PRIMEDIA INC
Form 10-Q
August 14, 2002

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, 2002

Commission file number: 1-11106

PRIMEDIA INC.

(Exact name of registrant as specified in its charter)

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

745 Fifth Avenue, New York, New York

(Address of principal executive offices)

10151
(Zip Code)

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

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

Number of shares of common stock, par value $.01 per share, outstanding as of July 31, 2002: 258,387,999.

The aggregate market value of the common equity of PRIMEDIA Inc. which is held by non-affiliates of PRIMEDIA Inc. at July 31, 2002 was approximately $224 million.

PRIMEDIA Inc.

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

| | June 30, 2002 |
|---|---|
| | (dollars in thous |
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | $ 19, |
| Accounts receivable, net | 232, |
| Inventories, net | 28, |
| Prepaid expenses and other | 40, |

| | |
|---|---|
| Total current assets | 321, |
| Property and equipment, net | 154, |
| Other intangible assets, net | 487, |
| Goodwill, net | 1,429, |
| Other investments | 38, |
| Other non-current assets | 71, |
| | $ 2,503, |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | |
| Current liabilities: | |
| Accounts payable | $ 109, |
| Accrued interest payable | 28, |
| Accrued expenses and other | 221, |
| Deferred revenues | 210, |
| Current maturities of long-term debt | 9, |
| Total current liabilities | 580, |
| Long-term debt | 1,901, |
| Deferred revenues | 41, |
| Deferred income taxes | 64, |
| Other non-current liabilities | 25, |
| Exchangeable preferred stock | 493, |
| Shareholders' deficiency: | |
| Series J convertible preferred stock | 135, |
| Common stock ($.01 par value, 350,000,000 shares and 300,000,000 shares authorized at June 30, 2002 and December 31, 2001, respectively, and 264,777,806 shares and 250,894,668 shares issued at June 30, 2002 and December 31, 2001, respectively) | 2, |
| Additional paid-in capital (including warrants of $29,947 and $25,799 at June 30, 2002 and December 31, 2001, respectively) | 2,328, |
| Accumulated deficit | (2,984, |
| Accumulated other comprehensive loss | |
| Unearned compensation | (8, |
| Common stock in treasury, at cost (7,793,175 shares at June 30, 2002 and December 31, 2001) | (77, |
| Total shareholders' deficiency | (604, |
| | $ 2,503, |

See notes to condensed consolidated financial statements (unaudited).



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

| | 2002 |
|---|---|
| | (dollars in thous |
| Sales, net | $ 830, |
| Operating costs and expenses: | |
| Cost of goods sold | 198, |
| Marketing and selling | 175, |
| Distribution, circulation and fulfillment | 148, |
| Editorial | 77, |
| Other general expenses | 120, |
| Corporate administrative expenses (excluding $7,746 and $12,727 of non-cash compensation and non-recurring charges in 2002 and 2001, respectively) | 16, |
| Depreciation of property and equipment | 32, |
| Amortization of intangible assets, goodwill and other (including $4,844 of provision for impairment in 2002) | 40, |
| Non-cash compensation and non-recurring charges | 7, |
| Provision for severance, closures and restructuring related costs | 25, |
| (Gain) loss on sales of businesses and other, net | 2, |
| Operating loss | (14, |
| Other expense: | |
| Provision for the impairment of investments | (7, |
| Interest expense | (71, |
| Amortization of deferred financing costs | (1, |
| Other, net | (1, |
| Loss from continuing operations before income taxes | (96, |
| Deferred provision for income taxes | (64, |
| Loss from continuing operations | (161, |
| Discontinued operations (including $10,579 gain on sales of divested entities in 2002) | 9, |
| Cumulative effect of a change in accounting principle (from the adoption of Statement of Financial Accounting Standards No. 142) | (21, |
| Net loss | (173, |
| Preferred stock dividends and related accretion, net (including $28,301 gain on exchange of exchangeable preferred stock in 2002) | (15, |
| Loss applicable to common shareholders | $ (189, |
| Per Common Share: | |
| Loss from continuing operations | $ (0 |
| Discontinued operations | 0 |

| | |
|---|---|
| Cumulative effect of a change in accounting principle | (0 |
| Basic and diluted loss applicable to common shareholders | $ (0 |
| Basic and diluted common shares outstanding | 249,349, |

See notes to condensed consolidated financial statements (unaudited).

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

| | Th |
|---|---|
| | 2002 |
| | (dollars in thous |
| Sales, net | $ 422, |
| Operating costs and expenses: | |
| Cost of goods sold | 100, |
| Marketing and selling | 81, |
| Distribution, circulation and fulfillment | 72, |
| Editorial | 37, |
| Other general expenses | 59, |
| Corporate administrative expenses (excluding $2,061 and $10,168 of non-cash compensation and non-recurring charges in 2002 and 2001, respectively) | 8, |
| Depreciation of property and equipment | 17, |
| Amortization of intangible assets, goodwill and other | 17, |
| Non-cash compensation and non-recurring charges | 2, |
| Provision for severance, closures and restructuring related costs | 14, |
| Loss on sales of businesses and other, net | 2, |
| Operating income (loss) | 9, |
| Other income (expense): | |
| Provision for the impairment of investments | (4, |
| Interest expense | (36, |
| Amortization of deferred financing costs | ( |
| Other, net | |
| Loss from continuing operations before income taxes | (31, |
| Deferred provision for income taxes | (6, |
| Loss from continuing operations | (37, |
| Discontinued operations (including $4,069 gain on sale of divested | |

| | |
|---|---|
| entity in 2002) | 3, |
| Net loss | (34, |
| Preferred stock dividends and related accretion, net (including $25,323 gain on exchange of exchangeable preferred stock in 2002) | 3, |
| Loss applicable to common shareholders | $ (30, |
| Per Common Share: | |
| Loss from continuing operations | $ (0 |
| Discontinued operations | 0 |
| Basic and diluted loss applicable to common shareholders | $ (0 |
| Basic and diluted common shares outstanding | 255,514, |

See notes to condensed consolidated financial statements (unaudited).



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

| | 2002 |
|---|---|
| | (do |
| OPERATING ACTIVITIES: | |
| Net loss | $ (173, |
| Adjustments to reconcile net loss to net cash used in operating activities | 168, |
| Changes in operating assets and liabilities | (4, |
| Net cash used in operating activities | (9, |
| INVESTING ACTIVITIES: | |
| Additions to property, equipment and other, net | (19, |
| Proceeds from sales of businesses and other, net | 87, |
| (Payments) for businesses acquired, net of cash acquired | (2, |
| Payments for other investments | ( |
| Net cash provided by investing activities | 64, |

| | |
|---|---|
| FINANCING ACTIVITIES: | |
| Borrowings under credit agreements | 213, |
| Repayments of borrowings under credit agreements | (254, |
| Proceeds from issuance of 8 7/8% Senior Notes, net | |
| Payments of acquisition obligation | |
| Proceeds from issuances of common stock, net | |
| Dividends paid to preferred stock shareholders | (26, |
| Deferred financing costs paid | |
| Other | (2, |
| Net cash provided by (used in) financing activities | (68, |
| Decrease in cash and cash equivalents | (13, |
| Cash and cash equivalents, beginning of period | 33, |
| Cash and cash equivalents, end of period | $ 19, |
| Supplemental information: | |
| Cash interest paid | $ 71, |
| Cash taxes paid, net of refunds | $ |
| Businesses acquired: | |
| Fair value of assets acquired | $ |
| Less: Liabilities assumed | 2, |
| Less: Stock and stock option consideration for About.com, Inc. acquisition | |
| Less: Cash acquired in connection with the About.com, Inc. acquisition | |
| (Payments) for businesses acquired, net of cash acquired | $ (2, |
| Non-cash activities: | |
| Issuance of warrants in connection with Emap acquisition and related financing | $ 4, |
| Accretion in carrying value of exchangeable and convertible preferred stock | $ 5, |
| Payments of dividends-in-kind on Series J Convertible Preferred Stock | $ 8, |
| Carrying value of exchangeable preferred stock converted to common stock | $ 69, |
| Fair value of common stock issued in connection with conversion of exchangeable preferred stock | $ 41, |
| Asset-for-equity investments | $ 2, |

See notes to condensed consolidated financial statements (unaudited).



