PRIMEDIA INC
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2006

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o   Accelerated filer x   Non-accelerated filer o

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

Number of shares of common stock, par value $.01 per share, of PRIMEDIA Inc. outstanding as of October 31, 2006: 264,055,370

PRIMEDIA Inc.
INDEX

Part I. Financial Information:

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share amounts)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 71,832	$ 7,255
Accounts receivable, net	132,358	134,773
Inventories	16,013	21,212
Prepaid expenses and other	41,520	29,722
Assets of businesses held for sale		109,129
Total current assets	261,723	302,091
Property and equipment (net of accumulated depreciation and amortization of $240,150 in 2006 and $226,600 in 2005)	54,603	56,868
Intangible assets, net	224,731	231,404
Goodwill	774,101	763,177
Other non-current assets	33,053	35,928
Total Assets	$ 1,348,211	$ 1,389,468
LIABILITIES AND SHAREHOLDERS DEFICIENCY		
Current liabilities:		
Accounts payable	$ 49,683	$ 52,984
Accrued expenses and other	141,554	122,319
Deferred revenues	108,274	107,940
Current maturities of long-term debt	11,325	7,677
Liabilities of businesses held for sale		33,203
Total current liabilities	310,836	324,123
Long-term debt	1,370,339	1,456,770
Deferred revenues	13,175	14,447
Deferred income taxes	88,124	87,655
Other non-current liabilities	74,809	78,202
Total Liabilities	1,857,283	1,961,197
Commitments and contingencies (Note 12)		
Shareholders deficiency:		
Common stock ($.01 par value, 350,000,000 shares authorized at September 30, 2006 and December 31, 2005; 272,497,779 and 272,158,878 shares issued and 264,055,370 and 263,716,469 shares outstanding at September 30, 2006 and December 31, 2005, respectively)	2,725	2,722
Additional paid-in capital (including warrants of $31,690 at September 30, 2006 and December 31, 2005)	2,366,126	2,363,071
Accumulated deficit	(2,802,046)	(2,861,645)
Common stock in treasury, at cost (8,442,409 shares at September 30, 2006 and December 31, 2005)	(75,877)	(75,877)
Total Shareholders Deficiency	(509,072)	(571,729)
Total Liabilities and Shareholders Deficiency	$ 1,348,211	$ 1,389,468

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Operations (Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended September 30, 2006	2005
Revenues, net:		
Advertising	$ 159,754	$ 159,508
Circulation	51,508	51,446
Other	42,773	35,974
Total revenues, net	254,035	246,928
Operating costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	60,050	56,237
Marketing and selling	44,892	46,930
Distribution, circulation and fulfillment	47,621	47,686
Editorial	17,460	17,581
Other general expenses	30,930	30,034
Corporate administrative expenses (including non-cash compensation of $411 and $4,070 in 2006 and 2005, respectively)	6,978	10,362
Depreciation and amortization of property and equipment	7,229	7,049
Amortization of intangible assets and other	3,479	2,645
Provision for severance, closures and restructuring related costs	292	256
Gain on sale of businesses and other, net		(80)
Operating income	35,104	28,228
Other income (expense):		
Interest expense	(33,574)	(32,440)
Interest on shares subject to mandatory redemption		(4,566)
Amortization of deferred financing costs	(630)	(1,042)
Other income (expense), net	787	(2,906)
Income (loss) from continuing operations before provision for income taxes	1,687	(12,726)
Provision for income taxes	(5,009)	(4,090)
Loss from continuing operations	(3,322)	(16,816)
Discontinued operations, net of tax (including gain on sale of businesses, net of tax, of $52,347 and $219,039 in 2006 and 2005, respectively)	57,074	224,570
Net income	$ 53,752	$ 207,754
Basic and diluted income (loss) per common share:		
Continuing operations	$ (0.01)	$ (0.06)
Discontinued operations	0.21	0.85
Net income	$ 0.20	$ 0.79
Basic and diluted common shares outstanding (weighted average)	264,055,370	263,122,384

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See notes to condensed consolidated financial statements (unaudited).

