| Accretion of discount on acquisition obligation and other | 234 | 338 | |
| Write-off of deferred financing costs | -- | 7,247 | |
| Non-cash revenue related to assets-for-equity transactions | -- | (38,966) | |
| Provision for the impairment of investments | 22,674 | -- | |
| Non-cash compensation and non-recurring charges | 10,238 | 803 | |
| Gain on sales of businesses and other, net | -- | (503) | |
| Equity in losses of subsidiaries | 182,245 | -- | |
| Intercompany (income) expense | (103,781) | 103,781 | |
| Other, net | 27,771 | (242) | |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable, net | (833) | 14,133 | |
| Inventories, net | -- | (6,176) | |
| Prepaid expenses and other | (28,688) | (18,048) | |
| Increase (decrease) in: | | | |
| Accounts payable | (4,598) | (42,220) | |
| Accrued interest payable | 8,343 | -- | |
| Accrued expenses and other | (8,502) | (9,491) | |
| Deferred revenues | 16,877 | 674 | |
| Other non-current liabilities | -- | (269) | |
| | | | |
| Net cash provided by (used in) operating activities | (102,391) | 49,913 | |
| INVESTING ACTIVITIES: | | | |
| Additions to property, equipment and other, net | (486) | (11,150) | |
| Proceeds from sales of businesses and other, net | -- | 6,731 | |
| (Payments) for businesses acquired, net of cash acquired | -- | (23,542) | |
| Payments for other investments | (10,055) | (342) | |
| | | | |
| Net cash provided by (used in) investing activities | (10,541) | (28,303) | |
| FINANCING ACTIVITIES: | | | |
| Intercompany activity | 30,786 | (22,428) | |
| Borrowings under credit agreements | 991,800 | -- | |
| Repayments of borrowings under credit agreements | (1,363,800) | -- | |
| Proceeds from issuances of 8 7/8% Senior Notes, net | 492,685 | -- | |
| Payments of acquisition obligation | (3,310) | (5,523) | |
| Proceeds from issuances of common stock, net of redemptions | 5,063 | -- | |
| Dividends paid to preferred stock shareholders | (26,531) | -- | |
| Deferred financing costs paid | (15,650) | -- | |
| Other | (110) | (2,374) | |
| | | | |
| Net cash provided by (used in) financing activities | 110,933 | (30,325) | |

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| | | | |
|--------------------------------------------------|----------|----------|-------|
| Increase (decrease) in cash and cash equivalents | (1,999) | (8,715) | |
| Cash and cash equivalents, beginning of period | 5,536 | 17,093 | |
| Cash and cash equivalents, end of period | \$ 3,537 | \$ 8,378 | \$ 1, |

Primedia Inc.
and
Subsidiaries

OPERATING ACTIVITIES:

| | |
|-------------------------------------------------------------------------------------------|--------------|
| Net loss | \$ (225,488) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 150,399 |
| Accretion of discount on acquisition obligation and other | 572 |
| Write off of deferred financing fees | 7,247 |
| Non-cash revenue related to assets-for-equity transactions | (46,200) |
| Provision for the impairment of investments | 30,807 |
| Non-cash compensation and non-recurring charges | 11,041 |
| Gain on sales of businesses and other, net | (503) |
| Equity in losses of subsidiaries | -- |
| Intercompany (income) expense | -- |
| Other, net | 28,656 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable, net | 13,018 |
| Inventories, net | (5,469) |
| Prepaid expenses and other | (40,071) |
| Increase (decrease) in: | |
| Accounts payable | (49,788) |
| Accrued interest payable | 8,343 |
| Accrued expenses and other | (38,309) |
| Deferred revenues | 16,255 |
| Other non-current liabilities | (267) |
| Net cash provided by (used in) operating activities | (139,757) |

INVESTING ACTIVITIES:

| | |
|----------------------------------------------------------|----------|
| Additions to property, equipment and other, net | (26,114) |
| Proceeds from sales of businesses and other, net | 6,731 |
| (Payments) for businesses acquired, net of cash acquired | 86,986 |
| Payments for other investments | (10,397) |
| Net cash provided by (used in) investing activities | 57,206 |

FINANCING ACTIVITIES:

| | |
|-----------------------------------------------------|-------------|
| Intercompany activity | -- |
| Borrowings under credit agreements | 991,800 |
| Repayments of borrowings under credit agreements | (1,363,800) |
| Proceeds from issuances of 8 7/8% Senior Notes, net | 492,685 |
| Payments of acquisition obligation | (8,833) |

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| | |
|-------------------------------------------------------------|-----------|
| Proceeds from issuances of common stock, net of redemptions | 5,063 |
| Dividends paid to preferred stock shareholders | (26,531) |
| Deferred financing costs paid | (15,650) |
| Other | (2,573) |
| | ----- |
| Net cash provided by (used in) financing activities | 72,161 |
| | ----- |
| Increase (decrease) in cash and cash equivalents | (10,390) |
| Cash and cash equivalents, beginning of period | 23,690 |
| | ----- |
| Cash and cash equivalents, end of period | \$ 13,300 |
| | ===== |

24

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

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

For the Six Months Ended June 30, 2000
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Fore Non-Gu Subsid |
|------------------------------------------------------------------------------------------------|---------------|---------------------------|--------------------------|
| | ----- | ----- | ----- |
| Sales, net | \$ -- | \$ 823,522 | \$ 3, |
| Operating costs and expenses: | | | |
| Cost of goods sold | -- | 195,360 | 1, |
| Marketing and selling | -- | 182,102 | 1, |
| Distribution, circulation and fulfillment | -- | 114,472 | |
| Editorial | -- | 65,010 | |
| Other general expenses | -- | 87,779 | |
| Corporate administrative expenses (excluding non-cash compensation) | 15,956 | -- | |
| Depreciation of property and equipment | 896 | 24,069 | |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 225 | 65,530 | |
| Non-cash compensation and non-recurring charges | 17,144 | 7,400 | |
| Provision for severance, closures and integration costs | 11,401 | 5,317 | |
| Gain on sale of businesses and other, net | -- | (18,693) | |
| | ----- | ----- | ----- |
| Operating income (loss) | (45,622) | 95,176 | (|
| Other income (expense): | | | |
| Interest expense | (72,227) | (2,903) | (|
| Amortization of deferred financing costs | -- | (1,938) | |
| Equity in losses of subsidiaries | (53,979) | -- | |
| Intercompany management fees and interest | 125,039 | (125,039) | |
| Other, net | 290 | 8,481 | (|
| | ----- | ----- | ----- |

