

Edgar Filing: PRIMEDIA INC - Form 10-Q

PRIMEDIA INC
Form 10-Q
May 15, 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: March 31, 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 April 30, 2002: 244,526,084

The aggregate market value of the common equity of PRIMEDIA Inc. which is held by non-affiliates of PRIMEDIA Inc. at April 30, 2002 was approximately \$224 million.

PRIMEDIA Inc.

INDEX

PAGE

PART I. FINANCIAL INFORMATION

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | |
|-----------------------------|--|-------|
| ITEM 1. | Financial Statements | |
| | Condensed Consolidated Balance Sheets (Unaudited) as of March 31, 2002 and December 31, 2001 | 2 |
| | Condensed Statements of Consolidated Operations (Unaudited) for the three months ended March 31, 2002 and 2001 | 3 |
| | Condensed Statements of Consolidated Cash Flows (Unaudited) for the three months ended March 31, 2002 and 2001 | 4 |
| | Notes to Condensed Consolidated Financial Statements (Unaudited) | 5-32 |
| ITEM 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 33-48 |
| ITEM 3. | Quantitative and Qualitative Disclosures About Market Risk | 49 |
| PART II. OTHER INFORMATION: | | |
| ITEM 2. | Changes in Securities and Use of Proceeds | 50 |
| ITEM 5. | Other Information | 51 |
| ITEM 6. | Exhibits and Reports on Form 8-K | 53 |
| | Signatures | 54 |

2

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

| | | March 31, 2002 |
|------------------------------|----|----------------------------------|
| | | ----- |
| | | (dollars in thousands, except pe |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 34,927 |
| Accounts receivable, net | | 276,323 |
| Inventories, net | | 28,968 |
| Prepaid expenses and other | | 58,736 |
| | | ----- |
| Total current assets | | 398,954 |
| Property and equipment, net | | 158,905 |
| Other intangible assets, net | | 550,968 |
| Goodwill, net | | 1,400,812 |
| Other investments | | 42,377 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | |
|--|--------------|
| Other non-current assets | 75,724 |
| | ----- |
| | \$ 2,627,740 |
| | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | |
| Current liabilities: | |
| Accounts payable | \$ 108,980 |
| Accrued interest payable | 40,489 |
| Accrued expenses and other | 248,655 |
| Deferred revenues | 231,506 |
| Current maturities of long-term debt | 8,077 |
| | ----- |
| Total current liabilities | 637,707 |
| | ----- |
| Long-term debt | 1,923,987 |
| | ----- |
| Deferred revenues | 47,936 |
| | ----- |
| Deferred income taxes | 57,987 |
| | ----- |
| Other non-current liabilities | 25,489 |
| | ----- |
| Exchangeable preferred stock | 556,454 |
| | ----- |
| Shareholders' deficiency: | |
| Series J convertible preferred stock | 128,462 |
| Common stock (\$.01 par value, 252,319,259 shares and 250,894,668 shares issued at March 31, 2002 and December 31, 2001, respectively) | 2,523 |
| Additional paid-in capital (including warrants of \$27,959 and \$25,799 at March 31, 2002 and December 31, 2001, respectively) | 2,266,046 |
| Accumulated deficit | (2,931,186) |
| Accumulated other comprehensive loss | (260) |
| Unearned compensation | (9,562) |
| Common stock in treasury, at cost (7,793,175 shares at March 31, 2002 and December 31, 2001) | (77,843) |
| | ----- |
| Total shareholders' deficiency | (621,820) |
| | ----- |
| | \$ 2,627,740 |
| | ===== |

See notes to condensed consolidated financial statements (unaudited).

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | 2002 |
|---|---------------------------------|
| | ----- (dollars in thousands) |
| Sales, net | \$ 412,090 |
| Operating costs and expenses: | |
| Cost of goods sold | 99,212 |
| Marketing and selling | 95,665 |
| Distribution, circulation and fulfillment | 78,035 |
| Editorial | 39,933 |
| Other general expenses | 60,679 |
| Corporate administrative expenses (excluding \$5,685 and \$2,560 of non-cash compensation and non-recurring charges in 2002 and 2001, respectively) | 8,362 |
| Depreciation of property and equipment | 15,132 |
| Amortization of intangible assets, goodwill and other (including \$4,844 of provision for impairment in 2002) | 23,774 |
| Non-cash compensation and non-recurring charges | 5,685 |
| Provision for severance, closures and restructuring related costs | 10,531 |
| Gain on sales of businesses and other, net | (555) |
| | ----- |
| Operating loss | (24,363) |
| Other expense: | |
| Provision for the impairment of investments | (3,459) |
| Interest expense | (35,569) |
| Amortization of deferred financing costs | (950) |
| Other, net | (1,848) |
| | ----- |
| Loss from continuing operations before income taxes | (66,189) |
| Deferred provision for income taxes | (57,987) |
| | ----- |
| Loss from continuing operations | (124,176) |
| Discontinued operations (including \$6,509 gain on sale of Modern Bride Group in 2002) | 6,181 |
| Cumulative effect of a change in accounting principle (from the adoption of Statement of Financial Accounting Standards No. 142) | (21,535) |
| | ----- |
| Net loss | (139,530) |
| Preferred stock dividends and related accretion | (19,430) |
| | ----- |
| Loss applicable to common shareholders | \$ (158,960) |
| | ===== |
| Per Common Share: | |
| Loss from continuing operations | \$ (0.59) |
| Discontinued operations | 0.03 |
| Cumulative effect of a change in accounting principle | (0.09) |
| | ----- |
| Basic and diluted loss applicable to common shareholders | \$ (0.65) |
| | ===== |
| Basic and diluted common shares outstanding | 243,184,081 |
| | ===== |

Edgar Filing: PRIMEDIA INC - Form 10-Q

See notes to condensed consolidated financial statements (unaudited).

4

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

| | T |
|--|----------|
| | 2002 |
| | ----- |
| | (do |
| OPERATING ACTIVITIES: | |
| Net loss | \$ (1 |
| Adjustments to reconcile net loss to net cash used in operating activities | 1 |
| Changes in operating assets and liabilities | ----- |
| Net cash used in operating activities | ----- |
| INVESTING ACTIVITIES: | |
| Additions to property, equipment and other, net | |
| Proceeds from sales of businesses and other, net | |
| (Payments) for businesses acquired, net of cash acquired | |
| Payments for other investments | ----- |
| Net cash provided by investing activities | ----- |
| FINANCING ACTIVITIES: | |
| Borrowings under credit agreements | 1 |
| Repayments of borrowings under credit agreements | (1 |
| Proceeds from issuances of common stock, net | |
| Dividends paid to preferred stock shareholders | (|
| Other | ----- |
| Net cash provided by (used in) financing activities | (|
| ----- | |
| Increase (decrease) in cash and cash equivalents | |
| Cash and cash equivalents, beginning of period | ----- |
| Cash and cash equivalents, end of period | \$ ===== |
| Supplemental information: | |
| Cash interest paid | \$ ===== |
| Cash taxes paid, net of refunds | \$ ===== |
| Businesses acquired: | ===== |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | |
|---|-----------------|
| Fair value of assets acquired | \$ |
| Less: Liabilities assumed | |
| 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 | \$ ===== |
| Non-cash activities: | |
| Issuance of warrants in connection with EMAP acquisition and related financing | \$ ===== |
| Accretion in carrying value of exchangeable and convertible preferred stock | \$ ===== |
| Payments of dividends-in-kind on Series J Convertible Preferred Stock | \$ ===== |
| Gain on conversion of the Series H Exchangeable Preferred Stock to common stock | \$ ===== |
| Assets-for-equity transactions | \$ ===== |

See notes to condensed consolidated financial statements (unaudited).

5

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, 2001, which is included in the Company's annual report on Form 10-K for the year ended December 31, 2001. The operating results for the three-month period ended March 31, 2002 is 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 three-month period ended March 31, 2002. The adoption of Emerging Issues Task Force ("EITF") Consensus No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," and EITF Consensus No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)", resulted in a restatement of sales, net of \$5,130 with a corresponding restatement of distribution, circulation and fulfillment expense on the accompanying condensed statement of consolidated operations for the three months ended March 31, 2001. The adoption of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" resulted in a restatement of sales, net of approximately \$7,700 and a restatement of the loss from continuing operations of approximately \$1,300 for the quarter ended March 31, 2001.

Edgar Filing: PRIMEDIA INC - Form 10-Q

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the EITF issued Consensus No. 00-25, 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, 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 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 classification 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 \$5,258 and \$5,130 for the three months ended March 31, 2002 and 2001, respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued two new statements, 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 estimated goodwill related to the acquisition of EMAP has not and will not be amortized. The estimated identifiable intangible assets are currently being amortized over a fifteen-year useful life, which is subject to a final valuation and purchase price allocation.

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.

6

As required by the SFAS 142, the Company reviewed its indefinite lived intangible assets (primarily trademarks) for impairment as of January 1, 2002. As a result, the Company recorded a cumulative effect of a change in accounting principle of approximately \$21,500 (\$0.09 per share) during the first quarter. Indefinite lived intangible assets acquired in the EMAP acquisition have not been reviewed for impairment as of January 1, 2002 as the final valuation and purchase price allocation have not been completed. During the second quarter of 2002, the Company will conduct its preliminary review of goodwill for impairment which could increase the cumulative effect of a change in accounting principle.

The Company also recorded a non-cash deferred income tax expense of approximately \$52,000 on January 1, 2002 and \$6,000 during the quarter ended March 31, 2002, both 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

Edgar Filing: PRIMEDIA INC - Form 10-Q

recorded to increase the valuation allowance related to the Company's net operating losses. 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 \$6,000 to increase the valuation allowance for the three months ended March 31, 2002. The Company expects that it will record an additional \$18,000 to increase the valuation allowance during the remaining nine months of 2002.

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:

| | | Three Months Ended 2002 |
|---|----|----------------------------|
| | | ----- |
| Reported loss applicable to common shareholders | \$ | (158,960) |
| Amortization of goodwill and indefinite lived intangible assets | | - |
| Cumulative effect of a change in accounting principle | | 21,535 |
| Deferred provision for income taxes | | 57,987 |
| | | ----- |
| Adjusted loss applicable to common shareholders | \$ | (79,438) |
| | | ===== |
| Reported loss applicable to common shareholders per common share | \$ | (0.65) |
| Amortization of goodwill and indefinite lived intangible assets per common share | | - |
| Cumulative effect of a change in accounting principle per common share | | 0.09 |
| Deferred provision for income taxes per common share | | 0.24 |
| | | ----- |
| Adjusted loss applicable to common shareholders per common share | \$ | (0.32) |
| | | ===== |

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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, 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 were recorded as discontinued operations during the quarters ended March 31, 2002 and 2001. Discontinued operations includes sales of the Modern Bride Group of approximately \$4,400 and \$7,700 and income (loss) from continuing operations of approximately \$6,200 (including a gain on sale of approximately \$6,500) and approximately \$(1,300) for the three months ended March 31, 2002 and 2001, respectively.