3

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Operations (Unaudited)
(in thousands, except share and per share amounts)

	Nine Months Ended September 30, 2006	2005
Revenues, net:		
Advertising	$ 474,786	$ 476,837
Circulation	149,709	150,742
Other	127,552	106,754
Total revenues, net	752,047	734,333
Operating costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	176,788	159,911
Marketing and selling	140,767	142,556
Distribution, circulation and fulfillment	145,062	140,786
Editorial	51,670	51,602
Other general expenses	94,977	93,250
Corporate administrative expenses (including non-cash compensation of $2,948 and $6,474 in 2006 and 2005, respectively)	23,452	26,405
Depreciation and amortization of property and equipment	21,840	20,179
Amortization of intangible assets and other	9,570	7,288
Provision for severance, closures and restructuring related costs	2,208	1,556
Loss (gain) on sale of businesses and other, net	28	(80)
Operating income	85,685	90,880
Other income (expense):		
Interest expense	(85,855)	(98,266)
Interest on shares subject to mandatory redemption		(21,920)
Amortization of deferred financing costs	(1,946)	(3,560)
Other income (expense), net	1,102	(7,083)
Loss from continuing operations before provision for income taxes	(1,014)	(39,949)
Provision for income taxes	(7,137)	(9,842)
Loss from continuing operations	(8,151)	(49,791)
Discontinued operations, net of tax (including gain on sale of businesses, net of tax, of $66,015 and $601,499 in 2006 and 2005, respectively)	67,728	628,070
Cumulative effect of change in accounting principle (from the adoption of Statement of Financial Accounting Standard No. 123 (R))	22	
Net income	$ 59,599	$ 578,279
Basic and diluted income (loss) per common share:		
Continuing operations	$ (0.03)	$ (0.19)
Discontinued operations	0.26	2.39
Cumulative effect of change in accounting principle	0.00	
Net income	$ 0.23	$ 2.20
Basic and diluted common shares outstanding (weighted average)	263,923,378	262,919,067

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Condensed Statements of Consolidated Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30, 2006	2005
Operating activities:		
Net income	$ 59,599	$ 578,279
Cumulative effect of change in accounting principle	(22)	
Adjustments to reconcile net income to net cash provided by operating activities	(34,202)	(536,705)
Changes in operating assets and liabilities	6,915	(36,936)
Net cash provided by operating activities	32,290	4,638
Investing activities:		
Additions to property and equipment	(18,402)	(21,681)
Proceeds from sales of businesses	151,848	816,502
Payments for businesses acquired, net of cash acquired	(20,335)	(27,830)
Proceeds from sale of other investments	1,300	
Net cash provided by investing activities	114,411	766,991
Financing activities:		
Borrowings under credit agreements	250,100	979,709
Repayments of borrowings under credit agreements	(268,100)	(960,616)
Payments for repurchases of senior notes	(62,094)	(81,017)
Proceeds from issuances of common stock	463	1,657
Redemption of Series D and F Exchangeable Preferred Stock		(264,494)
Deferred financing costs paid		(832)
Capital lease payments	(2,331)	(4,141)
Other	(162)	(151)
Net cash used in financing activities	(82,124)	(329,885)
Increase in cash and cash equivalents	64,577	441,744
Cash and cash equivalents, beginning of period	7,255	13,000
Cash and cash equivalents, end of period	$ 71,832	$ 454,744
Supplemental information:		
Cash interest paid, including interest on capital and restructured leases	$ 82,439	$ 82,997
Cash interest paid on shares subject to mandatory redemption	$	$ 26,457
Cash income taxes paid, net of refunds received	$ 4,503	$ 4,280
Cash paid for severence, closures and restructuring related costs	$ 4,901	$ 7,869
Businesses acquired:		
Fair value of assets acquired, net of cash acquired	$ 19,927	$ 27,430
Deferred purchase price payments, net of liabilities assumed	408	400
Payments for businesses acquired, net of cash acquired	$ 20,335	$ 27,830

See notes to condensed consolidated financial statements (unaudited).