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| | | | |
|---------------------------------------------------------------------------------------------------|-----------------------------------------------|-------------|------|
| Net loss | \$ (46,499) | \$ (26,223) | \$ (|
| | ===== | | |
| | Primedia Inc. and Subsidiaries ----- | | |
| Sales, net | \$ 829,977 | | |
| Operating costs and expenses: | | | |
| Cost of goods sold | 200,281 | | |
| Marketing and selling | 189,854 | | |
| Distribution, circulation and fulfillment | 123,073 | | |
| Editorial | 67,646 | | |
| Other general expenses | 104,510 | | |
| Corporate administrative expenses (excluding non-cash compensation) | 16,315 | | |
| Depreciation of property and equipment | 26,906 | | |
| Amortization of intangible assets, excess of purchase price over net assets acquired and other | 66,422 | | |
| Non-cash compensation and non-recurring charges | 24,544 | | |
| Provision for severance, closures and integration costs | 16,718 | | |
| Gain on sale of businesses and other, net | (28,482) | | |
| | ----- | | |
| Operating income (loss) | 22,190 | | |
| Other income (expense): | | | |
| Interest expense | (75,319) | | |
| Amortization of deferred financing costs | (1,939) | | |
| Equity in losses of subsidiaries | -- | | |
| Intercompany management fees and interest | -- | | |
| Other, net | 8,569 | | |
| | ----- | | |
| Net loss | \$ (46,499) | | |
| | ===== | | |

25

14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

PRIMEDIA INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2000
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Fore Non-Gu Subsid |
|---------------------------|---------------|---------------------------|--------------------------|
| | ----- | | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 5,536 | \$ 16,995 | \$ |
| Accounts receivable, net | 70 | 257,075 | |

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| | | | |
|--------------------------------------------------------|--------------|-------------|--------|
| Intercompany receivables | 774,165 | 324,678 | |
| Inventories, net | -- | 27,827 | |
| Net assets held for sale | -- | 5,000 | |
| Prepaid expenses and other | 2,253 | 31,913 | |
| | ----- | | |
| Total current assets | 782,024 | 663,488 | 1, |
| Property and equipment, net | 6,554 | 128,016 | |
| Investment in and advances to subsidiaries | 950,319 | -- | |
| Other intangible assets, net | 2,353 | 501,861 | |
| Excess of purchase price over net assets acquired, net | (13,070) | 1,146,701 | 3, |
| Deferred income tax asset, net | 135,000 | -- | |
| Other investments | 248,236 | 914 | |
| Other non-current assets | 1,857 | 84,910 | |
| | ----- | | |
| | \$ 2,113,273 | \$2,525,890 | \$ 6, |
| | ===== | | |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 7,552 | \$ 109,650 | \$ 16, |
| Intercompany payables | -- | 899,208 | |
| Accrued interest payable | 18,822 | -- | |
| Accrued expenses and other | 67,734 | 144,270 | |
| Deferred revenues | 26,164 | 190,914 | |
| Current maturities of long-term debt | 105,744 | 9,706 | |
| | ----- | | |
| Total current liabilities | 226,016 | 1,353,748 | 17, |
| | ----- | | |
| Long-term debt | 1,476,128 | 27,051 | |
| | ----- | | |
| Intercompany notes payable | -- | 2,138,619 | |
| | ----- | | |
| Deferred revenues | 85,831 | 26,465 | |
| | ----- | | |
| Other non-current liabilities | -- | 22,114 | |
| | ----- | | |
| Exchangeable preferred stock | 561,324 | -- | |
| | ----- | | |
| Shareholders' deficiency: | | | |
| Common stock | 1,678 | -- | |
| Additional paid-in capital | 1,366,950 | -- | |
| Accumulated deficit | (1,603,096) | (1,040,278) | (10, |
| Accumulated other comprehensive loss | (1,558) | (1,829) | (|
| Unearned compensation | -- | -- | |
| Common stock in treasury, at cost | -- | -- | |
| | ----- | | |
| Total shareholders' deficiency | (236,026) | (1,042,107) | (11, |
| | ----- | | |
| | \$ 2,113,273 | \$2,525,890 | \$ 6, |
| | ===== | | |

Primedia Inc.
and
Subsidiaries

ASSETS
Current assets:

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| | | |
|--------------------------------------------------------|----|-------------|
| Cash and cash equivalents | \$ | 23,690 |
| Accounts receivable, net | | 265,946 |
| Intercompany receivables | | -- |
| Inventories, net | | 28,681 |
| Net assets held for sale | | 5,000 |
| Prepaid expenses and other | | 43,630 |
| | | ----- |
| Total current assets | | 366,947 |
| Property and equipment, net | | 175,560 |
| Investment in and advances to subsidiaries | | -- |
| Other intangible assets, net | | 506,156 |
| Excess of purchase price over net assets acquired, net | | 1,141,436 |
| Deferred income tax asset, net | | 135,000 |
| Other investments | | 265,468 |
| Other non-current assets | | 86,912 |
| | | ----- |
| | \$ | 2,677,479 |
| | | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| Current liabilities: | | |
| Accounts payable | \$ | 120,786 |
| Intercompany payables | | -- |
| Accrued interest payable | | 18,822 |
| Accrued expenses and other | | 222,773 |
| Deferred revenues | | 235,548 |
| Current maturities of long-term debt | | 115,465 |
| | | ----- |
| Total current liabilities | | 713,394 |
| | | ----- |
| Long-term debt | | 1,503,188 |
| | | ----- |
| Intercompany notes payable | | -- |
| | | ----- |
| Deferred revenues | | 112,296 |
| | | ----- |
| Other non-current liabilities | | 23,303 |
| | | ----- |
| Exchangeable preferred stock | | 561,324 |
| | | ----- |
| Shareholders' deficiency: | | |
| Common stock | | 1,678 |
| Additional paid-in capital | | 1,366,950 |
| Accumulated deficit | | (1,603,096) |
| Accumulated other comprehensive loss | | (1,558) |
| Unearned compensation | | -- |
| Common stock in treasury, at cost | | -- |
| | | ----- |
| Total shareholders' deficiency | | (236,026) |
| | | ----- |
| | \$ | 2,677,479 |
| | | ===== |