PRIMEDIA INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. BASIS OF PRESENTATION

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either "PRIMEDIA" or the "Company." In the opinion of the Company's management, the financial statements present fairly the financial position, results of operations and cash flows of the Company as of and for the six and three month periods ended June 30, 2002 and 2001 and 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, 2001, which are included in the Company's annual report on Form 10-K for the year ended December 31, 2001. The operating results for the six and three month periods ended June 30, 2002 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, 2002.

RECENT ACCOUNTING PRONOUNCEMENTS:

In April 2001, the Emerging Issues Task Force ("EITF") issued Consensus No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the 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. This issue was further addressed by EITF Consensus No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," issued in September 2001. The Company adopted EITF 00-25 and EITF 01-9 effective January 1, 2002. The adoption of EITF 00-25 and EITF 01-9 resulted in a net reclassification of product placement costs, relating to single copy sales, previously classified as distribution, circulation and fulfillment expense on the accompanying condensed statements of consolidated operations, to reductions of sales from such activities. The change in classifications is industry-wide and had no impact on the Company's results of operations, cash flows or financial position. The reclassification resulted in a net decrease in sales and a corresponding decrease in operating expenses of $10,765 and $9,670 for the six months ended June 30, 2002 and 2001, respectively, and $5,506 and $4,540 for the three-months ended June 30, 2002 and 2001, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued 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 the purchase method be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling of interest method. SFAS No.142 changes the method by which companies may recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill and indefinite lived intangible assets on a prospective basis and requires companies to assess goodwill and indefinite lived intangible assets for impairment, at least annually.

During 2001, the Company adopted SFAS 141 and certain provisions of SFAS 142 in connection with the EMAP Inc. ("EMAP") acquisition as required by the statements. The goodwill and indefinite lived intangible assets related to the acquisition of EMAP have not and will not be amortized. The other identifiable intangible assets are being amortized over a five to ten year useful life.

On January 1, 2002, the Company adopted SFAS 142 for all remaining goodwill and indefinite lived intangible assets. Upon adoption, the Company ceased the amortization of goodwill and indefinite lived intangible assets, which consist primarily of trademarks. All of the Company's other intangible assets are subject to amortization (See Note 7).



In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". The standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The standard is effective for the Company beginning January 1, 2003. The adoption of SFAS 143 is not expected to have a material impact on the Company's results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which superseded SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". This statement also supersedes accounting and reporting provisions of Accounting Principles Board ("APB") Opinion 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," relating to the disposal of a segment of a business. SFAS No. 121 did not address the accounting for business segments accounted for as discontinued operations under APB Opinion 30 and therefore two accounting models existed for long-lived assets to be disposed of. SFAS No. 144 established one accounting model for long-lived assets to be held and used, long-lived assets (including those accounted for as a discontinued operation) to be disposed of by sale and long-lived assets to be disposed of other than by sale, and resolved certain implementation issues related to SFAS No. 121. The Company adopted SFAS No. 144 on January 1, 2002, and as a result, the results of the Modern Bride Group and ExitInfo were recorded as discontinued operations for the six and three months ended June 30, 2002 and 2001. Discontinued operations includes sales of $13,581 and $31,682 and operating income of $9,068 (including a gain on sale of $10,579) and $3,970 for the six-months ended June 30, 2002 and 2001, respectively; and sales of $4,703 and $20,834 and operating income of $3,125 (including a gain on sale of $4,069) and $4,254 for the three-months ended June 30, 2002 and 2001, respectively.

As a result of the adoption of EITF 00-25, EITF 01-9 and SFAS 144, the Company reclassified amounts from sales, net for the six and three months ended June 30, 2001, as follows:

| | Six Months Ended June 30, 2001 | | Three Months Ended June 30, 2001 | |
|---|---|---|---|---|
| Sales, net (as originally reported) | $ | 872,284 | $ | 445,27 |
| Less: Effect of SFAS 144 | | 31,682 | | 20,83 |
| Effect of EITF 00-25 and 01-9 | | 9,670 | | 4,54 |

| | | |
|---|---|---|
| Sales, net (as reclassified) | $ 830,932 | $ 419,90 |

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 will supersede EITF Consensus No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 will affect the timing of the recognition of costs associated with an exit or disposal plan by requiring them to be recognized when incurred rather than at the date of a commitment to exit or disposal plan and will affect the classification of restructuring costs on the consolidated statements of operations. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002.

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BARTER TRANSACTIONS

The Company trades advertisements in its traditional and online properties in exchange for advertising in properties of other companies and trade show space and booths. Revenue and related expenses from barter transactions are recorded at fair value in accordance with EITF 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 recognized as incurred. Revenue from barter transactions was approximately $8,900 and $26,000 for the six months ended June 30, 2002 and 2001, respectively, and approximately $3,400 and $16,000 for the three months ended June 30, 2002 and 2001, respectively, with equal related expense amounts in each six and three month period.

2. ACQUISITIONS AND OTHER INVESTMENTS

ACQUISITIONS

In 2001, the Company acquired the stock of About.com, Inc. ("About"), a platform comprised of a network of more than 400 highly targeted topic-specific websites and the stock of EMAP from EMAP America Partners. EMAP published 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. In addition, the Company completed several other smaller acquisitions. The other acquisitions, if they had occurred on January 1 of the year prior to acquisition would not have had a material impact on the results of operations. The pro forma effect of the About and EMAP acquisitions on the Company's operations is presented below.

The acquisitions have been accounted for by the purchase method. During the second quarter of 2002, the Company elected to account for the EMAP acquisition as an asset acquisition for income tax purposes. The independent valuation of EMAP's intangible assets has been finalized. Other aspects of the preliminary purchase cost allocations for the EMAP acquisition are subject to adjustment and will be finalized during the third quarter of 2002. The final asset and liability fair values may differ from those set forth on the accompanying condensed consolidated balance sheet at June 30, 2002; however, the changes are not expected to have a material effect on the condensed consolidated financial position, results of operations or cash flows of the Company. The condensed consolidated financial statements include the operating results of acquisitions subsequent to their respective dates of

acquisition.

ABOUT

On February 28, 2001, the Company completed its merger with About. This merger created an integrated traditional and new media company, providing an array of potential marketing solutions to advertisers and niche content to users. Through the efforts of knowledgeable human guides who manage the About sites, the sites provide high-quality original articles, moderated forums and chat rooms and links to related websites.