PRIMEDIA INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
(in thousands, except share and per share amounts)

1. Summary of Significant Accounting Policies

Basis of Presentation

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either PRIMEDIA or the Company unless the context implies otherwise. In the opinion of the Company s management, the condensed consolidated financial statements present fairly the consolidated financial position of the Company as of September 30, 2006 and December 31, 2005, the results of consolidated operations of the Company for the three and nine months ended September 30, 2006 and 2005 and consolidated cash flows of the Company for the nine months ended September 30, 2006 and 2005. The adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The condensed consolidated balance sheet as of December 31, 2005 has been derived from the Company s audited consolidated balance sheet included in the Company s annual report on Form 10-K for the year ended December 31, 2005. All intercompany accounts and transactions have been eliminated in consolidation. These statements should be read in conjunction with the Company s annual consolidated financial statements and related notes for the year ended December 31, 2005, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for a full year. Certain amounts in the prior periods condensed consolidated financial statements and related notes have been reclassified due to discontinued operations to conform to the presentation as of and for the three and nine months ended September 30, 2006.

Stock-Based Compensation

The Company has a stock-based employee compensation plan which is described in Note 9. Prior to January 1, 2006, the Company accounted for stock-based compensation using the Financial Accounting Standards Board s Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure , under the prospective method. Upon adoption, the Company began expensing the fair value of stock based compensation for all grants, modifications or settlements made on or after January 1, 2003. Effective January 1, 2006, the Company adopted the provisions of, and account for stock-based compensation in accordance with SFAS No. 123 revised 2004 (SFAS No. 123(R)), Share-Based Payment , which replaced SFAS No. 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The modified prospective transition method requires recognition of compensation expense from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employees awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date. The adoption of SFAS No. 123(R) did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

Recent Accounting Pronouncements

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes

In July of 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, effective for fiscal years beginning after December 15, 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also requires entities to make further disclosures about uncertainties in their income tax position, and to include a rollforward of the tax benefits taken that do not qualify for financial statement recognition. The Company is in the process of assessing the impact of this Interpretation on its consolidated financial statements.

SFAS No. 157, Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not anticipate any material impact on its consolidated financial statements upon the adoption of this standard.

Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements

The SEC issued Staff Accounting Bulletin (SAB) No. 108 in October of 2006, to address diversity in practice regarding the quantification of financial statement misstatements. SAB 108 requires that a company use both the rollover and iron curtain method (the two most commonly used methods) when quantifying misstatement amounts. The SEC staff believes that reliance on only one of these methods does not appropriately quantify all misstatements that could be material to financial-statement users. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The Company is in the process of assessing the impact of this Interpretation on its consolidated financial statements.

2. Divestitures

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

On March 18, 2005, the Company completed the sale of About.com, part of the Enthusiast Media segment, the results of which have been classified as discontinued operations for the period up to the date of sale. Gross proceeds from the sale of approximately $410,600 were used to reduce the Company s borrowings under its revolving bank credit facilities and for general corporate purposes. The Company recorded a net gain on the sale of About.com of $172 and $379,076 included in discontinued operations for the three and nine months ended September 30, 2005.

On March 31, 2005, the Company completed the sale of Bankers Training & Consulting Company, the financial services division of Workplace Learning. On April 1, 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities. The Company recorded a net (loss)/gain of $(132) and $3,423 included in discontinued operations for the three and nine months ended September 30, 2005, respectively. The operating results of Workplace Learning have been classified as discontinued operations for all periods presented.

On September 30, 2005, the Company sold its Business Information Segment for approximately $385,000, resulting in a net gain of $219,000 included in discontinued operations for both the three and nine months ended September 30, 2005. During the fourth quarter of 2005, the Company sold Ward s Automotive Group. The operating results of the Business Information segment, including Ward s Automotive Group, have been classified as discontinued operations for all periods presented. The net proceeds from these sales are subject to routine post-closing adjustments. Additionally, during the third quarter of 2005, the Company discontinued the operations of two magazines in the Enthusiast Media segment. Their operating results have been classified as discontinued operations for the period up to the date the two magazines were discontinued.