As a result of the adoption of EITF 00-25, EITF 01-9 and SFAS 144, the Company restated sales, net for the three months ended March 31, 2001 as follows:

| | | |
|-------------------------------------|----|---------|
| Sales, net (as originally reported) | \$ | 427,006 |
| Less: Effect of SFAS 144 | | 7,675 |
| Effect of EITF 00-25 and 01-9 | | 5,130 |
| | | ----- |
| Sales, net (as restated) | \$ | 414,201 |
| | | ===== |

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 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 generally recognized as incurred. Revenue from barter transactions was approximately \$5,500 and \$10,000 for the three months ended March 31, 2002 and 2001, respectively, with equal related expense amounts in each three month period.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 publishes 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. The preliminary purchase cost allocations for the EMAP acquisition are subject to adjustment when additional information concerning asset and liability valuations is obtained. The final asset and liability fair values may differ from those set forth on the accompanying condensed consolidated balance sheet at March 31, 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 a vast array of 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 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 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | |
|---|---------|
| Fair value of replacement options issued (13,383,579 options) | 102,404 |
| Less: Unearned compensation related to unvested options | (7,592) |

9

| | |
|---|------------|
| 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 \$109,493) | (175,050) |
| Less: Fair value of indentifiable 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. During the quarters ended March 2002 and 2001, the Company recorded charges related to the amortization of the intrinsic value of unvested "in-the-money" options of \$882 and \$336, respectively (see Note 10). The remaining \$12,149 is included within the total purchase price. As of March 31, 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 March 31, 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 cover 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 10.

EMAP

On August 24, 2001, the Company acquired, by merger, 100% of the outstanding

Edgar Filing: PRIMEDIA INC - Form 10-Q

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. Further, this acquisition advances PRIMEDIA to the number one spot 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.

10

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. During the first quarter of 2002, the Company paid dividends-in-kind (32,227 shares of Series J Convertible Preferred Stock) valued at approximately \$4,000. 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 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 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 and February 2002, the Company issued to KKR 1996 Fund additional warrants to purchase 250,000 and 1,000,000 shares, respectively, of the Company's common stock. The Company ascribed a value of \$498 and \$2,160, respectively, to these

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 2,750,000 contingent warrants. Upon issuance, the Company would value these contingent warrants using the Black Scholes pricing model and would deduct the ascribed value as a component of the loss applicable to common shareholders.

The 1,250,000 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:

11

| | | |
|--|----|------------|
| Purchase consideration (including working capital and other settlements) | \$ | 5 |
| Direct Acquisition Costs | | ----- 5 |
| Add: Fair value of net tangible liabilities of EMAP | | ----- |
| Total goodwill and intangible assets | \$ | 5 ===== |

The purchase price has been allocated based on management's best estimate of the fair value of assets acquired and liabilities assumed based on the historical financial statements of EMAP. The excess purchase price over the fair value of net tangible liabilities acquired has been allocated to other identifiable intangibles and goodwill based on an analysis of the Company's past experience with similar acquisitions. Of the total goodwill and intangible assets, \$409,218 has been allocated to goodwill which is not being amortized under SFAS No. 142, and \$159,132 has been allocated to other intangible assets, which are being amortized over a 15 year period. This reflects preliminary estimates of the allocation of purchase consideration. The final allocation of the purchase consideration will be determined based on an independent appraisal and a comprehensive final evaluation of the fair values and useful lives of EMAP's tangible assets acquired, identifiable intangible assets and goodwill at the time of the acquisition. The final determination may result in asset and liability fair values and useful lives that are different than the preliminary

Edgar Filing: PRIMEDIA INC - Form 10-Q

estimates of these amounts.

The Company's 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 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 \$2,600 during the first three months of 2002 and 2001. 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.

| | | Three Months Ended March 31, 2001 |
|--|----|---|
| | | ----- |
| Sales, net | \$ | 486,885 |
| Loss applicable to common shareholders | \$ | (207,110) |
| Basic and diluted loss applicable to common shareholders per common share | \$ | (0.94) |

12

| | | |
|--|--|-------------|
| Weighted average shares used in basic and diluted loss applicable to common shareholders per common share | | 220,507,079 |
|--|--|-------------|

OTHER INVESTMENTS.

Other investments consist of the following:

| | | March 31, 2002 |
|---------------------------|----|-------------------|
| | | ----- |
| Cost method investments | \$ | 38,852 |
| Equity method investments | | 3,525 |
| | | ----- |
| | \$ | 42,377 |
| | | ===== |

PRIMEDIA VENTURES' INVESTMENTS.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 sold a PRIMEDIA Ventures investment and received proceeds of \$323 and realized a gain on the sale of \$28 for the three months ended March 31, 2002.

The Company recorded provisions for impairment of various PRIMEDIA Ventures' investments of \$750 as a component of provision for the impairment of investments on the accompanying condensed statement of consolidated operations for the three months ended March 31, 2002.

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, or 5%, 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 three months ended March 31, 2001, the Company recorded an unrealized loss of \$4,672 related to its investment in CMGI, Inc. The unrealized loss was based on the then market value of CMGI, Inc. common stock. 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 three months ended March 31, 2001, the Company recorded an unrealized gain of \$742 related to its investment in Liberty Digital. The unrealized gain was based on the then market value of Liberty Digital Inc. common stock. During 2001, the Company sold its investment in Liberty Digital for total proceeds and loss on sale of \$1,838 and \$668, respectively.

13

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 approximately \$31,000 (approximately \$28,000 representing cost method investments and, approximately \$3,000 representing equity method investments) and \$33,000 (approximately \$28,000 representing cost method investments and approximately \$5,000 representing equity method investments) at March 31, 2002 and December 31, 2001, respectively. At March 31, 2002 and December 31, 2001, respectively, approximately \$11,000 and \$13,000 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. During the

Edgar Filing: PRIMEDIA INC - Form 10-Q

three months ended March 31, 2002 and 2001, the Company recorded revenue from these agreements approximating \$2,800 and \$28,900, respectively.

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 SFAS No. 144. If an investment is deemed to be permanently impaired, its carrying value will be reduced to fair market value. During the three months ended March 31, 2002, the Company recorded a provision for impairment of its investments in certain Investees of \$2,709 as the decline in value of the investments was deemed to be other than temporary.

During the three months ended March 31, 2002 and 2001, respectively, the Company recorded approximately \$2,500 and \$18,100 of equity method losses from Investees, which is included in other, net on the accompanying condensed statements of consolidated operations, and during the three months ended March 31, 2002 and 2001, respectively, the Company recognized approximately \$400 and \$2,900 of revenue related to the equity method Investees.

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

14

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. During the three months ended March 31, 2001, in accordance with the terms of these agreements, the Company recorded revenue of approximately \$21,000, and expenses of approximately \$3,500.

3. DIVESTITURES

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 three months ended March 31, 2002. In accordance with SFAS 144, the operating results of the Modern Bride Group for the three months ended March 31, 2002 and 2001, have been reclassified to discontinued operations on the accompanying condensed statements of consolidated operation for their respective periods. No tax provision was associated with the discontinued operations.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable consist of the following:

| | March 31, 2002 |
|---------------------------------------|-------------------|
| | |
| Accounts Receivable | \$ 308,907 |
| Less: Allowance for doubtful accounts | 20,000 |
| Allowance for returns and rebates | 12,584 |
| | |
| | \$ 276,323 |
| | |

5. INVENTORIES, NET

Inventories consist of the following:

| | March 31, 2002 |
|----------------------------------|-------------------|
| | |
| Finished goods | \$ 7,368 |
| Work in process | 260 |
| Raw materials | 23,547 |
| | |
| | 31,175 |
| Less: Allowance for obsolescence | 2,207 |
| | |
| | \$ 28,968 |
| | |

6. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | March 31, 2002 |
|---|-------------------|
| | ----- |
| Deferred financing costs, net | \$ 21,426 |
| Deferred wiring and installation costs, net | 18,729 |
| Direct-response advertising costs, net | 17,260 |
| Prepublication and programming costs, net | 13,087 |
| Other | 5,222 |
| | ----- |
| | \$ 75,724 |
| | ===== |

The deferred financing costs are net of accumulated amortization of \$9,861 and \$8,911 at March 31, 2002 and December 31, 2001, respectively. The deferred wiring and installation costs are net of accumulated amortization of \$58,627 and \$56,449 at March 31, 2002 and December 31, 2001, respectively. Direct-response advertising costs are net of accumulated amortization of \$110,855 and \$116,700 at March 31, 2002 and December 31, 2001, respectively. Prepublication and programming costs are net of accumulated amortization of \$36,940 and \$35,196 at March 31, 2002 and December 31, 2001, respectively.

7. OTHER INTANGIBLE ASSETS

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

| | | March 31, 2002 | | | Dec 31, 2001 | |
|---|-------------------|-----------------------------|-----------------------------|-----------|-----------------------------|-----------------------------|
| | Range of Lives | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization |
| | ----- | ----- | ----- | --- | ----- | ----- |
| Trademarks | 3 | \$ 21,013 | \$ 7,588 | \$ 13,425 | \$ 21,013 | \$ 7,588 |
| Membership, subscriber and customer lists | 2-20 | 499,370 | 341,609 | 157,761 | 499,530 | 341,609 |
| Non-compete agreements | 1-10 | 212,810 | 183,058 | 29,752 | 213,585 | 183,058 |
| Trademark license agreements | 2-15 | 2,967 | 2,859 | 108 | 2,967 | 2,859 |
| Copyrights | 3-20 | 20,251 | 17,005 | 3,246 | 20,251 | 17,005 |
| Databases | 2-12 | 13,662 | 10,188 | 3,474 | 13,662 | 10,188 |
| Advertiser lists | .5-20 | 188,021 | 151,174 | 36,847 | 202,083 | 151,174 |
| Distribution agreements | 1-7 | 11,745 | 11,682 | 63 | 11,745 | 11,682 |
| Other | 1-5 | 10,880 | 10,729 | 151 | 10,880 | 10,729 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

\$ 980,719 \$ 735,892 \$ 244,827 \$ 995,716 \$
 =====

Amortization expense for other intangible assets still subject to amortization (excluding deferred wiring and installation costs and provision for impairment) was approximately \$16,400 for the three months ended March 31, 2002. At March 31, 2002, estimated future amortization expense of other intangible assets still subject to amortization is as follows: approximately \$50,000 for the remaining nine months of 2002 and approximately \$47,000, \$31,000, \$23,000, \$18,000 and \$16,000 for 2003, 2004, 2005, 2006 and 2007, respectively. Amortization expense, including amortization of goodwill and trademarks (excluding deferred wiring and installation costs), for the three months ended March 31, 2001 was \$38,064, of which \$13,861 represents amortization of other intangible assets still subject to amortization.