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14. FINANCIAL INFORMATION FOR GUARANTORS OF THE COMPANY'S DEBT (CONTINUED)

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

For the Six Months Ended June 30, 2000
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Fore Non-Gu Subsid |
|----------------------------------------------------------------------------------------------|---------------|---------------------------|--------------------------|
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ (46,499) | \$ (26,223) | \$ (|
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 1,121 | 91,537 | |
| Accretion of discount on acquisition obligation and other | 365 | 1,587 | |
| Non-cash revenue related to assets-for-equity transactions | -- | (3,452) | |
| Non-cash compensation and non-recurring charges | 17,144 | 7,400 | |
| Gain on sale of businesses and other, net | -- | (18,693) | |
| Equity in losses of subsidiaries | 53,979 | -- | |
| Intercompany (income) expense | (125,039) | 125,039 | |
| Other, net | (10) | 643 | |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable, net | (580) | (13,764) | |
| Inventories, net | -- | (1,994) | |
| Prepaid expenses and other | (1,777) | (9,529) | |
| Increase (decrease) in: | | | |
| Accounts payable | (2,971) | (14,942) | |
| Accrued interest payable | (1,463) | -- | |
| Accrued expenses and other | 5,411 | (12,729) | |
| Deferred revenues | -- | (8,296) | |
| Other non-current liabilities | (1) | (544) | |
| Net cash provided by (used in) operating activities | (100,320) | 116,040 | (|
| INVESTING ACTIVITIES: | | | |
| Additions to property, equipment and other, net | (284) | (22,723) | |
| Proceeds from sales of businesses and other, net | -- | 117,977 | |
| Payments for businesses acquired | -- | (7,086) | |
| Payments for other investments | (40,225) | (2,706) | |
| Net cash provided by (used in) investing activities | (40,509) | 85,462 | (|
| FINANCING ACTIVITIES: | | | |
| Intercompany activity | 139,359 | (187,496) | 1, |
| Borrowings under credit agreements | 313,750 | -- | |
| Repayments of borrowings under credit agreements | (475,000) | (137) | |
| Payments of acquisition obligation | (3,685) | (6,149) | |

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| | | | |
|-------------------------------------------------------------------------------------------|-------------|-----------|-------|
| Proceeds from issuances of common stock, net of redemptions | 206,232 | -- | |
| Taxes paid associated with stock option exercises | (16,891) | -- | |
| Dividends paid to preferred stock shareholders | (26,531) | -- | |
| Deferred financing costs paid | -- | (175) | |
| Other | 20 | (1,935) | |
| | | | |
| Net cash provided by (used in) financing activities | 137,254 | (195,892) | 1, |
| | | | |
| Increase (decrease) in cash and cash equivalents | (3,575) | 5,610 | |
| Cash and cash equivalents, beginning of period | 11,521 | 13,765 | 2, |
| | | | |
| Cash and cash equivalents, end of period | \$ 7,946 | \$ 19,375 | \$ 3, |
| | | | |
| Primedia Inc. and Subsidiaries | | | |
| | | | |
| OPERATING ACTIVITIES: | \$ (46,499) | | |
| Net loss | | | |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 95,267 | | |
| Accretion of discount on acquisition obligation and other | 1,952 | | |
| Non-cash revenue related to assets-for-equity transactions | (3,452) | | |
| Non-cash compensation and non-recurring charges | 24,544 | | |
| Gain on sale of businesses and other, net | (28,482) | | |
| Equity in losses of subsidiaries | -- | | |
| Intercompany (income) expense | -- | | |
| Other, net | 412 | | |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable, net | (15,772) | | |
| Inventories, net | (1,721) | | |
| Prepaid expenses and other | (14,922) | | |
| Increase (decrease) in: | | | |
| Accounts payable | (17,580) | | |
| Accrued interest payable | (1,463) | | |
| Accrued expenses and other | (7,083) | | |
| Deferred revenues | (7,018) | | |
| Other non-current liabilities | (460) | | |
| | | | |
| Net cash provided by (used in) operating activities | (22,277) | | |
| | | | |
| INVESTING ACTIVITIES: | | | |
| Additions to property, equipment and other, net | (35,442) | | |
| Proceeds from sales of businesses and other, net | 129,261 | | |
| Payments for businesses acquired | (7,314) | | |
| Payments for other investments | (51,069) | | |
| | | | |

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| | |
|-------------------------------------------------------------|-----------|
| Net cash provided by (used in) investing activities | 35,436 |
| | ----- |
| FINANCING ACTIVITIES: | |
| Intercompany activity | -- |
| Borrowings under credit agreements | 313,750 |
| Repayments of borrowings under credit agreements | (475,228) |
| Payments of acquisition obligation | (9,834) |
| Proceeds from issuances of common stock, net of redemptions | 206,232 |
| Taxes paid associated with stock option exercises | (16,891) |
| Dividends paid to preferred stock shareholders | (26,531) |
| Deferred financing costs paid | (175) |
| Other | (1,915) |
| | ----- |
| Net cash provided by (used in) financing activities | (10,592) |
| | ----- |
| Increase (decrease) in cash and cash equivalents | 2,567 |
| Cash and cash equivalents, beginning of period | 28,661 |
| | ----- |
| Cash and cash equivalents, end of period | \$ 31,228 |
| | ===== |