Under terms of the merger agreement, shareholders of About received approximately 45,000,000 shares of the Company's common stock or 2.3409 shares for each About share. An independent appraisal was completed during 2001 and was used to allocate the purchase price to the fair value of assets acquired and liabilities assumed including identifiable intangibles. The goodwill related to the About merger was amortized during 2001 over an estimated useful life of three years. The Company believed that a three-year life was responsive to the rapid rate of change in the Internet industry and was consistent with other recent mergers of a comparable nature. Other finite lived identifiable intangible assets are being amortized over a period of three years. The Company determined that the value of its shares of common stock issued was $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 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 (13,383,579 options) | 102,404 |
| Less: Unearned compensation related to unvested options | (7,592) |
| Cost of About shares acquired prior to the merger converted to treasury stock | 74,865 |
| Direct merger costs | 16,792 |
| Total purchase price | 717,341 |
| Less: Fair value of net tangible assets (including cash acquired of $109,490) | (175,050) |
| Less: Fair value of identifiable intangible assets | (24,743) |

| | |
|---|---|
| Goodwill | $ 517,548 |

In connection with the merger with About, outstanding options to purchase shares of About common stock held by certain individuals were converted into 13,383,579 options to purchase shares of PRIMEDIA common stock. The fair value of the vested and unvested options issued by PRIMEDIA was approximately $102,000 determined using a Black Scholes pricing model. On February 28, 2001, the date that the Company granted these unvested replacement options, the intrinsic value of the "in-the-money" unvested replacement options was $19,741. Based on a four-year service period from the original date that these options were granted, the Company classified $7,592 as unearned compensation relating to unvested options. The Company recorded charges related to the amortization of the intrinsic value of unvested "in-the-money" options of $1,513 and $1,344 during the six months ended June 30, 2002 and 2001, respectively, and $631 and $1,008 during the three months ended June 30, 2002 and 2001, respectively (see Note 11). The remaining $12,149 is included within the total purchase price. As of June 30, 2002, a number of these options have been forfeited or expired unexercised. Most of these remaining outstanding options have an exercise price, which exceeded the Company's share price on June 30, 2002.

In the fourth quarter of 2001, concurrent with its annual financial review process, the Company determined that the estimated future undiscounted cash flows of About were not sufficient to recover the carrying value of the goodwill. Accordingly, the Company recorded an impairment charge of $326,297 to write down About's goodwill to the estimated fair value. About is part of the consumer segment.



In connection with the acquisition, the Company entered into various agreements with two key executives of About as discussed in Note 11.

EMAP

On August 24, 2001, the Company acquired, by merger, 100% of the outstanding common stock of the publishing business of EMAP. The acquisition of EMAP is expected to strengthen the Company's unique mix of category specific endemic advertising as well as circulation revenue. This acquisition solidifies PRIMEDIA as the leader in the specialty magazine industry in terms of revenue and single copy sales. The total consideration was $525,000, comprised of $515,000 in cash, including an estimate of working capital settlements of $10,000 (which is subject to final settlement), and warrants to acquire 2,000,000 shares of the Company's common stock at $9 per share. The fair value of the warrants was approximately $10,000 and was determined using a Black Scholes pricing model. These warrants expire ten years from the date of issuance.

The Company financed the acquisition of EMAP by (1) issuing 1,000,000 shares of Series J Convertible Preferred Stock to KKR 1996 Fund (a partnership associated with Kohlberg Kravis Roberts & Co. L.P., ("KKR") a related party of the Company) for $125,000 and (2) drawing upon its revolving credit facility in an amount of approximately $265,000. In addition, KKR 1996 Fund purchased from the Company $125,000 of common stock and Series K Convertible Preferred Stock, both at a price per share equal to $4.70. This resulted in an additional 10,800,000 shares of common stock and 15,795,745 shares of Series K Convertible Preferred Stock. On September 27, 2001, all of the issued and outstanding shares of the Series K Convertible Preferred Stock were, in accordance with their terms, converted into

15,795,745 shares of the Company's common stock.

The Series J Convertible Preferred Stock is convertible at the option of the holder after one year from the date of issuance, into approximately 17,900,000 shares of the Company's common stock at a conversion price of $7 per share, subject to adjustment. Dividends on the Series J Convertible Preferred Stock accrue at an annual rate of 12.5% and are payable quarterly in-kind. The Company paid dividends-in-kind (65,460 shares of Series J Convertible Preferred Stock) valued at $8,182 during the six months ended June 30, 2002 and (33,234 shares of Series J Convertible Preferred Stock) valued at $4,154 during the three months ended June 30, 2002. The Company has the option to redeem any or all of the shares of the Series J Convertible Preferred Stock at any time for cash at 100% of the liquidation preference of each share being redeemed. On any dividend payment date, the Company has the option to exchange the Series J Convertible Preferred Stock into 12.5% Class J Subordinated Notes. The Company's ability to redeem or exchange the Series J Convertible Preferred Stock into debt is subject to the approval of a majority of the independent directors.

In connection with the equity financing by KKR 1996 Fund, the Company paid KKR 1996 Fund a commitment fee consisting of warrants to purchase 1,250,000 shares of common stock ("commitment warrants") of the Company at an exercise price of $7 per share, subject to adjustment, and a funding fee consisting of warrants to purchase an additional 2,620,000 shares of the Company's common stock ("funding warrants") at an exercise price of $7 per share, subject to adjustment. These warrants may be exercised after the first anniversary of the grant date and expire on August 24, 2011 or upon a change in control, as defined. In addition, the Company may be required to issue to KKR 1996 Fund additional warrants to purchase up to 4,000,000 shares of the Company's common stock at an exercise price of $7 per share, subject to adjustment. The issuance of the additional 4,000,000 warrants is contingent upon the length of time that the Series J Convertible Preferred Stock is outstanding. If the Series J Convertible Preferred Stock is outstanding for three, six, nine or twelve months from the date of issuance, KKR 1996 Fund will receive the additional warrants to purchase 250,000, 1 million, 1.25 million and 1.5 million shares of common stock, respectively. Accordingly, during November 2001, February 2002 and May 2002, the Company issued to KKR 1996 Fund additional warrants to purchase 250,000, 1,000,000 and 1,250,000 shares, respectively, of the Company's common stock. The Company ascribed a value of $498, $2,160 and $1,988 respectively, to these warrants using the Black Scholes pricing model. These warrants expire ten years from the date of issuance or upon a change in control. The condensed consolidated financial statements do not reflect the issuance of the additional 1,500,000 contingent warrants. Upon issuance, the Company would value these contingent warrants using the

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Black Scholes pricing model and would deduct the ascribed value as a component of the loss applicable to common shareholders.

The 1,250,000 commitment warrants issued to KKR 1996 Fund represent a commitment fee related to the financing transaction as a whole. The Company valued these warrants at $5,622 using the Black Scholes pricing model and recorded them as a component of additional paid-in capital.

The Company attributed the 2,620,000 funding warrants to the issuance of the Series J Convertible Preferred Stock. The Company valued these warrants at $9,679 using the Black Scholes pricing model and has accordingly reduced the face value of the Series J Convertible Preferred Stock. The Company is accreting the difference between the carrying value and the redemption value of the Series

J Convertible Preferred Stock to additional paid in capital using the effective interest method over a one year period as the earliest date at which the preferred stock is convertible is one year from the date of issuance. The accretion is deducted in the calculation of loss applicable to common shareholders.

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

| | |
|---|---|
| Purchase consideration (including working capital and other settlements) | $ 525,000 |
| Direct Acquisition Costs | 6,565 |
| Total purchase price | 531,565 |
| Add: Fair value of net tangible liabilities of EMAP | 37,650 |
| Less: Fair value of identifiable intangible assets | 121,300 |
| Goodwill | $ 447,915 |

The Company's condensed consolidated results of operations includes results of operations of About and EMAP from their respective dates of acquisition. The results of About and EMAP are included in the Company's consumer segment. The unaudited pro forma information below presents the consolidated results of operations as if the About and EMAP acquisitions had occurred as of January 1, 2001. In accordance with SFAS No. 142, these pro forma adjustments assume that none of the goodwill associated with the EMAP acquisition is amortized. If the Company had recorded amortization of the goodwill and indefinite lived intangible assets in connection with the EMAP acquisition in accordance with the Company's historical amortization policies, assuming the acquisition occurred on January 1, 2001, amortization expense would have increased by approximately $6,800 and $3,400 during the six months and three months ended June 30, 2001, respectively. The unaudited pro forma information has been included for comparative purposes and is not indicative of the results of operations of the consolidated Company had the transactions occurred as of January 1, 2001, nor is it necessarily indicative of future results.

| | Six Months Ended June 30, 2001 | Th End |
|---|---|---|
| Sales, net | $ 976,025 | $ |

| | | |
|---|---|---|
| Loss applicable to common shareholders | $ (398,764) | $ |
| Basic and diluted loss applicable to common shareholders per common share | $ (1.76) | $ |
| Weighted average shares used in basic and diluted loss applicable to common shareholders per common share | 226,676,632 | |

Payments for businesses acquired on the accompanying condensed statement of consolidated cash flows for the six months ended June 30, 2002, primarily represents payment for certain deferred purchase price liabilities associated with prior year acquisitions.