8. LONG-TERM DEBT

Long-term debt consists of the following:

| | March 31, 2002 | December 31, 2001 |
|--|-------------------|----------------------|
| | ----- | ----- |
| Borrowings under credit facilities | \$ 762,875 | \$ 783,000 |
| 10 1/4% Senior Notes due 2004 | 100,000 | 100,000 |
| 8 1/2% Senior Notes due 2006 | 299,387 | 299,000 |
| 7 5/8% Senior Notes due 2008 | 249,046 | 249,000 |
| 8 7/8% Senior Notes due 2011 | 493,099 | 492,000 |
| | ----- | ----- |
| | 1,904,407 | 1,925,000 |
| Obligation under capital leases | 27,657 | 28,000 |
| | ----- | ----- |
| | 1,932,064 | 1,953,000 |
| Less: Current maturities of long-term debt | 8,077 | 8,000 |
| | ----- | ----- |
| | \$ 1,923,987 | \$ 1,945,000 |
| | ===== | ===== |

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. Borrowings under the bank credit facilities are guaranteed by each of the Company's wholly owned domestic restricted subsidiaries as determined by the Company's management in accordance with the provisions and limitations of the Company's credit agreement. The guarantees are full, unconditional and joint and several. Certain of the Company's subsidiaries, which primarily represent Internet assets and businesses, new launches and other properties under evaluation for turnaround or shutdown and foreign subsidiaries, are not guarantors of the bank credit facilities.

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 \$240,000 was outstanding at March 31, 2002.

17

- a term loan A, of which \$100,000 was outstanding at March 31, 2002; and
- a term loan B, of which \$422,875 was outstanding at March 31, 2002.

As of March 31, 2002, the Company had \$762,875 borrowings outstanding, approximately \$23,000 letters of credit outstanding and unused bank commitments of approximately \$212,000 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 base rate plus an applicable margin ranging from 0.125% to 1.5% or the Eurodollar Rate plus an applicable margin ranging from 1.125% to 2.5%. The term loan B bears interest at the base rate plus 1.75% or the Eurodollar rate plus 2.75%. At March 31, 2002, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 4.4%.

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 quarter 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

Edgar Filing: PRIMEDIA INC - Form 10-Q

- 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.

18

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 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 prices ranging from 102.125% in 2002 to 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 approximately \$493,000 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%.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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.

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 fully, unconditionally and jointly and severally guaranteed by each of our domestic restricted subsidiaries. The Senior Notes are secured by a pledge of stock of PRIMEDIA Companies Inc.

The scheduled repayments of all debt outstanding, including capital leases, as of March 31, 2002, are as follows:

| Twelve Months Ended March 31, | Debt ----- | Capital Lea Obligation ----- |
|-------------------------------|---------------|------------------------------------|
| 2003..... | \$ 4,250 | \$ 3,8 |
| 2004..... | 4,250 | 3,3 |
| 19 | | |
| 2005..... | 116,750 | 2, |
| 2006..... | 328,637 | 1, |
| 2007..... | 29,250 | 1, |
| Thereafter..... | 1,421,270 | 14, |
| | ----- | ----- |
| | \$ 1,904,407 | \$ 27, |
| | ----- | ----- |

9. EXCHANGEABLE PREFERRED STOCK

Exchangeable Preferred Stock consists of the following:

| | March 31, 2002 ----- |
|---|----------------------------|
| \$10.00 Series D Exchangeable Preferred Stock | \$ 196,816 |
| \$9.20 Series F Exchangeable Preferred Stock | 121,885 |
| \$8.625 Series H Exchangeable Preferred Stock | 237,753 |
| | ----- |
| | \$ 556,454 |
| | ===== |

Edgar Filing: PRIMEDIA INC - Form 10-Q

\$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 were issued and outstanding at March 31, 2002 and December 31, 2001. The liquidation and redemption value at March 31, 2002 and December 31, 2001 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 March 31, 2002 and December 31, 2001. The liquidation and redemption value at March 31, 2002 and December 31, 2001 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, of which 2,429,336 shares and 2,500,000 shares were issued and outstanding at March 31, 2002 and December 31, 2001, respectively. The liquidation and redemption value was \$242,934 at March 31, 2002 and \$250,000 at December 31, 2001.

During the first quarter of 2002, the Company exchanged \$7,066 of Series H Exchangeable Preferred Stock for 1,144,778 shares of common stock. The gain on the exchange of approximately \$2,978 is included as a component of additional paid-in capital on the accompanying condensed consolidated balance sheet at March 31, 2002 and is included in the calculation of basic and diluted loss applicable to common shareholders per common share on the condensed statement of consolidated operations for the three months ended March 31, 2002.

10. NON-CASH COMPENSATION AND NON-RECURRING CHARGES

20

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. Non-cash compensation of \$773 and \$1,219 which reflects pro rata vesting on a graded basis was recorded for the quarters ended March 31, 2002 and 2001, respectively.

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, 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. Non-cash compensation of \$638 and \$1,005 which reflects pro rata vesting on a graded basis was recorded for the quarters ended March 31, 2002 and 2001, respectively. 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

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 has 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, however the Company was not obligated to make this payment until April 2002. In connection with these agreements, the Company recorded a liability of approximately \$21,200 at March 31, 2002 and approximately \$18,400 at December 31, 2001 representing the Shortfall Payments due under both agreements, based on the fair value of the Company's stock on such dates. This liability is a component of accrued expenses and other on the accompanying condensed consolidated balance sheets at March 31, 2002 and December 31, 2001. In April 2002, the Company paid approximately \$20,300 to the financial institution.

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 quarter ended March 31, 2002, the Company recorded \$5,685 of non-cash compensation and non-recurring charges. These non-cash compensation charges consisted of a \$1,411 charge related to the restricted stock and option grants to two key executives of About discussed above, a \$882 charge related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger and a \$329 charge related to the issuance of stock in connection with an acquisition. These non-recurring charges consisted of a \$3,037 charge related to the share lockup arrangements with certain executives of About discussed above and a \$26 charge related to certain non-recurring compensation arrangements with certain senior executives.

During the quarter ended March 31, 2001, the Company recorded \$2,560 of non-cash compensation charges. These non-cash charges consisted of a \$2,224 charge related to the restricted stock and option grants to two key executives of About discussed above and a \$336 charge related to the amortization of the intrinsic value of unvested "in-the-money" options issued in connection with the About merger.

21

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

Details of the initiatives implemented and the payments made in furtherance of these plans in the three month periods ended March 31, 2002 and 2001 are presented in the following tables:

| | LIABILITY AS OF DECEMBER 31, 2001 ----- | NET PROVISION FOR THE THREE MONTHS ENDED MARCH 31, 2002 ----- | PAYMENTS DURING THE THREE MONTHS ENDED MARCH 31, 2002 ----- | |
|--|--|--|--|-------|
| Severance and closures: | | | | |
| Employee-related termination costs... | \$ 9,043 | \$ 2,079 | \$ (4,433) | \$ |
| Termination of contracts..... | 2,318 | - | (1,071) | |
| Termination of leases related to office closures..... | 13,037 | 8,321 | (1,708) | |
| | ----- | ----- | ----- | |
| | 24,398 | 10,400 | (7,212) | |
| | ----- | ----- | ----- | |
| Restructuring related: | | | | |
| Relocation and other employee costs..... | - | 131 | (131) | |
| | ----- | ----- | ----- | |
| | - | 131 | (131) | |
| | ----- | ----- | ----- | |
| Total severance, closures and restructuring related costs..... | \$ 24,398 | \$ 10,531 | \$ (7,343) | \$ |
| | ===== | ===== | ===== | ===== |

22

| | LIABILITY AS OF DECEMBER 31, 2000 ----- | NET PROVISION FOR THE THREE MONTHS ENDED MARCH 31, 2001 ----- | PAYMENTS DURING THE THREE MONTHS ENDED MARCH 31, 2001 ----- | |
|---|--|--|--|----|
| Severance and closures: | | | | |
| Employee related termination costs..... | \$ 7,063 | \$ 2,348 | \$ (2,374) | \$ |
| Termination of contracts..... | 1,519 | 558 | (312) | |
| Termination of leases related to office | | | | |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | | |
|---|-----------|----------|------------|-------|
| closures..... | 1,634 | 128 | (193) | |
| Other..... | 213 | - | (23) | |
| | ----- | ----- | ----- | ----- |
| | 10,429 | 3,034 | (2,902) | |
| | ----- | ----- | ----- | ----- |
| Restructuring related: | | | | |
| Consulting services... | 498 | 2,595 | (2,712) | |
| Relocation and other employee costs..... | 462 | 523 | (500) | |
| Other | - | 335 | - | |
| | ----- | ----- | ----- | ----- |
| | 960 | 3,453 | (3,212) | |
| | ----- | ----- | ----- | ----- |
| Total severance, closures and restructuring related costs..... | \$ 11,389 | \$ 6,487 | \$ (6,114) | \$ |
| | ===== | ===== | ===== | ===== |

A significant portion of the remaining costs are expected to be paid during 2002 with the balance, primarily related to leases, to be paid through 2015. To eliminate 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 1,520 individuals, of which 200 were notified during the quarter ended March 31, 2002, that they will be terminated under these plans. As of March 31, 2002, 1,450 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 a nine-month period.

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

12. COMPREHENSIVE LOSS

Comprehensive loss for the three months ended March 31, 2002 and 2001 is presented in the following tables:

| | Three Months March 31, 2002 |
|--|-----------------------------------|
| | ----- |
| Net loss | \$ (139,530) |
| Other comprehensive income (loss): | |
| Unrealized loss on available-for-sale securities | - |
| Change in fair value of derivative instruments | 1,897 |
| Foreign currency translation adjustments | (35) |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | |
|--------------------------|--------------------------------|
| Total comprehensive loss | ----- \$ (137,668) ===== |
|--------------------------|--------------------------------|

13. LOSS PER COMMON SHARE

Loss per share for the three-month periods ended March 31, 2002 and 2001 has been determined based on net loss after preferred stock dividends, related accretion, 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.

14. CONTINGENCIES

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

15. 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 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, 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. 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. 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 \$900 and \$1,000 were allocated to the Non-Core Businesses during the three month periods ended March 31, 2002 and March 31, 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

Edgar Filing: PRIMEDIA INC - Form 10-Q

(income) charges include non-cash compensation and non-recurring charges, provision for severance, closures and restructuring related costs and gain on sales of businesses and other, net.