During the fourth quarter of 2005, the Company decided to pursue the sales of its Crafts and History groups, part of the Enthusiast Media segment, and discontinue the operations of its Software on Demand division, part of the Education segment. The operating results of these operations have been classified as discontinued operations for all periods presented.

In February of 2006, the Company completed the sale of the History group for $17,000, resulting in a net gain of approximately $13,700. The sale of this group reflects the Company s increased focus on growing its properties that reach the valuable 18-34 male demographic.

In September of 2006, the Company discontinued and completed the sale of the Gems group, part of the Enthusiast Media segment. The Company also completed the sale of the Crafts group in the third quarter of 2006 for $132,000, resulting in a net gain of $48,983 after certain divestiture related expenses and working capital expenses. The sale of these groups reflects the Company s continued focus on its properties that reach the valuable 18-34 male demographic. The net proceeds from these sales are subject to routine post-closing adjustments

Net assets sold relating to the Crafts group, which were included in assets and liabilities of businesses held for sale, were comprised of the following:

Accounts receivable	$ 7,925
Intangible assets	6,237
Goodwill	74,291
Other assets	5,009
	93,462
Deferred revenues	(18,024)
Other liabilities	(4,528)
Net assets sold	$ 70,910

Total revenues, net, and income (loss) before provision for income taxes included in discontinued operations on the accompanying condensed statements of consolidated operations are as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Total revenues, net	$ 15,415	$ 70,698	$ 47,676	$ 244,990
Income (loss) before provision for income taxes	$ 2,371	$ 3,215	$ (306)	$ 25,153

Income (loss) before provision for income taxes above excludes gains on sale of businesses. The gains on sales of businesses, which are net of tax, were $52,347 and $219,039 for the three months ended September 30, 2006 and 2005, respectively. The gains on sales of businesses, net of tax, were $66,015 and $601,499 for the nine months ended September 30, 2006 and 2005, respectively.

Held for Sale

The assets and liabilities of businesses which the Company had initiated plans to sell, but had not sold, as of December 31, 2005, have been reclassified to held for sale on the accompanying condensed consolidated balance sheet. As of December 31, 2005, this represents the assets and liabilities of the Crafts and History groups. There were no assets held for sale as of September 30, 2006.

	December 31, 2005
ASSETS	
Accounts receivable, net	$ 12,994
Inventories	1,273
Prepaid expenses and other	883
Property and equipment, net	1,617
Intangible assets, net	5,148
Goodwill	87,214
Assets of businesses held for sale	$ 109,129
LIABILITIES	
Accounts payable	$ 3,929
Accrued expenses and other	1,085
Deferred revenues current	28,189
Liabilities of businesses held for sale	$ 33,203

3. Acquisitions

Automotive.com Forward Agreement

On November 15, 2005, the Company purchased Automotive.com, Inc. (Automotive.com). PRIMEDIA and the minority shareholders entered into a forward agreement through which PRIMEDIA will purchase the remaining 20% of Automotive.com s stock within a short period of time after the 2008 audit date, or if the forward agreement is extended, the 2009 audit date (early 2010). The settlement price of the forward agreement is based on a measure of Automotive.com s earnings in the fiscal year prior to settlement.

For accounting purposes, the forward agreement was bifurcated into the components relating to the Chief Executive Officer (CEO) of Automotive.com and the other minority shareholders. The estimated fair value of the deferred purchase price is measured quarter-to-quarter as a charge or credit to interest expense, except for the estimated amount payable to Automotive.com s CEO, which is included in other general expenses, in Enthusiast Media Segment EBITDA.