OTHER INVESTMENTS

Other investments consist of the following:

| | June 30, 2002 | Dec |
|---|---|---|
| Cost method investments | $ 34,439 | $ |
| Equity method investments | 3,699 | |
| | $ 38,138 | $ |

The Company's cost method investments consist primarily of the PRIMEDIA Ventures' investments and the assets-for-equity investments, detailed below. PRIMEDIA's equity method investments represent PRIMEDIA's investment in certain companies where PRIMEDIA has the ability to exercise significant influence over their operations (including their financial, accounting and policies).

PRIMEDIA VENTURES' INVESTMENTS

In 1998, the Company created PRIMEDIA Ventures, Inc. ("PRIMEDIA Ventures") to invest in early-stage Internet companies and other technology opportunities such as e-commerce services, enterprise software applications and advertising-related technologies.

The Company recorded provisions for impairment of various PRIMEDIA Ventures' investments of $2,650 and $1,900 as a component of provision for the impairment of investments on the accompanying condensed statements of consolidated operations for the six and three months ended June 30, 2002, respectively. In addition, the Company recorded provisions for impairment of various PRIMEDIA Ventures' investments of $3,500 as a component of provision for the impairment of investments on the accompanying condensed statements of consolidated operations for the six and three months ended June 30, 2001.

The Company sold PRIMEDIA Ventures investments and received proceeds of $323 and $0 during the six and three months ended June 30, 2002, respectively, and realized gains on the sales of $28 and $0 for the six and three months ended June 30, 2002, respectively.

The Company recorded unrealized gains of $1,202 and $1,704 for the six and three months ended June 30, 2001, respectively, related to investments in marketable securities. The unrealized gains are recorded as a component of other comprehensive income (loss) ("OCI") within shareholders' deficiency (See Note

13).



INVESTMENT IN CMGI, INC.

In May 2000, the Company acquired 1,530,000 shares of common stock of CMGI, Inc. in exchange for 8,000,000 shares of the Company's common stock (par value $.01) subject to a one year lockup. The transaction was valued at $164,000, which represents the fair value of the Company's common stock exchanged on the exchange date. 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. In October 2001, the Company sold its investment in CMGI for total proceeds and gain on sale of $2,149 and $619, respectively.

INVESTMENT IN LIBERTY DIGITAL, INC.

In April 2000, the Company completed its purchase of 625,000 shares of Liberty Digital Series A common stock at forty dollars per share for an aggregate purchase price of $25,000. For the six months ended June 30, 2001, the Company recorded an unrealized gain of $642 related to its investment in Liberty Digital. The unrealized gain was based on the then market value of Liberty Digital Inc. common stock. The unrealized gain is recorded as a component of OCI within shareholders' deficiency (See Note 13). During the fourth quarter of 2001, the Company sold its investment in Liberty Digital for total proceeds and loss on sale of $1,838 and $668, respectively.

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 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 $28,716 ($25,383 representing cost method investments and $3,333 representing equity method investments) and $32,753 ($27,313 representing cost method investments and $5,440 representing equity method investments) at June 30, 2002 and December 31, 2001, respectively. At June 30, 2002 and December 31, 2001, respectively, $10,428 and $12,696 relating to these agreements is included as deferred revenues on the accompanying condensed consolidated balance sheets. This deferred revenue 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. The Company recorded revenue from these agreements of $4,531 and $46,862 for the six months ended June 30, 2002 and 2001, respectively, and $1,695 and $17,954 for the three months ended June 30, 2002 and 2001, respectively.

These transactions are recorded at the fair value of the equity securities received, which are typically based on cash consideration for like securities. 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 APB No. 18, "the Equity Method of Accounting for Investments in Common Stock." If an investment is deemed to be permanently impaired, its carrying value will be reduced to fair market value. The Company recorded a provision for impairment of its investments in certain Investees of $4,907 and $2,198 for the six and three months ended June 30, 2002, respectively, as the decline in value of the investments was deemed to be other than temporary. 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.

The Company recorded $2,672 and $27,777 of equity method losses from Investees during the six months ended June 30, 2002 and 2001, respectively, and $461 and $9,681 during the three months ended June 30, 2002 and 2001, respectively. These equity method losses from Investees are included in other, net on the accompanying condensed statements of consolidated operations. The Company recognized $665 and $6,094 of revenue related to the equity method Investees during the six months ended June 30, 2002 and 2001, respectively, and $228 and $3,194 during the three months ended June 30, 2002 and 2001, respectively.

INVESTMENTS IN ABOUT

During 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, as well as the right to use a mailing list owned by the Company, in exchange for an aggregate of 2,873,595 shares of common stock of About. The Company and About have also entered into certain agreements pursuant to which the Company has agreed to purchase advertising and promotional services 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, the activity of which, subsequent to the merger completion date, has been and will continue to be eliminated in consolidation. In accordance with the terms of these agreements, the Company recorded revenue of approximately $21,000, and expenses of approximately $3,500 during the three months ended March 31, 2001.

3. DIVESTITURES

On February 28, 2002, the Company completed the sale of the Modern Bride Group, part of the Consumer Segment, to Advance Magazine Publishers Inc. for total consideration, including a service agreement, of approximately $52,000. Proceeds from the sale were used to pay down the Company's outstanding debt. The related gain on the sale of the Modern Bride Group approximates $6,500 and is included as a component of discontinued operations on the accompanying condensed statement of consolidated operations for the six months ended June 30, 2002.

On June 28, 2002, the Company completed the sale of ExitInfo, part of the Consumer Segment, to Trader Publishing Company for $24,000 (of which, $1,500 is in escrow). Proceeds from the sale were used to pay down the Company's outstanding debt. The related gain on the sale of ExitInfo approximates $4,100 and is included as a component of discontinued operations on the accompanying condensed statement of consolidated operations for the six and three months ended June 30, 2002.

In addition, during the three months ended June 30, 2002, the Company completed several other smaller divestitures. In accordance with SFAS 144, the operating results of the Modern Bride Group and ExitInfo, have been reclassified to discontinued operations on the accompanying condensed statements of consolidated operations for the six and three months ended June 30, 2002 and 2001. No tax provision was associated with the discontinued operations.

4. ACCOUNTS RECEIVABLE, NET



Accounts receivable consist of the following:

| | June 30, 2002 | December 2001 |
|---|---|---|
| Accounts Receivable | $ 262,582 | $ 30 |
| Less: Allowance for doubtful accounts | 20,072 | 1 |
| Allowance for returns and rebates | 9,606 | |
| | $ 232,904 | $ 27 |

5. INVENTORIES, NET

Inventories consist of the following:

| | June 30, 2002 | December 2001 |
|---|---|---|
| Finished goods | $ 7,728 | $ |
| Work in process | 1,013 | |
| Raw materials | 21,569 | 2 |
| | 30,310 | 3 |
| Less: Allowance for obsolescence | 2,130 | |
| | $ 28,180 | $ 3 |

6. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

| | June 30, 2002 | December 2001 |
|---|---|---|
| Deferred financing costs, net | $ 20,652 | $ 2 |
| Deferred wiring and installation costs, net | 16,495 | 2 |
| Direct-response advertising costs, net | 15,397 | 1 |
| Prepublication and programming costs, net | 13,039 | 1 |
| Other | 5,678 | |
| | $ 71,261 | $ 7 |

The deferred financing costs are net of accumulated amortization of $10,377 and $8,911 at June 30, 2002 and December 31, 2001, respectively. The deferred wiring and installation costs are net of accumulated amortization of $60,663 and $56,449 at June 30, 2002 and December 31, 2001, respectively. Direct-response advertising costs are net of accumulated amortization of $115,897 and $116,700 at June 30, 2002 and December 31, 2001, respectively. Prepublication and programming costs are net of accumulated amortization of $38,689 and $35,196 at June 30, 2002 and December 31, 2001, respectively.