24

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.

| | Three Months Ended March 31, | |
|--------------------------|---------------------------------|------------|
| | 2002 | 2001 |
| | ----- | ----- |
| SALES, NET: | | |
| Consumer | \$ 345,457 | \$ 292,066 |
| Business-to-Business | 89,913 | 115,662 |
| Eliminations | (34,254) | (14,913) |
| Other: | | |
| Non-Core Businesses | 10,974 | 21,386 |
| | ----- | ----- |
| Total | \$ 412,090 | \$ 414,201 |
| | ===== | ===== |
| EBITDA (1): | | |
| Consumer | \$ 40,024 | \$ 36,930 |
| Business-to-Business (2) | 862 | 20,007 |
| Other: | | |
| Corporate | (8,810) | (8,230) |
| Non-Core Businesses | (1,872) | (11,523) |
| | ----- | ----- |
| Total | \$ 30,204 | \$ 37,184 |
| | ===== | ===== |

The following is a reconciliation of EBITDA to operating loss:

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2002 | 2001 |
| | ----- | ----- |
| Total EBITDA (1) | \$ 30,204 | \$ 37,184 |
| Depreciation of property and equipment | (15,132) | (14,704) |
| Amortization of intangible assets, goodwill and other | (23,774) | (41,639) |
| Non-cash compensation and non-recurring charges | (5,685) | (2,560) |
| Provision for severance, closures and restructuring related costs | (10,531) | (6,487) |
| Gain on sales of businesses and other, net | 555 | 526 |
| | ----- | ----- |
| Operating loss | \$ (24,363) | \$ (27,680) |
| | ===== | ===== |

Edgar Filing: PRIMEDIA INC - Form 10-Q

- (1) EBITDA represents earnings before interest, taxes, depreciation, amortization and other (income) charges including non-cash compensation and non-recurring charges of \$5,685 and \$2,560 for the three months ended March 31, 2002

25

and 2001, respectively, a provision for severance, closures and restructuring related costs of \$10,531 and \$6,487 for the three months ended March 31, 2002 and 2001, respectively, and gain on sales of businesses and other, net of \$(555) and \$(526) for the three months ended March 31, 2002 and 2001, respectively. 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 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 redeem preferred stock 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.

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

The information that follows presents condensed consolidating financial information as of March 31, 2002 and December 31, 2001 and for the three months ended March 31, 2002 and 2001 for a) PRIMEDIA Inc. (as the Issuer), b) the guarantor subsidiaries, c) the non-guarantor subsidiaries (primarily representing Internet assets and businesses, new launches and other properties under evaluation for turnaround or shutdown and foreign subsidiaries), d) elimination entries and e) the Company on a consolidated basis. Certain businesses, which were included as guarantor subsidiaries as of March 31, 2001 have been classified as non-guarantor subsidiaries as of March 31, 2002.

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 conjunction with the consolidated financial statements of the Company. The intercompany receivable and payable balances in the accompanying condensed consolidating balance sheets includes cash management activities, management fees, cross promotional activities and other intercompany charges between Corporate and the business units and among the business units. Such intercompany balances are eliminated in consolidation.

Edgar Filing: PRIMEDIA INC - Form 10-Q

The non-guarantor subsidiary results of operations include: internet operations, foreign operations, certain distribution operations, certain start-up magazine businesses, revenues and related expenses derived from the licensing of certain products of guarantor subsidiaries and expenses associated with the cross promotion by the guarantor subsidiaries of the activities of the non-guarantor subsidiaries. The expenses described above are billed, by the Company, at market rates. All intercompany related activities are eliminated in consolidation.

26

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

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

March 31, 2002
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---------------|---------------------------|-------------------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 20,924 | \$ 7,344 | \$ 6,65 |
| Accounts receivable, net | 1,641 | 244,003 | 30,67 |
| Intercompany receivables | 1,650,230 | 458,424 | 53,56 |
| Inventories, net | - | 27,214 | 1,75 |
| Prepaid expenses and other | 3,904 | 52,361 | 2,47 |
| | ----- | ----- | ----- |
| Total current assets | 1,676,699 | 789,346 | 95,12 |
| Property and equipment, net | 6,196 | 105,335 | 47,37 |
| Investment in and advances to subsidiaries | 1,062,640 | - | |
| Other intangible assets, net | 1,264 | 519,032 | 30,67 |
| Goodwill, net | (6,076) | 1,313,033 | 93,85 |
| Other investments | 37,206 | - | 5,17 |
| Other non-current assets | 853 | 68,511 | 6,36 |
| | ----- | ----- | ----- |
| | \$ 2,778,782 | \$ 2,795,257 | \$ 278,55 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 334 | \$ 86,288 | \$ 22,35 |
| Intercompany payables | 723,571 | 1,146,263 | 292,38 |
| Accrued interest payable | 40,489 | - | |
| Accrued expenses and other | 75,720 | 120,300 | 52,63 |
| Deferred revenues | 38,976 | 199,926 | (7,39) |
| Current maturities of long-term debt | 4,297 | 3,773 | |
| | ----- | ----- | ----- |
| Total current liabilities | 883,387 | 1,556,550 | 359,98 |
| | ----- | ----- | ----- |
| Long-term debt | 1,900,157 | 23,830 | |
| | ----- | ----- | ----- |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--------------------------------------|--------------|--------------|-----------|
| Intercompany notes payable | - | 2,414,633 | 767,55 |
| Deferred revenues | 2,266 | 45,670 | |
| Deferred income taxes | 57,987 | - | |
| Other non-current liabilities | 351 | 24,272 | 86 |
| Exchangeable preferred stock | 556,454 | - | |
| Shareholders' deficiency: | | | |
| Series J convertible preferred stock | 128,462 | - | |
| Common stock | 2,523 | - | |
| Additional paid-in capital | 2,266,046 | - | |
| Accumulated deficit | (2,931,186) | (1,269,375) | (849,59 |
| Accumulated other comprehensive loss | (260) | (5) | (25 |
| Unearned compensation | (9,562) | (318) | |
| Common stock in treasury, at cost | (77,843) | - | |
| Total shareholders' deficiency | (621,820) | (1,269,698) | (849,84 |
| | \$ 2,778,782 | \$ 2,795,257 | \$ 278,55 |

27

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

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

For the Quarter Ended March 31, 2002
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|---|---------------|---------------------------|-------------------------------|
| Sales, net | \$ 389 | \$ 377,539 | \$ 68,80 |
| Operating costs and expenses: | | | |
| Cost of goods sold | - | 107,328 | 26,52 |
| Marketing and selling | 28 | 63,846 | 31,79 |
| Distribution, circulation and fulfillment | - | 54,713 | 23,32 |
| Editorial | - | 26,747 | 13,18 |
| Other general expenses | 806 | 41,626 | 18,24 |
| Corporate administrative expenses (excluding non-cash compensation and non-recurring charges) | 7,485 | - | 87 |
| Depreciation of property and equipment | 603 | 9,689 | 4,84 |
| Amortization of intangible assets, goodwill and other | 188 | 20,426 | 3,16 |
| Non-cash compensation and non-recurring charges | 2,620 | (1) | 3,06 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|---|--------------|-------------|------------|
| Provision for severance, closures and restructuring related costs | 6,340 | 3,954 | 23 |
| Gain on sales of businesses and other, net | - | (555) | |
| | ----- | ----- | ----- |
| Operating income (loss) | (17,681) | 49,766 | (56,44) |
| Other income (expense): | | | |
| Provision for the impairment of investments | (3,459) | - | |
| Interest expense | (34,188) | (827) | (55) |
| Amortization of deferred financing costs | - | (883) | (6) |
| Equity in losses of subsidiaries | (80,944) | - | |
| Intercompany management fees and interest | 56,697 | (56,697) | |
| Other, net | (1,965) | 550 | (43) |
| | ----- | ----- | ----- |
| Loss from continuing operations before income taxes | (81,540) | (8,091) | (57,50) |
| Deferred provision for income taxes | (57,990) | 26 | (2) |
| | ----- | ----- | ----- |
| Loss from continuing operations | (139,530) | (8,065) | (57,52) |
| Discontinued operations | - | 6,181 | |
| Cumulative effect of a change in accounting principle | - | (21,535) | |
| | ----- | ----- | ----- |
| Net loss | \$ (139,530) | \$ (23,419) | \$ (57,52) |
| | ===== | ===== | ===== |

28

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

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

For the Quarter Ended March 31, 2002
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Non-Guarant Subsidiari |
|--|---------------|------------------------|------------------------|
| | ----- | ----- | ----- |
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ (139,530) | \$ (23,419) | \$ (57,52) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities | 91,735 | 101,318 | 6,79 |
| Changes in operating assets and liabilities | 15,272 | (8,474) | 6,50 |
| | ----- | ----- | ----- |
| Net cash provided by (used in) operating activities | (32,523) | 69,425 | (44,22) |
| | ----- | ----- | ----- |
| INVESTING ACTIVITIES: | | | |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--|-----------|-----------|----------|
| Additions to property, equipment and other, net | (209) | (597) | (4,077) |
| Proceeds from sales of businesses and other, net | - | 50,144 | (1,000) |
| (Payments) for businesses acquired, net of cash acquired | - | (1,623) | (4,000) |
| Payments for other investments | (179) | (232) | 12,000 |
| | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities | (388) | 47,692 | (3,997) |
| | ----- | ----- | ----- |
| FINANCING ACTIVITIES: | | | |
| Intercompany activity | 69,965 | (122,005) | 52,000 |
| Borrowings under credit agreements | 116,425 | - | - |
| Repayments of borrowings under credit agreements | (137,425) | - | - |
| Proceeds from issuances of common stock, net | 860 | 28 | - |
| Dividends paid to preferred stock shareholders | (13,392) | - | - |
| Other | (76) | (1,053) | (1,000) |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | 36,357 | (123,030) | 52,000 |
| | ----- | ----- | ----- |
| Increase (decrease) in cash and cash equivalents | 3,446 | (5,913) | 3,800 |
| Cash and cash equivalents, beginning of period | 17,478 | 13,257 | 2,850 |
| | ----- | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 20,924 | \$ 7,344 | \$ 6,650 |
| | ===== | ===== | ===== |