The component relating to the CEO was measured at intrinsic value for the one and one half months remaining in 2005 following the transaction date. On January 1, 2006, PRIMEDIA adopted the provisions of SFAS No. 123(R) (see Note 9), which requires that the portion of the forward agreement relating to the CEO be recorded as a liability and measured at fair value. The initial recognition of the liability, as of January 1, 2006, totaling $330, was recorded as a portion of the cumulative effect of change in accounting principle (due to the adoption of SFAS No. 123(R)). The liability measured on September 30, 2006 was $1,182, resulting in a charge to compensation expense of $371 and $852 for the three and nine months ended September 30, 2006, respectively.

The component of the forward agreement relating to the other minority shareholders was recorded as a liability at fair value as of the transaction date and an adjustment to the purchase price. On September 30, 2006, the fair value of this liability was $12,121, resulting in a charge to interest expense of

$482 for the three months ended September 30, 2006, and a net reduction to interest expense of $11,559 for the nine months ended September 30, 2006.

In addition, under the provisions of the Automotive.com Stockholders Agreement, the Company must make quarterly payments (the Additional Payments) to the minority shareholders of Automotive.com in the amount of 30% of Remaining Free Cash Flow, as defined in the Automotive.com Stockholders Agreement. For the three and nine months ended September 30, 2006, the Company recorded $114 and $176, respectively, of compensation expense, and $329 and $508, respectively, to goodwill relating to the Additional Payments made to the minority shareholders.

RentClicks

In January 2006, the Consumer Guides segment acquired the assets of *RentClicks* for approximately $12,683 in cash (including acquisition related expenses) and a potential earnout consideration. The amount of the earnout consideration will be charged to goodwill if and when it is earned and is based on a measure of *RentClicks* earnings for 2006. The Company allocated the purchase price of the acquisition to the following asset classes:

	Amortization Period	**Amount Allocated**
Goodwill		$ 5,125
Advertiser Lists	22 years	5,900
Non-Compete Agreements	5 years	860
Other		847
		12,732
Less: assumed liabilities		(49)
Total		$ 12,683

This acquisition had no material impact on the Company s results of operations for the three and nine months ended September 30, 2006.

4. Accounts Receivable, Net

Accounts receivable, net, consisted of the following:

	September 30, 2006	**December 31, 2005**
Accounts receivable	$ 142,851	$ 146,289
Allowance for doubtful accounts	(8,370)	(8,256)
Allowance for returns and rebates	(2,123)	(3,260)
	$ 132,358	$ 134,773

5. Inventories

Inventories consisted of the following:

	September 30, 2006	**December 31, 2005**
Raw materials	$ 11,371	$ 17,895
Work in process	68	125
Finished goods	4,574	3,192
	$ 16,013	$ 21,212

6. Goodwill, Intangible Assets and Other

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), the Company assesses goodwill and indefinite lived intangible assets for impairment at least once a year. The Company has established October 31 as its annual impairment test date. In addition to the annual impairment test, an assessment is also required whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the nine months ended September 30, 2006 and 2005, there were no events or changes in circumstances requiring the Company to perform an impairment test related to goodwill, intangible assets or other finite lived assets, and accordingly, there were no impairments recorded.

With the adoption of SFAS No. 142, the Company no longer amortizes the book basis of the indefinite-lived intangibles, but continues to amortize these intangibles for tax purposes. For the three months ended September 30, 2006 and 2005, provision for income taxes primarily consisted of deferred income taxes of $3,945 and $4,028, respectively, and for the nine months ended September 30, 2006 and 2005, $10,619 and $9,625, respectively. The Company expects that it will record a total of approximately $3,692, to increase deferred tax liabilities during the remainder of 2006.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2006, by operating segment, are as follows:

	Enthusiast Media	**Consumer Guides**	**Total**
Balance as of January 1, 2006	$ 650,510	$ 112,667	$ 763,177
Purchase price adjustments for valuation reports	340	(6,741)	(6,401)
Adjustment to goodwill allocated to assets held for sale	5,477		5,477
Goodwill acquired related to the acquisition of businesses	2,725	14,904	17,629
Goodwill written off related to the sale of businesses	(5,781)		(5,781)
Balance as of September 30, 2006	$ 653,271	$ 120,830	$ 774,101