27

15. SUBSEQUENT EVENTS

On July 2, 2001, the Company entered into a definitive agreement to acquire EMAP USA (formerly known as Petersen Publishing) from EMAP plc. EMAP USA has more than 60 consumer titles reaching over 75 million enthusiasts through a combination of magazines, network and cable television shows, web sites and live consumer events. Under the terms of the agreement, the Company will pay \$515,000 for EMAP USA, consisting of \$505,000 in cash and warrants granted to EMAP plc to purchase 2 million of PRIMEDIA shares of common stock at \$9 per share, which has been valued at approximately \$10,000. In order to finance this transaction, the Company (1) initiated a private placement of shares of its common stock for aggregate cash proceeds of \$125,000, at least \$50,000 of which the Company expects to receive from KKR 1996 Fund L.P. The KKR 1996 Fund L.P. will purchase the common stock at a purchase price per share equal to the price to investors of each share sold in the common stock offering. An affiliate of Kohlberg, Kravis, Roberts & Co. L.P. ("KKR") has agreed to make available to the Company common equity financing up to an aggregate of \$125,000. (2) expects to enter into a \$125,000 preferred equity financing with an affiliate of KKR and (3) expects to draw upon its revolving credit facility in an amount of approximately \$270,000. The shares of the Company's common stock and preferred stock offered in the transactions outlined above have not been registered, and at the time of sale, will not be registered under the Securities Act of 1933. These shares may not be offered or sold in the United States, absent subsequent registration or an applicable exemption from registration. In connection with the equity financings to be made available by KKR, we expect to pay a commitment fee consisting of 1.25 million common stock warrants and a financing fee consisting of 2.62 million common stock warrants. In addition, subject to a vesting schedule, the Company will pay up to an additional 4 million common stock warrants, the unvested portion of which will expire upon the Company's redemption of the KKR preferred equity. In addition, proceeds from certain asset sales, which are expected to be at least \$250,000, will be used to deleverage the Company. These assets are currently reported as continuing businesses. The EMAP transaction is subject to customary closing conditions and is expected to close during August 2001.

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

INTRODUCTION

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

The following discussion and analysis of the Company's unaudited consolidated financial condition and results of consolidated operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto. The Company's two segments are consumer and business-to-business. The Company's consumer segment produces and distributes magazines, guides and videos for consumers in various niche markets. The Company's business-to-business segment produces and distributes magazines, books, directories, databases and vocational training materials to business professionals in such fields as communications, agriculture, professional services, media, transportation and healthcare. The consumer segment includes PRIMEDIA Magazines Inc., PRIMEDIA Enthusiast Group, Channel One Communications Corporation, About.com, Inc. ("About"), Films for the Humanities & Sciences, Inc., and Haas Publishing Companies, Inc. The business-to-business segment includes The Business Magazines & Media Group, Bacon's Information, Inc., PRIMEDIA Workplace Learning, Inc., Kagan World Media, Inc. and affiliated companies and certain product lines of PRIMEDIA Information Inc.

Management believes a meaningful comparison of the results of operations for the six and three months ended June 30, 2001 and 2000 is obtained by using the segment information and by presenting results from continuing businesses ("Continuing Businesses") which exclude the results of the non-core businesses ("Non-Core Businesses"). The Non-Core Businesses include Pictorial, Inc. (divested in June 2000), QWIZ, Inc. (divested in April 2001), certain business directories (divested in October 2000) and certain titles, including certain titles of The Business Magazines & Media Group, Consumer Guides, and PRIMEDIA Enthusiast Group which are discontinued or will be divested. In addition, the Company has restructured or consolidated several new media properties, including IndustryClick, whose value can be realized with far greater efficiency by having select functions absorbed by the core operations. Certain amounts in the prior periods have been reclassified to conform to the presentation for the six and three-month periods ended June 30, 2001.

EBITDA represents earnings before interest, taxes, depreciation, amortization and other (income) charges ("EBITDA"). EBITDA is not intended to represent cash flow 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. The Company believes EBITDA is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the media industry. Accordingly, this information has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance relative to other companies in its industry. EBITDA should not be considered in isolation or as a substitute for other measures of financial performance or liquidity. The primary difference between EBITDA and cash flow provided by (used in) operating activities relates to changes in working capital requirements and payments made for interest and income taxes. Additionally, EBITDA is not available for the Company's discretionary use as there are legal requirements to pay preferred stock dividends and repay debt, among other payments. EBITDA as presented may not be comparable to similarly titled measures reported by other companies, since not

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all companies necessarily calculate EBITDA in identical manners, and therefore, is not necessarily an accurate measure of comparison between companies.

29

Primedia Inc. and Subsidiaries Unaudited Results of Consolidated Operations (dollars in thousands)

| | Six Months Ended June 30, | |
|---------------------------------------------|------------------------------|-------------|
| | 2001 | 2000 |
| Sales, Net: | | |
| Continuing Businesses: | | |
| Consumer | \$ 634,990 | \$ 545,753 |
| Business-to-business | 248,783 | 245,550 |
| Eliminations | (31,737) | (15,955) |
| | ----- | ----- |
| Subtotal | 852,036 | 775,348 |
| Non-Core Businesses | 20,248 | 54,629 |
| | ----- | ----- |
| Total | \$ 872,284 | \$ 829,977 |
| | ===== | ===== |
| EBITDA: | | |
| Continuing Businesses: | | |
| Consumer | \$ 81,002 | \$ 97,437 |
| Business-to-business | 44,890 | 53,284 |
| Corporate | (16,238) | (16,315) |
| | ----- | ----- |
| Subtotal | 109,654 | 134,406 |
| Non-Core Businesses | (23,477) | (6,108) |
| | ----- | ----- |
| Total | \$ 86,177 | \$ 128,298 |
| | ===== | ===== |
| Operating Income (Loss): | | |
| Continuing Businesses: | | |
| Consumer | \$ (38,132) | \$ 39,249 |
| Business-to-business | 10,378 | 12,148 |
| Corporate | (34,697) | (36,195) |
| | ----- | ----- |
| Subtotal | (62,451) | 15,202 |
| Non-Core Businesses | (28,985) | 6,988 |
| | ----- | ----- |
| Total | (91,436) | 22,190 |
| Other Expense: | | |
| Provision for the impairment of investments | (30,807) | -- |
| Interest expense | (66,854) | (75,319) |
| Amortization of deferred financing costs | (9,063) | (1,939) |
| Other, net | (27,328) | 8,569 |
| | ----- | ----- |
| Net Loss | \$ (225,488) | \$ (46,499) |
| | ===== | ===== |