29

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

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

December 31, 2001
(dollars in thousands)

| | Primedia Inc. | Guarantor Subsidiaries | Non-Guarantor Subsidiaries |
|--|---------------|------------------------|----------------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 17,478 | \$ 13,257 | \$ 2,850 |
| Accounts receivable, net | 991 | 241,817 | 32,896 |
| Intercompany receivables | 852,188 | 486,870 | 78,932 |
| Inventories, net | - | 31,986 | 2,078 |
| Prepaid expenses and other | 8,849 | 45,371 | 10,392 |
| | ----- | ----- | ----- |
| Total current assets | 879,506 | 819,301 | 127,151 |
| Property and equipment, net | 6,590 | 109,909 | 53,735 |
| Investment in and advances to subsidiaries | 1,233,308 | - | - |
| Other intangible assets, net | 1,451 | 569,397 | 34,249 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--------------------------|--------------|--------------|------------|
| Goodwill, net | (6,077) | 1,331,633 | 99,074 |
| Other investments | 39,777 | - | 6,216 |
| Other non-current assets | (106) | 76,491 | 1,700 |
| | ----- | ----- | ----- |
| | \$ 2,154,449 | \$ 2,906,731 | \$ 322,125 |
| | ===== | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

| | | | |
|--------------------------------------|--------------|--------------|------------|
| Current liabilities: | | | |
| Accounts payable | \$ 2,510 | \$ 115,122 | \$ 17,870 |
| Intercompany payables | - | 986,891 | 431,099 |
| Accrued interest payable | 33,568 | - | - |
| Accrued expenses and other | 70,458 | 119,451 | 53,357 |
| Deferred revenues | 37,346 | 175,110 | (4,830) |
| Current maturities of long-term debt | 4,319 | 3,934 | 12 |
| | ----- | ----- | ----- |
| Total current liabilities | 148,201 | 1,400,508 | 497,508 |
| | ----- | ----- | ----- |
| Long-term debt | 1,921,305 | 24,326 | - |
| | ----- | ----- | ----- |
| Intercompany notes payable | - | 2,491,381 | 781,349 |
| | ----- | ----- | ----- |
| Deferred revenues | 2,578 | 46,438 | - |
| | ----- | ----- | ----- |
| Other non-current liabilities | - | 25,464 | 1,304 |
| | ----- | ----- | ----- |
| Exchangeable preferred stock | 562,957 | - | - |
| | ----- | ----- | ----- |
| Shareholders' deficiency: | | | |
| Series J convertible preferred stock | 122,015 | - | - |
| Common stock | 2,509 | - | - |
| Additional paid-in capital | 2,258,932 | - | - |
| Accumulated deficit | (2,772,201) | (1,081,036) | (957,817) |
| Accumulated other comprehensive loss | (2,122) | (350) | (219) |
| Unearned compensation | (11,882) | - | - |
| Common stock in treasury, at cost | (77,843) | - | - |
| | ----- | ----- | ----- |
| Total shareholders' deficiency | (480,592) | (1,081,386) | (958,036) |
| | ----- | ----- | ----- |
| | \$ 2,154,449 | \$ 2,906,731 | \$ 322,125 |
| | ===== | ===== | ===== |

30

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

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

For the Three Months Ended March 31, 2001
(dollars in thousands)

Guarantor Non

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | Primedia Inc. | Subsidiaries | Su |
|---|---------------|--------------------------------------|-------|
| | ----- | ----- | ----- |
| Sales, net | \$ - | \$ 402,828 | \$ |
| Operating costs and expenses: | | | |
| Cost of goods sold | - | 93,771 | |
| Marketing and selling | - | 92,821 | |
| Distribution, circulation and fulfillment | - | 64,115 | |
| Editorial | - | 35,437 | |
| Other general expenses | - | 43,658 | |
| Corporate administrative expenses (excluding non-cash compensation and non-recurring charges) | 7,964 | - | |
| Depreciation of property and equipment | 300 | 9,344 | |
| Amortization of intangible assets, goodwill and other | 96 | 27,709 | |
| Non-cash compensation and non-recurring charges | 2,560 | - | |
| Provision for severance, closures and restructuring related costs | 2,239 | 3,520 | |
| Gain on sales of businesses and other, net | - | (526) | |
| | ----- | ----- | ----- |
| Operating income (loss) | (13,159) | 32,979 | |
| Other income (expense): | | | |
| Provision for the impairment of investments | (3,248) | - | |
| Interest expense | (32,661) | (497) | |
| Amortization of deferred financing costs | - | (1,013) | |
| Equity in losses of subsidiaries | (72,473) | - | |
| Intercompany management fees and interest | 54,071 | (54,071) | |
| Other, net | (18,338) | (1,099) | |
| | ----- | ----- | ----- |
| Loss from continuing operations | (85,808) | (23,701) | |
| Discontinued operations | - | (1,271) | |
| | ----- | ----- | ----- |
| Net loss | \$ (85,808) | \$ (24,972) | \$ |
| | ===== | ===== | ===== |
| | | Primedia Inc. and Subsidiaries | |
| | Eliminations | ----- | |
| | ----- | | |
| Sales, net | \$ (16,204) | \$ 414,201 | |
| Operating costs and expenses: | | | |
| Cost of goods sold | (16,189) | 99,546 | |
| Marketing and selling | - | 109,571 | |
| Distribution, circulation and fulfillment | - | 65,179 | |
| Editorial | - | 38,014 | |
| Other general expenses | - | 56,492 | |
| Corporate administrative expenses (excluding non-cash compensation and non-recurring charges) | (15) | 8,215 | |
| Depreciation of property and equipment | - | 14,704 | |
| Amortization of intangible assets, goodwill and other | - | 41,639 | |
| Non-cash compensation and non-recurring charges | - | 2,560 | |
| Provision for severance, closures and restructuring related costs | - | 6,487 | |
| Gain on sales of businesses and other, net | - | (526) | |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | |
|---|-----------|-------------|
| | ----- | ----- |
| Operating income (loss) | - | (27,680) |
| Other income (expense): | | |
| Provision for the impairment of investments | - | (3,248) |
| Interest expense | - | (33,158) |
| Amortization of deferred financing costs | - | (1,013) |
| Equity in losses of subsidiaries | 72,473 | - |
| Intercompany management fees and interest | - | - |
| Other, net | - | (19,438) |
| | ----- | ----- |
| Loss from continuing operations | 72,473 | (84,537) |
| Discontinued operations | - | (1,271) |
| | ----- | ----- |
| Net loss | \$ 72,473 | \$ (85,808) |
| | ===== | ===== |

31

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

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

For the Three Months Ended March 31, 2001
(dollars in thousands)

| | | |
|--|-------|---------------|
| | ----- | ----- |
| | | Primedia Inc. |
| OPERATING ACTIVITIES: | | |
| Net loss | \$ | (85,808) |
| Adjustments to reconcile net loss to net cash used in operating activities | | 42,814 |
| Changes in operating assets and liabilities | | (14,876) |
| | | ----- |
| Net cash provided by (used in) operating activities | | (57,870) |
| | | ----- |
| INVESTING ACTIVITIES: | | |
| Additions to property, equipment and other, net | | (324) |
| Proceeds from sales of businesses and other, net | | - |
| (Payments) for businesses acquired, net of cash acquired | | - |
| Payments for other investments | | (4,238) |
| | | ----- |
| Net cash provided by (used in) investing activities | | (4,562) |
| | | ----- |
| FINANCING ACTIVITIES: | | |
| Intercompany activity | | 40,925 |
| Borrowings under credit agreements | | 251,800 |
| Repayments of borrowings under credit agreements | | (224,300) |
| Proceeds from issuances of common stock, net | | 1,825 |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--|----|--------------|----|
| Dividends paid to preferred stock shareholders | | (13,266) | |
| Other | | (86) | |
| | | ----- | |
| Net cash provided by (used in) financing activities | | 56,898 | |
| | | ----- | |
| Increase (decrease) in cash and cash equivalents | | (5,534) | |
| Cash and cash equivalents, beginning of period | | 5,536 | |
| | | ----- | |
| Cash and cash equivalents, end of period | \$ | 2 | |
| | | ===== | |
| | | | |
| | | Eliminations | |
| | | ----- | |
| OPERATING ACTIVITIES: | | | |
| Net loss | \$ | 72,473 | \$ |
| Adjustments to reconcile net loss to net cash used in operating activities | | (72,473) | |
| Changes in operating assets and liabilities | | - | |
| | | ----- | |
| Net cash provided by (used in) operating activities | | - | |
| | | ----- | |
| INVESTING ACTIVITIES: | | | |
| Additions to property, equipment and other, net | | - | |
| Proceeds from sales of businesses and other, net | | - | |
| (Payments) for businesses acquired, net of cash acquired | | - | |
| Payments for other investments | | - | |
| | | ----- | |
| Net cash provided by (used in) investing activities | | - | |
| | | ----- | |
| FINANCING ACTIVITIES: | | | |
| Intercompany activity | | - | |
| Borrowings under credit agreements | | - | |
| Repayments of borrowings under credit agreements | | - | |
| Proceeds from issuances of common stock, net | | - | |
| Dividends paid to preferred stock shareholders | | - | |
| Other | | - | |
| | | ----- | |
| Net cash provided by (used in) financing activities | | - | |
| | | ----- | |
| Increase (decrease) in cash and cash equivalents | | - | |
| Cash and cash equivalents, beginning of period | | - | |
| | | ----- | |
| Cash and cash equivalents, end of period | \$ | - | \$ |
| | | ===== | |

Edgar Filing: PRIMEDIA INC - Form 10-Q

In April 2002, the Company exchanged \$56,000 of exchangeable preferred stock for approximately 10,800,000 common shares. In May 2002, the Company exchanged \$2,000 of exchangeable preferred stock for approximately 381,000 common shares. Including the exchanges made during the first quarter of 2002, total exchanges of exchangeable preferred stock to date approximated \$65,000 and effectively sold common stock at a weighted average price of \$5.28 per share. This is part of the Company's authorized program to exchange up to \$100,000 of exchangeable preferred stock.

In April 2002, the Company granted certain key executives an aggregate total of 6,100,000 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 performance targets. Upon the achievement of these performance targets, the underlying options vest when the financial statements for the relevant period are finalized.

In May 2002, the Company received approximately \$15,000 from Observer AB representing payment on the note receivable related to the sale of Bacon's Information, Inc.

33

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 content for various niche consumer markets through magazines, guides, videos and over the Internet. The consumer segment includes the Consumer Magazine and Media Group, Consumer Guides, PRIMEDIA Television and About. By leveraging About's information technology platform company-wide, the Company has significantly reduced its third party Internet spending. Also, About's web sites provide the Internet component for packaged corporate sales enabling the Company to offer complete marketing solutions to advertisers. The effective integration of About has resulted in a significant headcount decrease and substantial expense reduction across all of the Company's new media platforms. The Company believes that the current book value of the fully integrated About does not accurately reflect these overall benefits to PRIMEDIA's operations.

The Company's business-to-business segment produces and distributes content through magazines, books, over the internet, and through databases to business professionals in such fields as communications, agriculture, professional services, media, transportation and healthcare. The business-to-business segment includes the Business Magazines & Media Group, PRIMEDIA Workplace Learning and PRIMEDIA Information. Corporate represents items not allocated to other business segments such as general corporate administration.

Management believes a meaningful comparison of the results of operations for the three months ended March 31, 2002 and 2001 is obtained by using the

Edgar Filing: PRIMEDIA INC - Form 10-Q

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 are those businesses that have been divested, discontinued or that management is evaluating for turnaround or shutdown. 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, 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. It is also management's belief that amounts related to Non-Core Businesses will not be material after the second quarter of 2002. 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 \$900 and \$1,000 were allocated to the Non-Core Businesses during the three month periods ended March 31, 2002 and March 31, 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. 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.

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 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 redeem preferred stock 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.