Intangible assets subject to amortization in accordance with SFAS No. 142 consist of the following:

		September 30, 2006			**December 31, 2005**		
	Range of Lives	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Membership, subscriber and customer lists	2-20	$ 187,880	$ 162,732	$ 25,148	$ 194,926	$ 166,553	$ 28,373
Advertiser lists	4-22	100,484	79,200	21,284	96,065	79,418	16,647
Other	1-20	93,126	83,839	9,287	109,894	97,945	11,949
		$ 381,490	$ 325,771	$ 55,719	$ 400,885	$ 343,916	$ 56,969

Intangible assets not subject to amortization had a carrying value of $169,012 and $174,435 (excluding intangible assets classified as assets held for sale) at September 30, 2006 and December 31, 2005, respectively, and consisted primarily of trademarks. Amortization expense for other intangible assets still subject to amortization was $3,259 and $2,280 for the three months ended September 30, 2006 and 2005, respectively, and $9,026 and $6,228 for the nine months ended September 30, 2006 and 2005, respectively. Amortization of deferred wiring costs of $220 and $365 for the three months ended September 30, 2006 and 2005, respectively, and $544 and $1,060 for the nine months ended September 30, 2006 and 2005, respectively, is also included in amortization of intangible assets and other on the accompanying condensed statements of consolidated operations. At September 30, 2006, estimated future amortization expenses of other intangible assets still subject to amortization, excluding deferred wiring costs, are as follows: approximately $3,000 for the remainder of 2006 and approximately $11,000, $7,000, $6,000 and $5,000 for 2007, 2008, 2009 and 2010, respectively.

7. Accrued Expenses and Other

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2006	December 31, 2005
Payroll, commissions and related employee benefits	$ 29,094	$ 30,333
Rent and lease liabilities	6,365	5,643
Retail display costs and allowances	9,746	11,450
Royalties	1,315	2,337
Circulation costs	4,224	5,399
Professional fees	3,982	2,943
Taxes	28,229	19,475
Deferred purchase price	2,250	2,724
Interest payable	28,154	13,794
Other	28,195	28,221
	$ 141,554	$ 122,319

8. Long-term Debt

Long-term debt consisted of the following:

	September 30, 2006	December 31, 2005
Borrowings under bank credit facilities	$ 495,000	$ 513,000
8⅞% Senior Notes Due 2011	408,411	471,013
8% Senior Notes Due 2013	300,000	300,000
Senior Floating Rate Notes Due 2010	175,000	175,000
	1,378,411	1,459,013
Obligation under capital leases	3,253	5,434
	1,381,664	1,464,447
Less: Current maturities of long-term debt	11,325	7,677
	$ 1,370,339	$ 1,456,770

In the first quarter of 2006, the Company redeemed $7,025 principal amount of its 8⅞% Senior Notes due May 15, 2011 in three different transactions for $6,832 plus $200 of accrued interest. In the second quarter of 2006, the Company redeemed $56,615 principal amount of its 8⅞% Senior Notes in six different transactions for $55,262 plus $400 of accrued interest. As a result of these transactions, the Company recorded a gain of $336 net of the write-off of unamortized deferred financing costs and bond discount during the nine months ended September 30, 2006. This gain is included in the other income (expense), net line on the accompanying condensed statements of consolidated operations.

Under the most restrictive covenants as defined in the bank credit facilities agreement, as amended on September 30, 2005, the Company must maintain a minimum interest coverage ratio, as defined, of 1.75 to 1 and a minimum fixed charge coverage ratio, as defined, of 1.05 to 1. The maximum allowable debt leverage ratio, as defined in the bank credit facilities, is 6.25 to 1 and decreases to 6.00 to 1 on October 1, 2007.