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30

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000:

CONSOLIDATED RESULTS:

Sales from Continuing Businesses increased 9.9% to \$852,036 in 2001 from \$775,348 in 2000 due to growth in both segments. Total sales, including Non-Core Businesses, increased 5.1% to \$872,284 in the first six months of 2001 from \$829,977 in the 2000 period.

Since the first quarter of 2000, the Company has entered various assets-for-equity transactions, some of which also included cash consideration. The remainder represents advertising, content licensing and other services to be rendered by the Company in exchange for the equity in these entities. The Company recognizes these amounts as revenue in accordance with the Company's revenue recognition policies. Revenue recognized in connection with these assets-for-equity transactions was approximately \$46,000 and \$3,500 during the six months ended June 30, 2001 and 2000, respectively, and will be substantially reduced in future quarters. In addition, for the six months ended June 30, 2001 and 2000, revenue and expense from barter transactions were approximately \$26,000 and \$500, respectively.

EBITDA from Continuing Businesses decreased 18.4% to \$109,654 in 2001 from \$134,406 in 2000 primarily due to larger new media losses. Total EBITDA, including Non-Core Businesses, decreased 32.8% to \$86,177 in 2001 from \$128,298 in 2000.

Operating income (loss) from Continuing Businesses was \$(62,451) in 2001 compared to \$15,202 in 2000. This increase in operating loss was primarily attributable to increased operating loss in the consumer segment. Total operating income (loss), including Non-Core Businesses, was \$(91,436) in 2001 compared to \$22,190 in 2000.

Interest expense decreased by 11.2% in the first six months of 2001 compared to 2000. This decrease is the result of the Company's use of proceeds from the sales of businesses, the Liberty Media investment in April 2000, and cash acquired in connection with the About merger to repay borrowings under its bank credit facilities.

CONSUMER:

Sales from Continuing Businesses increased 16.4% to \$634,990 in the first six months of 2001 from \$545,753 in 2000 due primarily to growth at the Company's Consumer Guides and apartmentguide.com, growth at certain Enthusiast magazines and the About acquisition whose results are included in the consumer segment for four of the six months ended June 30, 2001. New media sales from Continuing Businesses increased 411.0% to \$47,386 in 2001 from \$9,274 in 2000 due to the About acquisition and growth at apartmentguide.com. Revenue recognized in connection with assets-for-equity transactions was approximately \$39,000 and \$3,200 during the six months ended June 30, 2001 and 2000, respectively.

EBITDA from Continuing Businesses decreased 16.9% to \$81,002 in 2001 from \$97,437 in 2000. The EBITDA margin for Continuing Businesses decreased to 12.8% in 2001 from 17.9% in 2000. The decrease in margin is primarily attributable to increased Internet spending as a result of the About acquisition.

Operating income (loss) from Continuing Businesses, was \$(38,132) in 2001 compared to \$39,249 in 2000. The increase in operating loss was primarily

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attributable to the decrease in EBITDA as well as an increase in amortization expense related to excess of purchase price over net assets acquired as a result of the About acquisition.

31

BUSINESS-TO-BUSINESS:

Sales from Continuing Businesses increased 1.3% to \$248,783 in the first six months of 2001 from \$245,550 in 2000 primarily due to higher new media sales at certain Internet properties and sales growth at PRIMEDIA Workplace Learning. New media sales from Continuing Businesses increased 77.1% to \$8,632 in 2001 from \$4,874 in 2000. Revenue recognized in connection with assets-for-equity transactions was approximately \$7,000 and \$300 during the six months ended June 30, 2001 and 2000, respectively.

EBITDA from Continuing Businesses decreased 15.8% to \$44,890 in 2001 from \$53,284 in 2000 primarily due to weakness at The Business Magazines & Media Group. The EBITDA margin decreased to 18.0% in 2001 from 21.7% in 2000 primarily due to softness in business-to-business advertising and continued Internet losses.

Operating income from Continuing Businesses decreased to \$10,378 in 2001 from \$12,148 in 2000. The decrease in operating income is primarily attributable to weakness at The Business Magazines & Media Group partially offset by strength at PRIMEDIA Workplace Learning.

32

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000:

CONSOLIDATED RESULTS:

Sales from Continuing Businesses increased 9.6% to \$436,147 in 2001 from \$397,766 in 2000 due to growth in the consumer segment. Total sales, including Non-Core Businesses, increased 4.6% to \$445,278 in the second quarter of 2001 from \$425,527 in the 2000 period. Revenue recognized in connection with assets-for-equity transactions was approximately \$17,900 and \$3,500 during the three months ended June 30, 2001 and 2000, respectively, and will be substantially reduced in future quarters. In addition, for the three months ended June 30, 2001 and 2000, revenue and expense from barter transactions were approximately \$16,000 and \$500, respectively.

EBITDA from Continuing Businesses decreased 24.6% to \$58,718 in 2001 from \$77,907 in 2000 primarily due to softness at the Company's Business Magazines & Media Group and larger new media losses at certain of the Company's consumer internet properties. Total EBITDA, including Non-Core Businesses, decreased 31.2% to \$49,614 in 2001 from \$72,155 in 2000.