34

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

Three Months Ended
March 31,

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | 2002 | 2001 |
|--|--------------|-------------|
| | ----- | ----- |
| Sales, Net: | | |
| Continuing Businesses: | | |
| Consumer | \$ 345,457 | \$ 292,066 |
| Business-to-business | 89,913 | 115,662 |
| Eliminations | (34,254) | (14,913) |
| | ----- | ----- |
| Subtotal | 401,116 | 392,815 |
| Non-Core Businesses | 10,974 | 21,386 |
| | ----- | ----- |
| Total | \$ 412,090 | \$ 414,201 |
| | ===== | ===== |
| EBITDA: | | |
| Continuing Businesses: | | |
| Consumer | \$ 40,024 | \$ 36,930 |
| Business-to-business | 862 | 20,007 |
| Corporate | (8,810) | (8,230) |
| | ----- | ----- |
| Subtotal | 32,076 | 48,707 |
| Non-Core Businesses | (1,872) | (11,523) |
| | ----- | ----- |
| Total | \$ 30,204 | \$ 37,184 |
| | ===== | ===== |
| Operating Income (Loss): | | |
| Continuing Businesses: | | |
| Consumer | \$ 7,505 | \$ (2,422) |
| Business-to-business | (11,133) | 3,482 |
| Corporate | (18,554) | (13,424) |
| | ----- | ----- |
| Subtotal | (22,182) | (12,364) |
| Non-Core Businesses | (2,181) | (15,316) |
| | ----- | ----- |
| Total | (24,363) | (27,680) |
| Other Expense: | | |
| Provision for the impairment of investments | (3,459) | (3,248) |
| Interest expense | (35,569) | (33,158) |
| Amortization of deferred financing costs | (950) | (1,013) |
| Other, net | (1,848) | (19,438) |
| | ----- | ----- |
| Loss from continuing operations before income taxes | (66,189) | (84,537) |
| Deferred provision for income taxes | (57,987) | - |
| | ----- | ----- |
| Loss from continuing operations | (124,176) | (84,537) |
| Discontinued operations | 6,181 | (1,271) |
| Cumulative effect of a change in accounting principle (from the adoption of Statement of Financial Accounting Standards No. 142) | (21,535) | - |
| | ----- | ----- |
| Net loss | \$ (139,530) | \$ (85,808) |
| | ===== | ===== |

THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001:

CONSOLIDATED RESULTS:

Sales from Continuing Businesses increased 2.1% to \$401,116 in 2002 from \$392,815 in 2001, due to growth in the consumer segment of \$53,391 partially offset by a decline in the business-to-business segment of \$25,749, further detailed below. Total sales, including Continuing and Non-Core Businesses, decreased .5% to \$412,090 in 2002 from \$414,201 in 2001. The adoption of Emerging Issues Task Force ("EITF") Consensus No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," and EITF Consensus No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" resulted in a net reclassification of product placement costs 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 classification 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 \$5,258 and \$5,130 for the three months ended March 31, 2002 and 2001, respectively.

During 2002 and 2001, the Company entered various assets-for-equity transactions, some of which also included cash consideration. The non-cash consideration was comprised of advertising, content licensing and other services to be rendered by the Company in exchange for 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 \$2,800 and \$28,900 during the three months ended March 31, 2002 and 2001, respectively. In addition, for the three months ended March 31, 2002 and 2001, revenue from barter transactions was approximately \$5,500 and \$10,000, respectively, with equal related expense amounts in each period.

EBITDA from Continuing Businesses decreased 34.1% to \$32,076 in 2002 from \$48,707 in 2001, due to a decrease of \$19,145 related to the business-to-business segment, partially offset by an increase in the consumer segment of \$3,094, further detailed below. Total EBITDA, including Continuing and Non-Core Businesses, decreased 18.8% to \$30,204 in 2002 from \$37,184 in 2001 primarily due to a decline in the business-to-business segment. It is management's belief that results during the remainder of 2002 will benefit from seasonally stronger operating results as well as anticipated cost savings from previously enacted cost cutting initiatives.

Operating loss from Continuing Businesses was \$22,182 in 2002 compared to \$12,364 in 2001. This increase in operating loss was due to a decrease in EBITDA from Continuing Businesses of approximately \$17,000, which was offset by a decrease in amortization expense of approximately \$16,500 primarily due to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 which eliminated the amortization of goodwill and indefinite lived intangibles. In addition, there was an increase in depreciation expense of approximately \$2,400, an increase of approximately \$4,000 related to provisions for severance, closures and restructuring related costs, and an increase of approximately \$3,000 related to non-cash compensation expense in connection with an acquisition. Total operating loss, including Continuing and Non-Core Businesses, was \$24,363 in 2002 compared to \$27,680 in 2001.

Edgar Filing: PRIMEDIA INC - Form 10-Q

Interest expense increased by \$2,411 or 7.3% in 2002 compared to 2001. This increase is due to borrowings of \$265,000 under the bank credit facilities to partially finance the EMAP acquisition. This increase was partially offset by the Company's use of divestiture proceeds of approximately \$140,000 and cash acquired in connection with the About merger of approximately \$109,500 to repay borrowings under the bank credit facilities.

During the first quarter of 2002, the Company recorded \$58,000 of non-cash deferred income tax expense related to the adoption of SFAS 142. Of the total expense, \$52,000 was recorded on January 1, 2002 to increase the valuation allowance related to the Company's net operating losses. 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 carry forward 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 carry forward period of the net operating losses. In addition, since amortization of tax deductible goodwill and trademarks ceased on January 1, 2002, the Company also recorded an additional \$6,000 to increase the valuation allowance for the three months ended March 31, 2002 as the Company has deferred tax liabilities that arise due to the fact that the taxable

36

temporary differences related to these assets will not reverse prior to the expiration period of the Company's deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. The Company expects that it will record an additional \$18,000 to increase the valuation allowance during the remaining nine months of 2002. In addition, during 2002, the Company completed the sale of the Modern Bride Group ("MBG") and, as a result of adopting SFAS 144, reclassified the financial results of the MBG into discontinued operations on the condensed statements of consolidated operations for the three months ended March 31, 2002 and 2001. SFAS 144 requires sales or disposals of long-lived assets that meet the criteria of SFAS 144, to be classified, on the statement of operations, as discontinued operations and to restate prior periods accordingly. Lastly, during 2002, the Company recorded a cumulative effect of a change in accounting principle of approximately \$21,500, which is a result of the impairment of certain indefinite lived intangible assets (trademarks) required to be assessed for impairment in the first quarter of 2002, in accordance with SFAS 142.

CONSUMER SEGMENT (INCLUDING CONSUMER MAGAZINE AND MEDIA GROUP, CONSUMER GUIDES PRIMEDIA TELEVISION AND ABOUT):

Sales from Continuing Businesses increased 18.3% to \$345,457 in 2002 from \$292,066 in 2001, before intercompany eliminations. This increase was due primarily to growth at the Company's Consumer Guides (approximately \$5,500) and the acquisitions of EMAP and About (approximately \$66,200, net) whose results are included for periods subsequent to their respective acquisition partially offset by net declines at various other Consumer Segment units primarily due to industry-wide advertising softness. New media sales from Continuing Businesses increased 17.4% to \$21,940 in 2002 from \$18,696 in 2001, primarily due to organic growth at apartmentguide.com. These new media sales include the allocation of bundled revenues (print and online billed together) and various intercompany transactions, which are eliminated in consolidation. As a result, the new media sales from Continuing Businesses are not necessarily indicative of the results had the new media businesses been operated as stand-alone operations. Total Consumer Segment sales,

Edgar Filing: PRIMEDIA INC - Form 10-Q

including Continuing and Non-Core Businesses, for the three months ended March 31, 2001 reflects a restatement of \$5,130 related to the adoption of EITF 00-25 and EITF 01-9. The adoption of these pronouncements resulted in a reduction of sales, net of \$5,258 and \$5,130, and a corresponding reduction of distribution, circulation and fulfillment expense on the accompanying condensed statements of consolidated operations for the three months ended March 31, 2002 and 2001, respectively. Revenue recognized in connection with assets-for-equity transactions, which was generally in the traditional businesses, was approximately \$1,800 and \$24,200 for the three months ended March 31, 2002 and 2001, respectively. For the three months ended March 31, 2002 and 2001, revenue from barter transactions was approximately \$3,400 and \$7,000, respectively, with equal related expense amounts in each period.

EBITDA from Continuing Businesses increased 8.4% to \$40,024 in 2002 from \$36,930 in 2001. This increase was due primarily to the strength at Consumer Guides (approximately \$4,600) and an EBITDA increase from the acquisitions of EMAP and About (approximately \$9,000, net) whose results are included for periods subsequent to their respective acquisition dates partially offset by net decreases in EBITDA at various Consumer Segment units, primarily due to industry-wide advertising softness. The EBITDA margin decreased to 11.6% in 2002 compared to 12.6% in 2001 primarily due to increased industry-wide advertising softness.

During the first quarter of 2002, the Company completed the sale of the MBG, which includes MODERN BRIDE plus 16 regional bridal magazines. In accordance with SFAS 144, the operating results of MBG have been reclassified to discontinued operations on the condensed statements of consolidated operations for the three months ended March 31, 2002 and 2001. Sales from Continuing Businesses excludes sales of MBG of approximately \$4,400 and \$7,700 during the first quarter of 2002 and 2001, respectively. EBITDA from Continuing Businesses excludes EBITDA losses of MBG of approximately \$150 and \$620 during the first quarter of 2002 and 2001, respectively. For the year ended December 31, 2001, Sales and EBITDA from MBG were approximately \$47,000 and approximately \$6,100, respectively, including the impact of approximately \$3,400 of sales from assets-for-equity transactions.

37

Operating income (loss) from Continuing Businesses, was \$7,505 in 2002 compared to \$(2,422) in 2001. The increase in operating income was attributable to the increase in EBITDA and a decrease in amortization expense (approximately \$12,000) primarily due to the adoption of SFAS 142 which eliminated the amortization of goodwill and indefinite lived intangibles partially offset by an increase in non-cash compensation expense in connection with the merger with About (approximately \$3,000).

BUSINESS-TO-BUSINESS:

BUSINESS-TO-BUSINESS SEGMENT (INCLUDING BUSINESS MAGAZINES AND MEDIA GROUP, WORKPLACE LEARNING AND PRIMEDIA INFORMATION):

Sales from Continuing Businesses decreased 22.3% to \$89,913 in 2002 from \$115,662 in 2001, before intercompany eliminations. This decrease was due primarily to industry advertising softness at certain business-to-business magazines and trade shows (approximately \$20,500). New media sales from Continuing Businesses increased 24.2% to \$3,907 in 2002 from \$3,145 in 2001. These new media sales include various intercompany transactions, which are eliminated in consolidation. As a result, the new media sales from Continuing Businesses are not necessarily indicative of the results had the new media businesses been operated as stand-alone operations. Revenue recognized in

Edgar Filing: PRIMEDIA INC - Form 10-Q

connection with assets-for-equity transactions was approximately \$1,000 and \$4,700 for the three months ended March 31, 2002 and 2001, respectively. For the three months ended March 31, 2002 and 2001, revenue from barter transactions was approximately \$2,100 and \$3,000, respectively, with equal related expense amounts in each year.