7. GOODWILL AND OTHER INTANGIBLE ASSETS



On January 1, 2002, the Company adopted SFAS 142 which requires an evaluation of goodwill for impairment (at the reporting unit level) within six months of adoption of this Standard, as well as subsequent evaluations on an annual basis, and more frequently if circumstances indicate a possible impairment. As required by SFAS 142, the Company reviewed its indefinite lived intangible assets (primarily trademarks) for impairment as of January 1, 2002 and determined that certain indefinite lived intangible assets were impaired. As a result, the Company recorded a cumulative effect of a change in accounting principle of $21,535 ($0.09 per share) during the first quarter of 2002.

As SFAS 142 provides a six-month transitional period from the effective date to perform an assessment of whether there is an indication that goodwill is impaired, the Company completed this assessment in the second quarter. Step one of the transitional impairment test uses a fair value methodology, which differs from the undiscounted cash flow methodology that continues to be used for intangible assets with an identifiable life. The Company identified eight reporting units and during the second quarter, performed step one of the transitional impairment test on each of the reporting units. Based on the results of step one of the transitional impairment test, the Company has identified two reporting units in the Consumer segment and one reporting unit in the Business-to-Business segment, for which the carrying values exceeded the fair values at January 1, 2002, indicating a potential impairment of goodwill in those reporting units. Step two of the transitional impairment test, to determine the magnitude of any goodwill impairment, will be completed during the third quarter of 2002 and any resulting impairment loss will be recorded as a cumulative effect of a change in accounting principle and in accordance with the transitional implementation guidance of SFAS 142, will be recorded retroactive to the Company's first quarter results of operations. Because the determination of whether there is an impairment of the Company's goodwill will be completed during the third quarter of 2002 and will involve many aspects of analyses which have not yet been undertaken, the amount of any write down cannot be reliably

predicted at this time. The reporting units identified with potential impairments have total goodwill of $227,000 and $333,000, in the Consumer segment and Business-to-Business segment, respectively. The Company anticipates that the ultimate goodwill impairment will be less than these amounts.

The Company also recorded a non-cash deferred income tax expense of approximately $52,000 on January 1, 2002 and $12,500 and $6,500 during the six and three months ended June 30, 2002, respectively, each of which would not have been required prior to the adoption of SFAS 142. The non-cash charge of $52,000 on January 1, 2002 was recorded to increase the valuation allowance related to the Company's net operating losses. It is anticipated that the Company will record a non-cash deferred income tax credit in the third quarter when the amount of goodwill impairment is quantified. Historically, the Company did not need a valuation allowance for the portion of the net operating losses equal to the amount of tax-deductible goodwill and trademark amortization expected to occur during the carryforward period of the net operating losses based on the timing of the reversal of these taxable temporary differences. As a result of the adoption of SFAS 142, amortization will not occur during the carryforward period of the net operating losses.

In addition, since amortization of tax-deductible goodwill and trademarks ceased on January 1, 2002, the Company will have deferred tax liabilities that will arise each quarter because the taxable temporary differences related to the amortization of these assets will not reverse prior to the expiration period of the Company's deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. Accordingly, the Company also recorded an additional valuation allowance of $12,500 and $6,500 for the six and three months ended June 30, 2002, respectively. The Company expects that it will record an additional $12,500 to increase the valuation allowance during the remaining six months of 2002, before considering the impact of any goodwill impairment.

A reconciliation of the reported net loss and loss per common share to the amounts adjusted for the exclusion of amortization of goodwill and indefinite lived intangible assets, the cumulative effect of a change in accounting principle and the deferred provision for income taxes follows:

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| | Six Months Ended June 30, | |
|---|---|---|
| | 2002 | 2001 |
| Reported loss applicable to common shareholders | $ (189,881) | $ (25 |
| Amortization of goodwill and indefinite lived intangible assets | - | 7 |
| Cumulative effect of a change in accounting principle | 21,535 | |
| Deferred provision for income taxes | 64,500 | |
| Adjusted loss applicable to common shareholders | $ (103,846) | $ (17 |
| Per common share: | | |
| Reported loss applicable to common shareholders | $ (0.76) | $ |
| Amortization of goodwill and indefinite lived intangible assets | - | |

| | | |
|---|---|---|
| Cumulative effect of a change in accounting principle | 0.09 | |
| Deferred provision for income taxes | 0.25 | |
| Adjusted loss applicable to common shareholders | $ (0.42) | $ |

| | Three Months Ended June 30, 2002 | 2001 |
|---|---|---|
| Reported loss applicable to common shareholders | $ (30,918) | $ (15 |
| Amortization of goodwill and indefinite lived intangible assets | - | 5 |
| Cumulative effect of a change in accounting principle | - | |
| Deferred provision for income taxes | 6,500 | |
| Adjusted loss applicable to common shareholders | $ (24,418) | $ (10 |
| Per common share: | | |
| Reported loss applicable to common shareholders | $ (0.12) | $ |
| Amortization of goodwill and indefinite lived intangible assets | - | |
| Deferred provision for income taxes | 0.02 | |
| Adjusted loss applicable to common shareholders | $ (0.10) | $ |

Intangible assets still subject to amortization after the adoption of SFAS No. 142 consist of the following:

| | | June 30, 2002 | | | |
|---|---|---|---|---|---|
| | Range of Lives | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount |
| Trademarks | 3 | $ 21,013 | $ 9,339 | $ 11,674 | $ 21,013 |
| Membership, subscriber and customer lists | 2-20 | 446,499 | 350,079 | 96,420 | 499,530 |
| Non-compete agreements | 1-10 | 208,458 | 183,683 | 24,775 | 213,585 |

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| | | | | | |
|---|---|---|---|---|---|
| Trademark license agreements | 2-15 | 2,967 | 2,866 | 101 | 2,967 |
| Copyrights | 3-20 | 20,251 | 17,274 | 2,977 | 20,251 |
| Databases | 2-12 | 13,562 | 10,982 | 2,580 | 13,662 |
| Advertiser lists | .5-20 | 174,427 | 150,543 | 23,884 | 202,083 |
| Distribution agreements | 1-7 | 11,745 | 11,699 | 46 | 11,745 |
| Other | 1-5 | 10,784 | 10,755 | 29 | 10,880 |
| | | $ 909,706 | $ 747,220 | $ 162,486 | $ 995,716 |

Amortization expense for other intangible assets still subject to amortization (excluding provision for impairment) was $31,328 for the six months ended June 30, 2002 and $14,975 for the three months ended June 30, 2002. At June 30, 2002, estimated future amortization expense of other intangible assets still subject to amortization is as follows: approximately $30,000 for the remaining six months of 2002 and approximately $42,000, $26,000, $18,000, $13,000 and $10,000 for 2003, 2004, 2005, 2006 and 2007, respectively. Amortization expense, including amortization of goodwill and trademarks, for the six and three months ended June 30, 2001 was $109,488 and $71,423, respectively, of which $34,427 and $20,565 represents amortization of other intangible assets still subject to amortization for the six and three months ended June 30, 2001, respectively. Intangible assets not subject to amortization had a total carrying value of $325,390 and $342,425 at June 30, 2002 and December 31, 2001, respectively, and consisted of trademarks.