Operating income (loss) from Continuing Businesses was \$(50,870) in 2001 compared to \$10,728 in 2000. This increase in operating loss was primarily attributable to the decrease in EBITDA as well as an increase in amortization expense related to excess of purchase price over net assets acquired as a result of the About acquisition. Total operating income (loss), including Non-Core Businesses, was \$(62,490) in 2001 compared to \$21,838 in 2000.

Interest expense decreased by 8.8% in the second quarter of 2001 compared to 2000. This decrease is the result of the Company's use of proceeds from the

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sales of businesses, the Liberty Media investment in April 2000, and cash acquired in connection with the About merger to repay borrowings under its bank credit facilities.

CONSUMER:

Sales from Continuing Businesses increased 17.6% to \$330,117 in the second quarter of 2001 from \$280,675 in 2000 due primarily to growth at the Company's Consumer Guides and apartmentguide.com, growth at certain Enthusiast magazines and the About acquisition whose results are included in the consumer segment for the quarter ended June 30, 2001. New media sales from Continuing Businesses increased 470.0% to \$28,688 in 2001 from \$5,037 in 2000 due primarily to the About acquisition as well as growth at apartmentguide.com. Revenue recognized in connection with assets-for-equity transactions was approximately \$15,700 and \$3,200 during the three months ended June 30, 2001 and 2000, respectively.

EBITDA from Continuing Businesses decreased 14.1% to \$44,691 in 2001 from \$52,043 in 2000. The EBITDA margin for Continuing Businesses decreased to 13.5% in 2001 from 18.5% in 2000. The decrease is primarily attributable to increased Internet spending.

Operating income (loss) from Continuing Businesses, was \$(34,444) in 2001 compared to \$19,102 in 2000. The increase in operating loss was primarily attributable to the decrease in EBITDA as well as an increase in amortization expense related to excess of purchase price over net assets acquired as a result of the About acquisition.

33

BUSINESS-TO-BUSINESS:

Sales from Continuing Businesses decreased 5.3% to \$122,570 in the second quarter of 2001 from \$129,400 in 2000 primarily due to softness at The Business Magazines & Media Group. New media sales from Continuing Businesses increased 73.9% to \$3,881 in 2001 from \$2,232 in 2000. Revenue recognized in connection with assets-for-equity transactions was approximately \$2,200 and \$300 during the three months ended June 30, 2001 and 2000, respectively.

EBITDA from Continuing Businesses decreased 35.3% to \$22,035 in 2001 from \$34,067 in 2000. The EBITDA margin decreased to 18.0% in 2001 from 26.3% in 2000 due to softness in advertising in The Business Magazines & Media Group.

Operating income from Continuing Businesses decreased to \$4,847 in 2001 from \$8,711 in 2000. The decrease in operating income is primarily attributable to weakness at The Business Magazines & Media Group partially offset by strength at PRIMEDIA Workplace Learning.

FINANCING ARRANGEMENTS

8 7/8% SENIOR NOTES DUE 2011

On May 8, 2001, the Company completed a private offering of \$500,000 of 8 7/8% Senior Notes. Proceeds from this offering were used to repay borrowings under the revolving credit facilities. The 8 7/8% Senior Notes mature on May 15, 2011, with no sinking fund requirements, and have interest payable semi-annually in May and November at an annual rate of 8 7/8%. The 8 7/8% Senior Notes are fully, unconditionally and jointly and severally guaranteed by each of our domestic restricted subsidiaries. The notes are secured by a pledge of stock of PRIMEDIA Companies Inc., an intermediate holding company, owned directly by the Company, which owns all shares of PRIMEDIA subsidiaries. Beginning in 2006, the 8 7/8%

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Senior Notes are redeemable at 104.438% with annual reductions to 100% in 2009 plus accrued and unpaid interest.

If the Company becomes subject to a change of control, each holder of the notes will have the right to require the Company to purchase any or all of the notes at a purchase price equal to 101% of the aggregate principal amount of the notes plus accrued and unpaid interest, if any, to the date of purchase.

NEW CREDIT AGREEMENT

On June 20, 2001, the Company completed a refinancing of its existing bank credit facilities pursuant to new bank credit facilities with The Chase Manhattan Bank, Bank of America, N.A., The Bank of New York, and The Bank of Nova Scotia, as agents. The debt under the new credit agreement (as well as certain of our other equally and ratably secured indebtedness) is secured by a pledge of the stock of PRIMEDIA Companies Inc. Borrowings under the bank credit facilities are guaranteed by each of our wholly owned domestic restricted subsidiaries. The guarantees are full, unconditional and joint and several. Certain of our subsidiaries, which primarily represent Internet assets and businesses, including About.com, as well as our foreign subsidiaries, are not guarantors of the bank credit facilities. The bank credit facilities rank senior in right of payment to all our future subordinated indebtedness.

The borrowings under the bank credit facilities may be used for general corporate and working capital purposes as well as to finance certain future acquisitions. The bank credit facilities consist of the following:

- o a \$475,000 revolving loan facility, of which \$33,000 was outstanding at June 30, 2001;
- o a term loan A, of which \$100,000 was outstanding at June 30, 2001; and
- o a term loan B, of which \$425,000 was outstanding at June 30, 2001.

34

As of June 30, 2001, the Company had \$558,000 outstanding, \$22,000 letters of credit outstanding and unused bank commitments of approximately \$420,000 under the bank credit facilities.

With the exception of the term loan B, the amounts borrowed bear interest, at the Company's option, at either the higher of 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%. Additionally, until the Company issues financial statements for the period ending December 31, 2001, the applicable margin for the amounts borrowed will be a minimum of 0.75% for the base rate option and 1.75% for the Eurodollar rate option. The term loan B bears interest at the base rate plus 1.75% or LIBOR plus 2.75%. At June 30, 2001, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 6.46%.

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 new credit agreement, on the daily average aggregate unutilized commitment under the revolving loan commitment. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee.