EBITDA from Continuing Businesses decreased 95.7% to \$862 in 2002 from \$20,007 in 2001. This decrease was due primarily to weakness at the Business Magazines & Media Group (approximately \$12,500) and PRIMEDIA Workplace Learning (approximately \$5,000). The EBITDA margin decreased to .9% in 2002 compared to 17.3% in 2001 primarily due to softness in business-to-business advertising.

Operating income (loss) from Continuing Businesses, was \$(11,133) in 2002 compared to \$3,482 in 2001. The decrease in operating income was attributable to the decrease in EBITDA partially offset by a decrease in amortization expense (approximately \$4,400) primarily due to the adoption of SFAS 142 which eliminated the amortization of goodwill and indefinite lived intangibles.

CORPORATE:

Corporate expenses increased to \$8,810 in 2002 from \$8,230 in 2001.

Corporate operating loss increased to \$18,554 in 2002 from \$13,424 in 2001. Operating loss includes approximately \$2,600 of non-cash compensation and non-recurring charges during each of the three months ended March 31, 2002 and 2001, representing executive compensation in the form of stock and option grants and the extension of certain stock option expiration periods. In addition, the operating loss includes, provisions for severance, closures and restructuring related costs of approximately \$6,300 and \$2,200 during the three months ended March 31, 2002 and 2001, respectively.

NON-CORE BUSINESSES:

Sales from Non-Core Businesses decreased to \$10,974 in 2002 from \$21,386 in 2001 due to the completion of certain divestitures.

EBITDA from the Non-Core Businesses was \$(1,872) in 2002 compared to \$(11,523) in 2001. Corporate administrative costs of approximately \$900 and \$1,000 were allocated to the Non-Core Businesses during the three months ended March 31, 2002 and 2001, respectively. The Company believes that these costs, many of which are transaction driven, such

38

as the processing of payables and payroll, will be permanently reduced or eliminated upon the shutdown or divestiture of the Non-Core Businesses.

Operating loss from Non-Core Businesses decreased to \$2,181 in 2002 from \$15,316 in 2001 primarily due to the increase in EBITDA.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

Consolidated working capital deficiency, which includes current maturities of long-term debt, was \$(238,753) at March 31, 2002 compared to \$(220,259) at December 31, 2001. The decrease in working capital is primarily attributable to an increase in deferred revenues as well as various other working capital changes. Consolidated working capital reflects certain industry working capital practices and accounting principles, including the recording of deferred revenue

Edgar Filing: PRIMEDIA INC - Form 10-Q

from subscriptions as a current liability as well as the expensing of certain advertising, editorial and product development costs as incurred.

At March 31, 2002, the Company had cash and unused credit facilities of approximately \$245,000 as further discussed below. The Company believes that due substantially to anticipated asset sale proceeds, the amount of cash and unused credit facilities will increase at December 31, 2002. In addition, there are no material required debt repayments until June 1, 2004. A change in the grade of our debt instruments by the outside rating agencies does not negatively impact our ability to use our available lines of credit or the borrowing rate under our credit facilities. As of May 9, 2002, the Company's senior debt rating from Moody's was B3 and from Standard and Poor's was B.

The Company believes its liquidity, capital resources and cash flow are 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 fiscal year. The Company has and continues to implement various cost-cutting programs and cash conservation plans which involve the limitation of capital expenditures and the control of working capital. These plans should help mitigate any future cash flow shortfalls.

CASH FLOW - 2002 COMPARED TO 2001

Net cash used in operating activities, as reported, during 2002, after interest payments of \$25,171, decreased to \$7,325 as compared to \$101,830 during 2001, primarily due to reduced payments related to accrued expenses of approximately \$38,000, increased deferred revenue receipts of approximately \$19,000 and a reduction in the prepayment of expenses of approximately \$24,000. Net capital expenditures decreased 65.9% to \$4,882 during 2002 compared to \$14,311 during 2001 due primarily to reduced levels of capital expenditures during 2002, in connection with certain cost cutting measures implemented by the Company. Net cash provided by investing activities during 2002 was \$43,308 compared to \$75,346 during 2001. The cash acquired from the About acquisition of approximately \$109,500 in 2001 exceeded the proceeds received from the sale of MBG of approximately \$50,000 in 2002. Net cash provided by (used in) financing activities during 2002 was \$(34,644) compared to \$14,929 during 2001. The change was primarily attributable to net repayments of debt under the Company's credit facilities of approximately \$21,000 during 2002, which resulted primarily from the use of proceeds from the Company's divestiture program.

FINANCING ARRANGEMENTS - 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 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. Borrowings under the bank credit facilities are guaranteed by each of the Company's wholly owned domestic restricted subsidiaries as determined by the Company's management in accordance with the provisions and limitations of the Company's credit agreement. The guarantees are full, unconditional and joint and several. Certain of the Company's subsidiaries,

Edgar Filing: PRIMEDIA INC - Form 10-Q

which primarily represent Internet assets and businesses, new launches and other properties under evaluation for turnaround or shutdown and foreign subsidiaries, are not guarantors of the bank credit facilities.

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 \$240,000 was outstanding at March 31, 2002.
- a term loan A, of which \$100,000 was outstanding at March 31, 2002; and
- a term loan B, of which \$422,875 was outstanding at March 31, 2002.

As of March 31, 2002, the Company had \$762,875 borrowings outstanding, approximately \$23,000 letters of credit outstanding and unused bank commitments of approximately \$212,000 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 base rate plus an applicable margin ranging from 0.125% to 1.5% or the Eurodollar Rate plus an applicable margin ranging from 1.125% to 2.5%. The term loan B bears interest at the base rate plus 1.75% or the Eurodollar rate plus 2.75%. At March 31, 2002, the weighted average variable interest rate on all outstanding borrowings under the bank credit facilities was 4.4%.

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 quarter 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:

Edgar Filing: PRIMEDIA INC - Form 10-Q

40

- 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. At March 31, 2002, the Company's debt leverage ratio defined as the ratio of consolidated EBITDA to debt (which provides for among other things, the inclusion of EBITDA from certain intercompany transactions between subsidiaries that guarantee the debt and subsidiaries that are non-guarantors), in the bank credit facilities was approximately 5.7 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 approximating \$7,250.

The 10 1/4% Senior Notes mature in June 2004, the 8 1/2% Senior Notes mature in February 2006, the 7 5/8% Senior Notes mature in April 2008 and the 8 7/8% Senior Notes mature in May 2011.

The Company has no special purpose entities or off balance sheet debt, other than as related to operating leases in the ordinary course of business which are more fully disclosed below. In addition, on a regular basis the Company holds meetings with its shareholders, bond-holders and banks and the rating agencies to discuss the operating performance of the Company.

OTHER ARRANGEMENTS

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. Non-cash compensation of \$773 and \$1,219 which reflects pro rata vesting on a graded basis was recorded for the quarters ended March 31, 2002 and 2001, respectively.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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, 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. Non-cash compensation of \$638 and \$1,005

41

which reflects pro rata vesting on a graded basis was recorded for the quarters ended March 31, 2002 and 2001, respectively. 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 has 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, however the Company was not obligated to make the payment until April 2002. In connection with these agreements, the Company recorded a liability of approximately \$21,200 at March 31, 2002 and approximately \$18,400 at December 31, 2001 representing the Shortfall Payments due under both agreements, based on the fair value of the Company's stock on such dates. This liability is a component of accrued expenses and other on the accompanying condensed consolidated balance sheets at March 31, 2002 and December 31, 2001. In April 2002, the Company paid approximately \$20,300 to the financial institution.

During the first quarter of 2002, the Company exchanged \$7,066 of Series H Exchangeable Preferred Stock for approximately 1,144,778 shares of common stock.

FINANCING ARRANGEMENTS-CONTRACTUAL OBLIGATIONS

The contractual obligations of the Company as of March 31, 2002, are as follows:

| CONTRACTUAL CASH OBLIGATIONS | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 4- |
|------------------------------|--------------|---------------------|------------|-------|
| ----- | ----- | ----- | ----- | ----- |
| Long-term debt | \$ 1,904,407 | \$ 4,250 | \$ 121,000 | \$ |
| Capital lease obligations | 27,657 | 3,827 | 6,125 | |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--|--------------|-----------|------------|
| Operating leases | 346,690 | 40,172 | 91,339 |
| Obligation related to share lockup agreement | 20,300 | 20,300 | - |
| | ----- | ----- | ----- |
| Total Contractual Cash Obligations | \$ 2,299,054 | \$ 68,549 | \$ 218,464 |
| | ===== | ===== | ===== |

The Company has other commitments in the form of letters of credit of approximately \$23,000 aggregate face value which expire before the end of 2002.

FINANCING ARRANGEMENTS - EMAP FINANCING

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. Further, this acquisition advances PRIMEDIA to the number one spot 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

42

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. During the first quarter of 2002, the Company paid dividends-in-kind (32,227 shares of Series J Convertible Preferred Stock) valued at approximately \$4,000. 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. At the present time, the Company has no plans to redeem or exchange the Series J Convertible Preferred Stock.

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 of the Company at an exercise price of \$7 per share, subject to

Edgar Filing: PRIMEDIA INC - Form 10-Q

adjustment, and a funding fee consisting of warrants to purchase an additional 2,620,000 shares of the Company's common stock 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 and February 2002, the Company issued to KKR 1996 Fund additional warrants to purchase 250,000 and 1,000,000 shares, respectively, of the Company's common stock. The Company ascribed a value of \$498 and \$2,160, 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 2,750,000 contingent warrants. Upon issuance, the Company would value these contingent warrants using the Black Scholes pricing model and would deduct the ascribed value as a component of the loss applicable to common shareholders.

The 1,250,000 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

43

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.

All of the above described financing transactions between the Company and KKR were reviewed by and recommended for approval by a Special Committee of the Company's Board of Directors, comprised solely of independent directors (neither employees of the Company nor affiliated with KKR). In connection therewith, the Special Committee retained its own counsel and investment banker to advise it as to the financing transactions. Such financing transactions were approved by the full Board of Directors, following such recommendation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

During the first three months of 2002, there were no significant changes related to the Company's critical accounting policies and estimates.

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

Edgar Filing: PRIMEDIA INC - Form 10-Q

related charges were expensed as incurred.