The Senior Floating Rate Notes bear interest equal to the three-month LIBOR plus 5.375% per year. The interest rate of the Senior Floating Rate Notes was 10.78% at September 30, 2006.

In October 2006, the Company redeemed a portion of its 8% Senior Notes (See Note 15).

12

9. Share-Based Compensation Plans

Accounting Prior to Adoption of SFAS No. 123(R)

Prior to January 1, 2006, the Company accounted for stock-based compensation using SFAS No. 123 under the prospective method. Upon adoption on January 1, 2003, the Company began expensing the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. The company adopted SFAS No. 123(R) on January 1, 2006.

The PRIMEDIA Inc. 1992 Stock Purchase and Option Plan, as amended (the Stock Option Plan), authorizes sales of shares of common stock and grants of incentive awards in the form of, among other things, stock options to key employees and other persons with a unique relationship with the Company. The Stock Option Plan has authorized grants of up to 45,000,000 shares of the Company s common stock or options to management personnel.

Stock options are granted with exercise prices at or above quoted market value at time of issuance. Most of the options are exercisable at the rate of 20%-33% per year commencing on the effective date of the grant. Most options granted pursuant to the Stock Option Plan will expire no later than ten years from the date the option was granted. The grant date fair value is calculated using the Black-Scholes pricing model.

Summary of Impact of SFAS No. 123(R)

Under the fair value recognition provisions of SFAS No. 123(R), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Company elected the modified prospective method, under which prior periods are not revised for comparative purposes. The modified prospective transition method requires recognition of compensation expense from the beginning of the fiscal period in which the recognition provisions are first applied as if the fair-value-based accounting method had been used to account for all employees awards granted, modified, or settled after the effective date and to any awards that were not fully vested as of the effective date.

Upon adoption of SFAS No. 123(R), the Company recorded an increase in net income of $352 as a portion of the cumulative effect of change in accounting principle due to SFAS No. 123(R) s requirement to apply an estimated forfeiture rate to unvested awards (previously the Company recognized forfeitures when occurred) and a reduction to net income of $330 as a portion of the cumulative effect of change in accounting principle as described in Note 3. The adoption of SFAS No. 123(R) did not have a material impact on the Company s consolidated financial position, results of operations and cash flows.

Pro Forma Disclosure for the Three and Nine Months Ended September 30, 2005

Pro forma information regarding net income and earnings per share is required by SFAS No. 123(R), and has been determined as if the Company had accounted for its employee stock options granted on or before December 31, 2002 under the fair value method. The fair value of these options was estimated at the date of grant using the Black-Scholes pricing model with assumptions noted in the Stock Options section below.

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Reported net income	$ 207,754	$ 578,279
Add: stock-based employee compensation expense included in reported net income	3,331	4,483
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards	(4,437)	(7,908)
Pro forma net income	$ 206,648	$ 574,854
Per common share:		
Reported basic and diluted income	$ 0.79	$ 2.20
Pro forma basic and diluted income	$ 0.79	$ 2.19

Fair Value Calculations by Award

Stock Options

The fair value of each option award was estimated at the date of grant using the Black-Scholes pricing model under the assumptions noted in the following table. Where certain inputs to the Black-Scholes model varied throughout the period, the ranges utilized for those assumptions are disclosed. Expected volatilities are based on historical volatilities of the Company s stock. The Company uses historical data to estimate option exercises and employee terminations within the valuation model. The expected term of options granted is derived from the historical exercise behavior of employees and represents the period of time that options granted are expected to be outstanding. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Expected volatility	61.71 %	67.03 %	61.71% - 63.63 %	67.03% - 75.30 %
Weighted-average volatility	61.71 %	67.03 %	61.78 %	72.12 %
Expected dividends				
Expected term (in years)	3	3	3	3
Risk-free rate	4.95% - 5.03 %	4.08 %	4.95% - 5.03 %	3.25% - 4.08 %

The Black-Scholes pricing model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company s employee stock options have characteristics significantly different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate of its employee stock options.