## 8. LONG-TERM DEBT

Long-term debt consists of the following:

| | June 30, 2002 |
|---|---|
| Borrowings under credit facilities | $ 742,875 |
| 10 1/4% Senior Notes due 2004 | 100,000 |
| 8 1/2% Senior Notes due 2006 | 299,455 |
| 7 5/8% Senior Notes due 2008 | 249,115 |
| 8 7/8% Senior Notes due 2011 | 493,221 |
| | 1,884,666 |
| Obligation under capital leases | 26,463 |
| | 1,911,129 |

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| | |
|---|---|
| Less: Current maturities of long-term debt | 9,830 |

| | |
|---|---|
| | $ 1,901,299 |

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 the Company's other equally and ratably secured indebtedness) is secured by a pledge of the stock of PRIMEDIA Companies Inc., an intermediate holding company, owned directly by the Company, which owns directly or indirectly all shares of PRIMEDIA subsidiaries that guarantee such debt.

Substantially all proceeds from sales of businesses and other investments were used to pay down borrowings under the credit agreement. 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:

- a $475,000 revolving loan facility, of which $220,000 was outstanding at June 30, 2002.
- a term loan A, of which $100,000 was outstanding at June 30, 2002; and
- a term loan B, of which $422,875 was outstanding at June 30, 2002.

With the exception of the term loan B, the amounts borrowed bear interest, at the Company's option, at either the base rate plus an applicable margin ranging from 0.125% to 1.5% or the Eurodollar Rate plus an applicable margin ranging from 1.125% to 2.5%. The term loan B bears interest at the base rate plus 1.75% or the Eurodollar rate plus 2.75%. At June 30, 2002, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 4.5%.

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. During the first six months of 2002, the Company's commitment fees were paid at a weighted average rate of 0.5%. The Company also has agreed to pay certain fees with respect to the issuance of letters of credit and an annual administration fee.

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 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 $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 the Company's common stock in excess of $75,000 in any given year.

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

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

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

The Company does not anticipate the occurrence of any of these default events. Upon the occurrence of such an event, the Company has the ability to cure or renegotiate with its lenders.

Under the most restrictive debt covenants as defined in the Company's credit agreement, the Company must maintain a minimum interest coverage ratio, as defined, of 1.80 to 1 and a minimum fixed charge coverage ratio, as defined, of 1.05 to 1. The Company's maximum allowable debt leverage ratio, as defined, is 6.0 to 1. The maximum leverage ratio decreases to 5.75 to 1, 5.5 to 1, 5.0 to 1 and 4.5 to 1, respectively, on July 1, 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. The Company is in compliance with the financial and operating covenants of its financing arrangements.

As of June 30, 2002, the Company had $742,875 borrowings outstanding, approximately $19,200 letters of credit outstanding and unused bank commitments of approximately $235,800 under the bank credit facilities.

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 approximating $7,250.

10 1/4% SENIOR NOTES. Interest is payable semi-annually in June and December at an annual rate of 10 1/4%. The 10 1/4% Senior Notes mature on June 1, 2004, with no sinking fund requirements. The 10 1/4% Senior Notes are redeemable at 100% in 2002 plus accrued and unpaid interest.

8 1/2% SENIOR NOTES. Interest is payable semi-annually in February and August at an annual rate of 8 1/2%. The 8 1/2% Senior Notes mature on February 1, 2006, with no sinking fund requirements. The 8 1/2% Senior Notes are redeemable in whole or in part, at the option of the Company, at 100% in 2003 plus accrued and unpaid interest.

7 5/8% SENIOR NOTES. Interest is payable semi-annually in April and October at the annual rate of 7 5/8%. The 7 5/8% Senior Notes mature on April 1, 2008, with no sinking fund requirements. The 7 5/8% Senior Notes may not be redeemed prior to April 1, 2003 other than in connection with a change of control. Beginning on

April 1, 2003 and thereafter, the 7 5/8% Senior Notes are redeemable in whole or in part, at the option of the Company, at prices ranging from 103.813% in 2003 with annual reductions to 100% in 2006 and thereafter, plus accrued and unpaid interest.

8 7/8% SENIOR NOTES. In 2001, the Company completed an offering of $500,000 of 8 7/8% Senior Notes. Net proceeds from this offering of $492,685 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%. 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.

The 10 1/4% Senior Notes, 8 1/2% Senior Notes, 7 5/8% Senior Notes, and the 8 7/8% Senior Notes (together referred to as the "Senior Notes"), and the credit facility, all rank senior in right of payment to all subordinated indebtedness of PRIMEDIA Inc. (a holding company). The Senior Notes are secured by a pledge of stock of PRIMEDIA Companies Inc.

The Company is in compliance with the financial and operating covenants of its financing arrangements. The Company discloses the details of the compliance calculation to its banks and other lending institutions in a timely manner. In addition, as of and for the six months ended June 30, 2002, the Company has made additional information available as to the composition of its intercompany transactions (including licensing and cross promotion) and Assets-for-Equity transactions.

The Company is herewith providing more detailed information and disclosure than it has in the past as to the methodology used in determining compliance with the leverage test in the credit agreements. The only purpose for providing this additional information is to provide more clarity to the substantial amount of disclosure previously provided. Under its various credit and senior note agreements, the Company is allowed to designate certain businesses as unrestricted subsidiaries to the extent that the value of those businesses does not exceed the permitted amounts, as defined in these agreements. The Company has designated certain of its businesses as unrestricted (the "Unrestricted Group"), which primarily represent Internet businesses, trademark and content licensing and service companies, new launches (including traditional start-ups), other properties under evaluation for turnaround or shutdown and foreign subsidiaries. Indebtedness under the bank credit facilities and senior note agreements is guaranteed by each of the Company's domestic restricted subsidiaries in accordance with the provisions and limitations of the Company's credit and senior note agreements. The guarantees are full, unconditional and joint and several. The Unrestricted Group does not guarantee the bank credit facilities or senior notes, and its results (positive or negative) are not reflected in the EBITDA of the Restricted Group, as defined in the Company's credit and senior note agreements for purposes of determining compliance with certain financial covenants under these agreements. The Company has established intercompany agreements that implement transactions, such as leasing, licensing, sales and related services and cross-promotion, between restricted and unrestricted subsidiaries, on an arms' length basis and as permitted by the credit and senior note agreements. These intercompany arrangements afford strategic benefits across the Company's properties and, in particular, enable

the Unrestricted Group to utilize established brands and content and promote brand awareness and increase traffic and revenue to the Company's new media properties. For company-wide consolidated financial reporting, these intercompany transactions are eliminated in consolidation. Additionally, the EBITDA of the Restricted Group, as determined in accordance with these agreements, omits restructuring charges and is adjusted for trailing four quarters of acquisitions and divestitures and estimated savings for acquired businesses.

The scheduled repayments of all debt outstanding, including capital leases, as of June 30, 2002, are as follows:

| Twelve Months Ended June 30, | Debt | Capital Lease Obligations | Tota |
|---|---|---|---|
| 2003 | $ 6,375 | $ 3,455 | $ |
| 2004 | 104,250 | 3,848 | |
| 2005 | 29,250 | 2,183 | |
| 2006 | 328,705 | 1,503 | |
| 2007 | 29,250 | 1,614 | |
| Thereafter | 1,386,836 | 13,860 | 1, |
| | $ 1,884,666 | $ 26,463 | $ 1, |

9. EXCHANGEABLE PREFERRED STOCK

Exchangeable Preferred Stock consists of the following:

| | June 30, 2002 | December 2001 |
|---|---|---|
| $10.00 Series D Exchangeable Preferred Stock | $ 178,242 | $ 1 |
| $9.20 Series F Exchangeable Preferred Stock | 99,888 | 1 |
| $8.625 Series H Exchangeable Preferred Stock | 215,709 | 2 |
| | $ 493,839 | $ 5 |

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$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, of which 1,809,867 shares and 2,000,000 shares were issued and outstanding at June 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was $180,987 at June 30, 2002 and $200,000 December 31, 2001.