The commitments under the revolving loan commitment are subject to mandatory reductions semi-annually on June 30 and December 31, commencing December 31, 2004 with the final reduction on June 30, 2008. The aggregate mandatory reductions of the revolving loan commitments under the bank credit facilities

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are \$23,750 in 2004, \$47,500 in 2005, \$71,250 in 2006, \$142,500 in 2007 and a final reduction of \$190,000 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. Aggregate term loan payments under the bank credit facilities are \$2,125 in 2001, \$4,250 in 2002 and 2003, \$16,750 in 2004, \$29,250 in 2005, 2006 and 2007, \$16,750 in 2008 and \$393,125 in 2009.

The bank credit facilities, among other things, limit the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers, consolidations or transactions with affiliates, make investments in or loans to certain subsidiaries, issue guarantees and make certain restricted payments including dividend payments on our common stock in excess of \$75,000 in any given year. Under the most restrictive debt covenants, the Company must maintain a minimum interest coverage ratio of 1.80 to 1 and a minimum fixed charge coverage ratio of 1.05 to 1. The Company's maximum allowable debt leverage ratio 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, 2003, January 1, 2004, January 1, 2005 and January 1, 2006. The minimum interest coverage ratio increases to 2.0 to 1, 2.25 to 1 and 2.5 to 1, respectively, on July 1, 2003, January 1, 2004 and January 1, 2005. At June 30, 2001, the Company's debt leverage ratio, as defined in the bank credit agreement, was 5.43 to 1.

As a result of the refinancing of the Company's existing bank credit facilities, during the second quarter of 2001, the Company wrote-off the remaining balances of deferred financing costs originally recorded.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated working capital, including net assets held for sale and current portion of long-term debt, was \$(142,946) at June 30, 2001 as compared to \$(346,447) at December 31, 2000. Consolidated working capital reflects certain industry working capital practices and accounting principles, including the recording of certain deferred revenues from subscriptions as a current liability as well as the expensing of certain advertising, editorial and product development costs as incurred. Consolidated working capital increased at June 30, 2001 due to increases in net assets held for sale, a reduction of current maturities of the Company's long-term debt as a result a refinancing of the Company's outstanding debt obligations as well as other working capital changes.

35

Net cash used in operating activities during the six months ended June 30, 2001, after interest payments of \$59,816 in 2001 and \$75,829 in 2000, was \$139,757, as compared to \$22,277 during the same 2000 period, due primarily to increased new media losses, as well as other working capital changes. Net additions to property, equipment and other were \$26,114 during the six months ended June 30, 2001 compared to \$35,442 during the 2000 period due to higher levels of spending last year relating to new office space and capitalized internal use software expenditures. Net cash provided by investing activities during the six months ended June 30, 2001 increased to \$57,206 compared to \$35,436 in the same 2000 period primarily due to cash acquired from the About acquisition. Net cash provided by (used in) financing activities during the six months ended June 30, 2001 was \$72,161, compared to \$(10,592) in the same 2000 period primarily due to additional borrowings in 2001.

The Company believes its liquidity, capital resources and cash flow are

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sufficient to fund planned capital expenditures, working capital requirements, interest and principal payments on its debt, the payment of preferred stock dividends and other anticipated expenditures for the next two to three years.

PROVISION FOR SEVERANCE, CLOSURES AND INTEGRATION COSTS

During 2000 and 2001, the Company implemented plans to integrate the Company and consolidate many back office functions. All integration costs were expensed as incurred. \$4,304 of integration costs primarily related to the About merger and Company-wide integration efforts have been reclassified to other general expenses. A summary of the status of these plans as of June 30, 2001 is presented below.

2001 PLAN

With the acquisition of About coupled with other cost initiatives, during the first half of 2001, the Company announced the details of a plan that would continue to implement and expand upon the initiatives enacted during 2000. During 2001, the Company recognized approximately \$16,800 of severance, closures and integration costs and paid approximately \$11,500 of these costs. These severance, closures and integration costs include charges relating to employee termination and other employee costs, contract and lease terminations, consulting, office relocation and recruiting.

A significant portion of the remaining costs are expected to be paid during the remainder of 2001 with the balance to be paid through 2003. The Company is currently developing additional initiatives aimed largely at the consolidation of certain functions and the further integration of the Company, including initiatives attributable to the expected consummation of the EMAP acquisition. Accordingly, the Company expects to record additional severance, closures and integration costs during 2001.

2000 PLAN

During 2000, the Company announced the implementation of a plan to integrate the Company and consolidate many back office functions. During 2001, the Company made payments approximating \$5,800 relating to the balance outstanding as of December 31, 2000 in connection with the 2000 plan.

The majority of the remaining costs, which approximates \$5,400, are expected to be paid by the end of 2001 with the balance to be paid through the end of 2003.

As a result of the 2000 and 2001 plans already put in place, the Company will close and consolidate in excess of fifteen office locations and will terminate approximately 630 individuals. All individuals who will be terminated under these plans have been notified. As of June 30, 2001, approximately 550 of those individuals have been terminated.

36

Management anticipates that these plans will result in significant savings during the remainder of 2001 and beyond.

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the Emerging Issue Task Force ("EITF") issued EITF Consensus No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of a Vendor's Products," which addresses whether consideration from a vendor to a reseller of the vendor's products is an adjustment to the selling price or the cost of the product. The EITF consensus

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must be adopted no later than January 1, 2002. The Company is currently determining the impact of this new consensus.

On June 29, 2001, the Financial Accounting Standards Board ("FASB") unanimously voted in favor of two new statements, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting, eliminates the use of the pooling-of-interests method and requires that the purchase method be used for business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill and certain intangible assets no longer be amortized to earnings and that goodwill and intangible assets be reviewed for impairment. Under SFAS No. 142, goodwill acquired in a business combination completed after June 30, 2001 (that is, the date of acquisition is July 1, 2001 or later) will not be amortized. The amortization of goodwill for previous acquisitions will cease upon adoption of the SFAS No. 142, which will be January 1, 2002. We are currently determining the impact of SFAS No. 142 on our existing goodwill and intangible assets. Under SFAS No. 142, any goodwill arising from the proposed acquisition of EMAP USA will not be amortized.