During the first quarter of 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 three month periods ended March 31, 2002 and 2001 are presented in the following tables:

| | LIABILITY AS OF DECEMBER 31, 2001 | NET PROVISION FOR THE THREE MONTHS ENDED MARCH 31, 2002 | PAYMENTS DURING THE THREE MONTHS EN MARCH 31, 200 |
|--|--------------------------------------|--|--|
| Severance and closures: | | | |
| Employee-related termination costs. | \$ 9,043 | \$ 2,079 | \$ (|
| Termination of contracts..... | 2,318 | - | (|
| Termination of leases related to office closures..... | 13,037 | 8,321 | (|
| | ----- 24,398 | ----- 10,400 | ----- (|
| Restructuring related: | | | |
| Relocation and other employee costs..... | - | 131 | (|
| | ----- - | ----- 131 | ----- (|
| Total severance, closures and restructuring related costs..... | \$ 24,398 | \$ 10,531 | \$ (|

44

| | LIABILITY AS OF DECEMBER 31, 2000 | NET PROVISION FOR THE THREE MONTHS ENDED MARCH 31, 2001 | PAYMENTS DURING THE THREE MONTHS EN MARCH 31, 200 |
|--|--------------------------------------|--|--|
| Severance and closures: | | | |
| Employee related termination costs.... | \$ 7,063 | \$ 2,348 | \$ (|

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|--|-----------|----------|-------|
| Termination of contracts..... | 1,519 | 558 | |
| Termination of leases related to office closures..... | 1,634 | 128 | |
| Other..... | 213 | - | |
| | ----- | ----- | ----- |
| | 10,429 | 3,034 | (|
| | ----- | ----- | ----- |
| Restructuring related: | | | |
| Consulting services. | 498 | 2,595 | (|
| Relocation and other employee costs..... | 462 | 523 | |
| Other..... | - | 335 | |
| | ----- | ----- | ----- |
| | 960 | 3,453 | (|
| | ----- | ----- | ----- |
| Total severance, closures and restructuring related costs..... | \$ 11,389 | \$ 6,487 | \$ (|
| | ===== | ===== | ===== |

A significant portion of the remaining costs are expected to be paid during 2002 with the balance, primarily related to leases, to be paid through 2015. To eliminate the lease related costs, the Company is aggressively pursuing subleases of its available office space.

45

As a result of the implementation of these plans, the Company has closed and consolidated in excess of twenty office locations and has notified 1,520 individuals, of which 200 were notified during the quarter ended March 31, 2002, that they will be terminated under these plans. As of March 31, 2002, 1,450 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 a nine-month period.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In April 2001, the EITF issued Consensus No. 00-25, 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, 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 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 classification 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 \$5,258 and \$5,130 for the three months ended March 31, 2002 and 2001,

Edgar Filing: PRIMEDIA INC - Form 10-Q

respectively.

In July 2001, the Financial Accounting Standards Board ("FASB") issued two new statements, 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 estimated goodwill related to the acquisition of EMAP has not and will not be amortized. The estimated identifiable intangible assets are currently being amortized over a fifteen-year useful life, which is subject to a final valuation and purchase price allocation.

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.

As required by the SFAS 142, the Company reviewed its indefinite lived intangible assets (primarily trademarks) for impairment as of January 1, 2002. As a result, the Company recorded a cumulative effect of a change in accounting principle of approximately \$21,500 (\$0.09 per share) during the first quarter. Indefinite lived intangible assets acquired in the EMAP acquisition have not been reviewed for impairment as of January 1, 2002 as the final valuation and purchase price allocation have not been completed. During the second quarter of 2002, the Company will conduct its preliminary review of goodwill for impairment which could increase the cumulative effect of a change in accounting principle.

The Company also recorded a non-cash deferred income tax expense of approximately \$52,000 on January 1, 2002 and \$6,000 during the quarter ended March 31, 2002, both 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. 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 \$6,000 to increase the valuation allowance for the three months ended March 31, 2002. The Company expects that it will record an additional \$18,000 to increase the valuation allowance during the remaining nine months of 2002.

Edgar Filing: PRIMEDIA INC - Form 10-Q

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

| | | Three Months Ended 2002 |
|--|----|----------------------------|
| | | ----- |
| Reported loss applicable to common shareholders | \$ | (158,960) |
| Amortization of goodwill and indefinite lived intangible assets | | - |
| Cumulative effect of a change in accounting principle | | 21,535 |
| Deferred provision for income taxes | | 57,987 |
| | | ----- |
| Adjusted loss applicable to common shareholders | \$ | (79,438) |
| | | ===== |
| Reported loss applicable to common shareholders per | | |

46

| | | |
|---|----|--------|
| common share | \$ | (0.65) |
| Amortization of goodwill and indefinite lived intangible assets per common share | | - |
| Cumulative effect of a change in accounting principle per common share | | 0.09 |
| Deferred provision for income taxes per common share | | 0.24 |
| | | ----- |
| Adjusted loss applicable to common shareholders per common share | \$ | (0.32) |
| | | ===== |

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, 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 was recorded as discontinued operations during the quarters ended March 31, 2002 and 2001. Discontinued operations includes sales of the Modern Bride Group of approximately \$4,400 and \$7,700 and income (loss) from continuing operations of \$6,200 (including a gain on sale of approximately \$6,500) and \$(1,300) for the three months ended March 31, 2002 and 2001, respectively.

RECENT DEVELOPMENTS

In April 2002, the Company exchanged \$56,000 of exchangeable preferred stock for approximately 10,800,000 common shares. In May 2002, the Company exchanged \$2,000 of exchangeable preferred stock for approximately 381,000 common shares. Including the exchanges made during the first quarter of 2002, total exchanges of exchangeable preferred stock to date approximated \$65,000 and effectively sold common stock at a weighted average price of \$5.28 per share. This is part of the Company's authorized program to exchange up to \$100,000 of exchangeable preferred stock.

In April 2002, the Company granted certain key executives an aggregate total of 6,100,000 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 performance targets. Upon the achievement of these performance targets, the underlying options vest when the financial statements for the relevant period are finalized.

In May 2002, the Company received approximately \$15,000 from Observer AB representing payment on the note receivable related to the sale of Bacon's Information, Inc.

IMPACT OF INFLATION AND OTHER COSTS

The impact of inflation was immaterial during 2001 and through the first three months of 2002. 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 and approximately 3% in July 2001 and is expected to increase 8% to 12% during the second quarter of 2002. In the past, the 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 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 21% during the first three months of 2002 compared to 2001. In the first three months of 2002, paper costs represented approximately 6% of the Company's total operating costs and expenses. This decrease is a function of a softening in paper prices and decreased paper consumption through improved distribution and enhanced controls surrounding paper purchases and usage by the Company.

Edgar Filing: PRIMEDIA INC - Form 10-Q

SEASONALITY

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

48

quarterly operating results.

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.

49

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

During the first three-months of 2002, there were no significant changes related to the Company's market risk exposure.

50

PART II

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

- (c) The Company issued 1,144,778 unregistered shares of Company common stock in exchange for outstanding Company preferred shares in reliance on Section 3(a)(9) of the Securities Act of 1933, as amended.

51

Item 5. OTHER INFORMATION

The following tables represent the effects on sales, net and EBITDA from various events including the divestiture of the Modern Bride Group, Bacon's and certain other titles, as well as the adoption of recent accounting pronouncements.

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | FIRST QUARTER 2001 | SECOND QUARTER 2001 | THIRD QUARTER 2001 |
|---|--------------------------|---------------------------|--------------------------|
| | ----- | ----- | ----- |
| Sales, net (as reported) | \$ 427,006 | \$ 445,278 | \$ 418,62 |
| Effect of the sale of the Modern Bride Group | (7,675) | (16,913) | (5,49 |
| Effect of EITF 00-25 and 01-09 | (5,130) | (4,540) | (5,83 |
| | ----- | ----- | ----- |
| Sales, net (as restated) | 414,201 | 423,825 | 407,29 |
| | ----- | ----- | ----- |
| Non-Core Businesses: | | | |
| Non-Core sales, net (as reported) | 4,929 | 9,131 | 11,08 |
| Effect of the reclassification of divested and other titles to Non-Core Businesses | 16,457 | 8,341 | 7,50 |
| | ----- | ----- | ----- |
| Non-Core sales, net (as restated) | 21,386 | 17,472 | 18,58 |
| | ----- | ----- | ----- |
| Sales, net from Continuing Businesses (as restated) | \$ 392,815 | \$ 406,353 | \$ 388,70 |
| | ===== | ===== | ===== |

(a) Sales, net of Bacon's of \$6,836 was included in Non-Core sales, net (as reported) for the quarter ended December 31, 2001.

(b) Includes sales, net of approximately \$3,400 from assets-for-equity transactions.

52

| | FIRST QUARTER 2001 | SECOND QUARTER 2001 | THIRD QUARTER 2001 |
|---|--------------------------|---------------------------|--------------------------|
| | ----- | ----- | ----- |
| EBITDA (as reported) | \$ 36,563 | \$ 49,614 | \$ 27,621 |
| Effect of the sale of the Modern Bride Group | 621 | (4,455) | 2,188 |
| | ----- | ----- | ----- |
| EBITDA (as restated) | 37,184 | 45,159 | 29,809 |
| | ----- | ----- | ----- |
| Non-Core Businesses: | | | |
| Non-Core EBITDA (as reported) | (3,510) | (9,104) | (6,907) |
| Effect of the reclassification of divested and other titles to Non-Core Businesses | (8,013) | 2,257 | 1,557 |
| | ----- | ----- | ----- |

Edgar Filing: PRIMEDIA INC - Form 10-Q

| | | | |
|---|-----------|-----------|-----------|
| Non-Core EBITDA (as restated) | (11,523) | (6,847) | (5,350) |
| | ----- | ----- | ----- |
| EBITDA from Continuing Businesses (as restated) | \$ 48,707 | \$ 52,006 | \$ 35,159 |
| | ===== | ===== | ===== |

(c) EBITDA of Bacon's of \$1,879 was included in Non-Core EBITDA (as reported) for the quarter ended December 31, 2001.

(d) Includes the EBITDA impact of approximately \$3,400 from assets-for-equity transactions.

53

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

+10.1 - Agreement dated April 19, 2002 between PRIMEDIA Inc. and Charles G. McCurdy. (*)

(+) Executive contract.
 (*) Filed herewith.

(b) Reports on Form 8-K

On February 26, 2002, PRIMEDIA Inc. filed its Current Report on Form 8-K to comply with the disclosure requirements of Regulation FD. In this Current Report, the Company distributed presentation materials that were to be discussed at a conference sponsored by Merrill Lynch.

On March 21, 2002, PRIMEDIA Inc. filed its Current Report on Form 8-K to announce that a lawsuit has been filed against the Company and its subsidiary About.com, Inc. by 2 current and 32 former About "Guides". The suit alleges, among other things, that the Guides are improperly classified as independent contractors and that such Guides have been underpaid. PRIMEDIA and About believe that all the claims asserted in the lawsuit are completely without merit and entirely frivolous and the companies intend to defend themselves vigorously.

54

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: MAY 15, 2002

/s/ Thomas S. Rogers

 (Signature)

Edgar Filing: PRIMEDIA INC - Form 10-Q

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: MAY 15, 2002

/s/ Lawrence R. Rutkowski

(Signature)

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)