$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, of which 1,023,328 shares and 1,250,000 shares were issued and outstanding at June 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was $102,333 at June 30, 2002 and $125,000 December 31, 2001.

$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, of which 2,202,391 shares and 2,500,000 shares were issued and outstanding at June 30, 2002 and December 31, 2001, respectively. The liquidation and redemption value was $220,239 at June 30, 2002 and $250,000 at December 31, 2001.

During the first quarter of 2002, the Board of Directors authorized the exchange by the Company of up to approximately $100,000 of exchangeable preferred stock. During May 2002, the Board of Directors increased the authorization to an aggregate of approximately $165,000 of exchangeable preferred stock. During the six months ended June 30, 2002, the Company exchanged $19,013 of Series D Exchangeable Preferred Stock for 3,696,979 shares of common stock, $22,667 of Series F Exchangeable Preferred Stock for 4,385,222 shares of common stock and $29,761 of Series H Exchangeable Preferred Stock for 5,808,050 shares of common stock. The cumulative gain on the exchanges of approximately $28,301 for the six months ended June 30, 2002, is included as a component of additional paid-in capital on the accompanying condensed consolidated balance sheet at June 30, 2002. The gains of $28,301 and $25,323 for the six and three months ended June 30, 2002, respectively, are included in the calculation of basic and diluted loss applicable to common shareholders per common share on the condensed statements of consolidated operations for their respective periods.

10. COMMON STOCK

During the second quarter of 2002, the Board of Directors approved and the shareholders ratified an amendment to the Company's Certificate of Incorporation, which increased the number of authorized shares of the Company's common stock from 300,000,000 to 350,000,000.

In April 2002, the Company granted certain executives an aggregate total of 6,630,000 options to purchase shares of the Company's common stock. The exercise prices of these options range from $4.00 per share to $6.00 per share. The options granted at $4.00 per share vest over a four-year period following the date of the grant. The remaining options vest in 2010 unless the Company achieves certain earnings targets. Upon the achievement of these targets, the vesting of the respective options is accelerated upon the financial statements for the relevant period being finalized.

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11. NON-CASH COMPENSATION AND NON-RECURRING CHARGES

In connection with the About merger, certain senior executives were granted 2,955,450 shares of restricted PRIMEDIA common stock. These shares of restricted PRIMEDIA common stock, which were valued at $9.50 per share, the closing stock price on February 28, 2001, vest at a rate of 25% per year and are subject to the executives' continued employment. Related non-cash compensation of $1,252 and $4,875 was recorded for the six months ended June 30, 2002 and 2001, respectively, and $479 and $3,656 was recorded for the three months ended June 30, 2002 and 2001, respectively. This non-cash compensation reflects pro rata vesting on a graded basis.

In addition, these senior executives were granted options to purchase 3,482,300 shares of PRIMEDIA common stock at an exercise price of $2.85 per share, equal to thirty percent of the fair market value per share on that date. These options vest at a rate of 25% per year and are subject to the executives' continued employment. Related non-cash compensation of $1,033 and $4,020 was recorded for the six months ended June 30, 2002 and 2001, respectively, and $395 and $3,015 was recorded for the three months ended June 30, 2002 and 2001, respectively. This non-cash compensation reflects pro rata vesting on a graded basis. Amounts reflect a 70% market value discount ($6.65 per share) based on a PRIMEDIA per share market value of $9.50 which was the closing price on February 28, 2001.

Two senior executives of About also entered into share lockup agreements with the Company, pursuant to which they agreed to specific restrictions regarding the transferability of their shares of PRIMEDIA common stock issued in the merger. Under the terms of those agreements, during the first year after the closing of the merger, the executives could sell a portion of their shares of the Company's common stock, subject to the Company's right of first refusal with respect to any sale. In the event that the gross proceeds received on sale were less than $33,125 (assuming all shares are sold), the Company agreed to pay the executives the amount of such shortfall ("the Shortfall Payment").

During the third quarter of 2001, one of the executives, who subsequently left the Company, advised the Company that he was selling 1,429,344 shares of the Company's common stock in the market. Concurrently therewith, the executive assigned to a financial institution the right to receive his Shortfall Payment on that number of shares. The financial institution advised the Company that it purchased 1,429,344 shares of the Company's common stock in the market. The financial institution agreed to waive its right to the Shortfall Payment in exchange for the Company's agreement to make the financial institution whole if it sells such shares, which it purchased in the market, for proceeds of less than approximately $23,406. As of March 8, 2002, the financial institution had sold all of the shares in the open market for proceeds of approximately $3,300. In April 2002, the Company paid approximately $20,300 to the financial institution. A liability of approximately $18,400 representing the Shortfall Payments due under both agreements, based on the fair value of the Company's stock was included as a component of accrued expenses and other on the accompanying condensed consolidated balance sheet at December 31, 2001.

As a result of this executive leaving the Company, effective December 2001, half of his restricted shares (1,105,550 shares) and options (1,302,650 options) were accelerated and the remainder was forfeited, resulting in a reversal of unearned compensation of $19,166 during 2001. The accelerated options expired unexercised during the first quarter of 2002.

During the six and three-months ended June 30, 2002, the Company recorded $7,746 and $2,061 of non-cash compensation and non-recurring charges, respectively. These non-cash compensation charges consisted of a $2,285 and $874 charge, respectively, related to the restricted stock and option grants to two key executives of About discussed above, a $1,513 and $631 charge, respectively, related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger and a $657 and $328 charge, respectively, related to the issuance of stock in connection with an acquisition, respectively. These non-recurring charges consisted of a $3,256 and $219 charge, respectively, related to the share lockup arrangements with certain executives of About discussed above and a $35 and $9 charge, respectively, related to certain non-recurring compensation arrangements with certain senior executives.

During the six and three months ended June 30, 2001, the Company recorded $12,727 and $10,168, respectively, of

non-cash compensation and non-recurring charges. These non-cash compensation charges consisted of a $8,895 and $6,671 charge, respectively, related to the restricted stock and option grants to two key executives of About discussed above, a $1,344 and $1,008 charge, respectively, related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger and a $803 charge for both the six and three month periods ended June 30, 2001, related to the vesting of stock in connection with an acquisition. These non-recurring charges consisted of a $1,686 charge for the six and three months ended June 30, 2001, related to certain non-recurring compensation arrangements with certain senior executives.

Non-cash compensation and non-recurring charges are omitted from the Company's calculation of EBITDA, as defined (See Note 8).

12. PROVISION FOR SEVERANCE, CLOSURES AND RESTRUCTURING RELATED COSTS

During 2001 and 2000, the Company implemented plans to integrate the operations of the Company and consolidate many back office functions. The Company expects that these plans will continue to result in future savings. All restructuring related charges were expensed as incurred.

During 2002, the Company announced additional cost initiatives that would continue to implement and expand upon the cost initiatives enacted during 2001 and 2000.