RECENT DEVELOPMENTS

On July 2, 2001, the Company entered into a definitive agreement to acquire EMAP USA (formerly known as Petersen Publishing) from EMAP plc. EMAP USA has more than 60 consumer titles reaching over 75 million enthusiasts through a combination of magazines, network and cable television shows, web sites and live consumer events. Under the terms of the agreement, the Company will pay \$515,000 for EMAP USA, consisting of \$505,000 in cash and warrants granted to EMAP plc to purchase 2 million of PRIMEDIA shares of common stock at \$9 per share, which has been valued at approximately \$10,000. In order to finance this transaction, the Company (1) initiated a private placement of shares of its common stock for aggregate cash proceeds of \$125,000, at least \$50,000 of which the Company expects to receive from KKR 1996 Fund L.P. The KKR 1996 Fund L.P. will purchase the common stock at a purchase price per share equal to the price to investors of each share sold in the common stock offering. An affiliate of Kohlberg, Kravis, Roberts & Co. L.P. ("KKR") has agreed to make available to the Company common equity financing up to an aggregate of \$125,000. (2) expects to enter into a \$125,000 preferred equity financing with an affiliate of KKR and (3) expects to draw upon its revolving credit facility in an amount of approximately \$270,000. The shares of the Company's common stock and preferred stock offered in the transactions outlined above have not been registered, and at the time of sale, will not be registered under the Securities Act of 1933. These shares may not be offered or sold in the United States, absent subsequent registration or an applicable exemption from registration. In connection with the equity financings to be made available by KKR, we expect to pay a commitment fee consisting of 1.25 million common stock warrants and a financing fee consisting of 2.62 million common stock warrants. In addition, subject to a vesting schedule, the Company will pay up to an additional 4 million common stock warrants, the unvested portion of which will expire upon the Company's redemption of the KKR preferred equity. In addition, proceeds from certain asset sales, which are expected to be at least \$250,000, will be used to deleverage the Company. These assets are currently reported as continuing businesses. The EMAP transaction is subject to customary closing conditions and is expected to close during August 2001.

IMPACT OF INFLATION

The impact of inflation was immaterial during 2000 and through the first six months of 2001. Postage for product distribution and direct mail solicitations is a significant expense of the Company. The Company uses the U.S. Postal Service for distribution of many of its products and marketing materials. Postage rates increased approximately 10% in January 2001. In the past, the

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effects of inflation on operating expenses have substantially been offset by PRIMEDIA's ability to increase selling prices. No assurances can be given that the Company can pass such cost increases through to

37

its customers. In addition to pricing actions, the Company is continuing to examine all aspects of the manufacturing and purchasing processes to identify ways to offset some of these price increases. The Company's paper expense decreased approximately 4% during the first six months of 2001 compared to 2000. In the first six months of 2001, paper costs represented approximately 6% of the Company's total operating costs and expenses, a decline of 1% from the prior quarter. This decrease is a function of a softening in paper prices, favorable paper purchase contracts and decreased paper consumption through improved distribution and enhanced controls surrounding paper purchases and usage.

FORWARD-LOOKING INFORMATION

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

38

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the first six-months of 2001, there were no significant changes related to the Company's market risk exposure.

39

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) The Annual Meeting of Shareholders was held on May 17, 2001.
- (b) At the meeting, directors, Thomas S. Rogers, David Bell, Henry R. Kravis, George R. Roberts, Michael T. Tokarz, Perry Golkin, Charles G. McCurdy, Beverly C. Chell, Meyer Feldberg, Scott Kurnit and H. John Greeniaus were elected.
- (c) Set forth below is a description of the items that were voted upon at such meeting and the number of votes cast for, against or withheld, plus abstentions and broker non-votes, as to each such matter and director.
 - (i) Election of Directors:

An election of eleven directors was held and the shares so present were voted for as follows for the election of each of the following:

| Number of Shares Voted for | Number of Shares Withheld |
|-------------------------------|------------------------------|
|-------------------------------|------------------------------|

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| | | |
|--------------------|-------------|-----------|
| Thomas S. Rogers | 163,169,848 | 3,394,757 |
| David Bell | 165,043,025 | 1,521,580 |
| Beverly C. Chell | 163,197,434 | 3,367,171 |
| Meyer Feldberg | 165,041,415 | 1,523,190 |
| Perry Golkin | 162,565,002 | 3,999,603 |
| H. John Greeniaus | 164,003,989 | 2,560,616 |
| Henry R. Kravis | 163,602,718 | 2,961,887 |
| Scott Kurnit | 165,042,825 | 1,521,780 |
| Charles G. McCurdy | 163,198,604 | 3,366,001 |
| George R. Roberts | 165,042,467 | 1,522,138 |
| Michael T. Tokarz | 162,565,007 | 3,999,598 |

(ii) The approval of the an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 250 million to 300 million was ratified with 165,267,892 votes for, 1,276,397 votes against and 20,316 votes abstaining.

(iii) The approval of Deloitte & Touche LLP as independent auditors for the Company for the fiscal year ending December 31, 2001 was ratified with 166,522,935 votes for, 41,264 votes against and 406 votes abstaining.

40

Item 6. REPORTS ON FORM 8-K

On April 26, 2001, PRIMEDIA Inc. filed its Current Report on Form 8-K/A to announce the completion of the merger of a newly formed, wholly owned subsidiary of the Company with and into About.com, Inc. This report included proforma financial statements.

41

SIGNATURES

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

PRIMEDIA INC.

(Registrant)

Date: August 14, 2001

/s/ Thomas S. Rogers

(Signature)

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 14, 2001

/s/ Lawrence R. Rutkowski

(Signature)

Executive Vice President and Chief

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Financial Officer
(Principal Financial Officer)