Details of the initiatives implemented and the payments made in furtherance of these plans in the six month periods ended June 30, 2002 and 2001 are presented in the following tables:

| | LIABILITY AS OF DECEMBER 31, 2001 | NET PROVISION FOR THE SIX MONTHS ENDED JUNE 30, 2002 | PAYMENTS DURING THE SIX MONTHS ENDED JUNE 30, 2002 |
|---|---|---|---|
| Severance and closures: | | | |
| Employee-related termination costs.... | $ 9,043 | $ 4,040 | $ (7 |
| Termination of contracts............ | 2,318 | (137) | (1 |
| Termination of leases related to office closures...... | 13,037 | 20,785 | (3 |
| | 24,398 | 24,688 | (13 |
| Restructuring related: | | | |
| Relocation and other employee costs... | - | 405 | |
| | - | 405 | |
| Total severance, closures and restructuring | | | |

| | | | |
|---|---|---|---|
| related costs........ | $ 24,398 | $ 25,093 | $ (13 |



| | LIABILITY AS OF DECEMBER 31, 2000 | NET PROVISION FOR THE SIX MONTHS ENDED JUNE 30, 2001 | PAYMENTS DURING THE SIX MONTHS ENDED JUNE 30, 2001 |
|---|---|---|---|
| Severance and closures: | | | |
| Employee related termination costs..... | $ 7,063 | $ 4,661 | $ (5, |
| Termination of contracts............ | 1,519 | 1,517 | (1, |
| Termination of leases related to office closures............. | 1,634 | 1,391 | ( |
| Other................ | 213 | - | |
| | 10,429 | 7,569 | (7, |
| Restructuring related: | | | |
| Consulting services... | 498 | 2,635 | (2, |
| Relocation and other employee costs........ | 462 | 2,298 | (2, |
| | 960 | 4,933 | (5, |
| Total severance, closures and restructuring related costs................ | $ 11,389 | $ 12,502 | $ (13, |

The remaining costs, comprised primarily of real estate lease commitments for space that the Company no longer occupies, are expected to be paid through 2015. To reduce the lease related costs, the Company is aggressively pursuing subleases of its available office space.

As a result of the implementation of these plans, the Company has closed and consolidated in excess of twenty office locations and has notified a total of 1,590 individuals that they would be terminated under these plans, of which 270 and 70 individuals were notified during the six and three month periods ended June 30, 2002, respectively. As of June 30, 2002, 1,565 of those individuals have been terminated.

The Company expects to realize sufficient savings from its plans to integrate the operations of the Company and to recover the costs associated with these plans, within approximately a one-year period.

The liabilities representing the provision for severance, closures and restructuring related costs are included in accrued expenses and other on the condensed consolidated balance sheets as of their respective dates. Provision for severance, closures and restructuring related costs is omitted from the Company's Calculation of EBITDA, as defined (see Note 8).

13. COMPREHENSIVE LOSS

Comprehensive loss for the six and three-months ended June 30, 2002 and 2001 is presented in the following tables:

| | Six Months Ended | |
|---|---|---|
| | June 30, 2002 | Ju |
| Net loss | $ (173,929) | $ |
| Other comprehensive income (loss): | | |
| Unrealized gain on available-for-sale securities | - | |
| Change in fair value of derivative instruments | 1,897 | |
| Foreign currency translation adjustments | 126 | |
| Total comprehensive loss | $ (171,906) | $ |

| | Three Months Ende | |
|---|---|---|
| | June 30, 2002 | |
| Net loss | $ (34,396) | $ |
| Other comprehensive income (loss): | | |
| Unrealized gain on available-for-sale securities | - | |
| Change in fair value of derivative instruments | - | |
| Foreign currency translation adjustments | 161 | |
| Total comprehensive loss | $ (34,235) | $ |

14. LOSS PER COMMON SHARE

Loss per share for the six and three-month periods ended June 30, 2002 and 2001 has been determined based on net loss after preferred stock dividends, related accretion, gain on the exchange of exchangeable preferred stock for common shares and the issuance of contingent warrants during 2002 associated with the EMAP financing (see Note 2) 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 and warrants was not included in the computation of diluted loss per share because the effect of inclusion would be antidilutive.

15. CONTINGENCIES

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

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During 2002, PRIMEDIA contributed the Gravity Games, a product previously acquired from EMAP, to a limited liability company (the "LLC") formed jointly by PRIMEDIA and Octagon Marketing and Athlete Representation, Inc., with each party owning 50%. The LLC has entered into an agreement with NBC Sports, a division of National Broadcasting Company, Inc., which requires the LLC to pay specified fees to NBC for certain production services performed by NBC and network air time provided by NBC, during each of 2002 and 2003. Under the terms of this agreement and a related guarantee, PRIMEDIA could be responsible for the payment of a portion of such fees, in the event that the LLC failed to satisfy its payment obligations to NBC. The maximum amounts for which PRIMEDIA could be liable would be $2,125 in 2002 and $2,200 in 2003. As these liabilities will be contingent on the LLC's failure to pay and, in the case of the 2003 liability, the occurrence of certain other events and existence of certain other conditions, the Company has not recorded a liability on the accompanying condensed consolidated balance sheet as of June 30, 2002; however, the asset representing the Company's 50% investment in the LLC as well as the Company's share of the LLC's losses are reflected in the Company's condensed consolidated financial statements. The Company's investment in the LLC is reflected as a component of other non-current assets on the accompanying condensed consolidated balance sheet at June 30, 2002. The Company's share of the LLC's losses is reflected as a component of other, net on the accompanying condensed statements of consolidated operations for the six and three months ended June 30, 2002.

As of and for the six months ended June 30, 2002, no officers or directors of the Company have been granted loans by the Company, nor has the Company guaranteed any obligations of such persons.

16. 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, videos and Internet products for consumers in various niche markets. The Company's business-to-business segment produces and distributes magazines, books, directories, databases, vocational training materials and Internet products 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-makers to make decisions about resources to be allocated to the segment and assess its performance. Eliminations represent charges for intercompany content and brand licensing, advertising and other services, which are billed at what management believes are prevailing market rates. These charges, which represent transactions between operating units within the same business segment or transactions between operating units in different business segments, are eliminated in consolidation.

The Non-Core Businesses include: QWIZ, Inc. (divested in April 2001), Bacons (divested in November 2001) and certain titles of The Business Magazines & Media Group and The Consumer Magazines & Media Group which are discontinued or will be divested. In addition, during 2001, the Company has restructured or consolidated several new media properties, whose value can be realized with far greater efficiency by having select functions absorbed by the core operations and has included these properties in Non-Core Businesses. It is management's intention

that businesses designated as Non-Core Businesses will be classified as such for short periods of time, generally not to exceed one year. Subsequent to the first quarter of 2002, the Company has not classified any additional businesses as Non-Core Businesses. In addition, in the future, the Company will not classify any additional businesses as Non-Core Businesses. The Company has segregated the Non-Core Businesses from the aforementioned segments because the Company's chief operating decision-makers view these businesses separately when evaluating and making decisions regarding ongoing operations. The information presented below includes certain intercompany transactions and is therefore not necessarily indicative of the results had the operations existed as stand-alone businesses. These intercompany transactions are eliminated in consolidation. In the ordinary course of business, corporate administrative costs of approximately $1,900 and $5,100 were allocated to the Non-Core Businesses during the six months ended June 30, 2002 and 2001, respectively, and $800 and $2,400 were allocated to the Non-Core Businesses during the three months ended June 30, 2002 and 2001, respectively. The Company believes that these costs, many of which are transaction driven, such as the processing of payables and payroll, will be permanently reduced upon the shutdown or divestiture of the Non-Core Businesses.

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 restructuring related costs and (gain) loss on sales of businesses and other, net.

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The Company has reclassified certain product lines as Non-Core Businesses and in certain instances has restated prior periods accordingly. The Company believes that the amounts that have not been restated are not significant.

| | Six Months Ended June 30, 2002 | Six Months Ended June 30, 2001 | |
|---|---|---|---|
| SALES, NET: | | | |
| Consumer | $ 694,406 | $ 593,637 | $ |
| Business-to-Business | 187,467 | 229,074 | |
| Eliminations | (65,174) | (30,638) | |
| Other: | | | |
| Non-Core Businesses | 13,491 | 38,859 | |