In the third quarter of 2006, the Company granted two board members an aggregated total of 100,000 options to purchase shares of the company s Common stock. The exercise price of these stock options is $1.60. These options vest annually over a three-year period following the date of grant.

A summary of the Company s stock options award activity as of September 30, 2006 and changes during the nine months ended September 30, 2006 is presented below:

	Options	**Weighted Average Exercise Price**	**Weighted Average remaining Contractual Term**
Outstanding at January 1, 2006	20,712,058	$ 7.65	
Granted	110,000	$ 1.62	
Exercised	(19,883)	$ 1.82	
Expired	(458,337)	$ 7.37	
Forfeited	(201,198)	$ 3.11	
Outstanding at September 30, 2006	20,142,640	$ 7.67	4
Exercisable at September 30, 2006	18,584,611	$ 7.92	4

The weighted-average fair value per option for options granted during both the three and nine months ended September 30, 2006 was $0.73. Cash received from the exercise of stock options during the three and nine months ended September 30, 2006 was $1 and $36, respectively. No options were settled in cash during the three and nine months ended September 30, 2006.

The Company s policy for attributing the value of graded vested share-based compensation awards is on a straight-line basis over the requisite service period for the entire award. As of September 30, 2006, there was $900 of total unrecognized compensation cost related to unvested stock options. The cost is expected to be recognized over a weighted average period of 1 year.

Nonvested shares

The weighted average fair value of nonvested shares granted in the nine months ended September 30, 2005 was $3.48.

A summary of the Company s nonvested shares award activity as of September 30, 2006 and changes during the nine months ended September 30, 2006 is presented below:

	Number of Shares	**Weighted Average Grant-Date Fair Value**
Nonvested Shares at January 1, 2006	804,500	$ 2.95
Vested	(43,963)	$ 2.97
Forfeited	(5,500)	$ 2.90
Nonvested Shares at September 30, 2006	755,037	$ 2.95

As of September 30, 2006, there was $967 of total unrecognized compensation cost related to nonvested shares. The cost is expected to be recognized over a weighted average period of 1 year.

The total fair value of shares vested during the nine months ended September 30, 2006 was $131.

The Company has 9,685,921 shares of the Company s common stock reserved for future grants in connection with the Stock Option Plan at September 30, 2006.

Employee Stock Purchase Plan (ESPP   )

Effective January 1, 2006, the ESPP was amended to provide that the purchase price of shares through the ESPP is 95% of the closing stock price on the last day of the offering period. Due to the amendment, the ESPP became non-compensatory and thus no charges were recorded for the three and nine months ended September 30, 2006. ESPP non-cash compensation for the three and nine months ended September 30, 2005 did not have a material impact on the Company   s statements of consolidated operations. In January and July 2006, the Company issued 170,054 and 112,877 shares purchased under the ESPP during the offering periods of the six months ended December 31, 2005 and June 30,2006, respectively.

The Company has 2,451,000 shares of the Company   s common stock reserved for future grants in connection with the ESPP at September 30, 2006.

Non-Cash Compensation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Nonvested shares	$ 348	$ 739	$ 1,085	$ 1,991
Share Based Compensation (SFAS 123(R) and SFAS 123)	63	3,331	1,863	4,483
Total	$ 411	$ 4,070	$ 2,948	$ 6,474

10. Provision for Severance, Closures and Restructuring Related Costs

In 2006, the Company began new cost reduction initiatives to streamline operations, reduce layers of management and consolidate real estate.

Details of the new initiatives implemented and the payments made related to both the new and previously implemented plans during the nine months ended September 30, 2006 and 2005 are presented in the following tables:

	Liability as of January 1, 2006	Net Provision for the Nine Months Ended September 30, 2006	Payments during the Nine Months Ended September 30, 2006	Liability as of September 30, 2006
Severance and closures:				
Employee-related termination costs	$ 245	$ 1,741	$ (1,522)	$ 464
Termination of leases related to office closures	29,228	467	(3,379)	26,316
Total severance and closures	$ 29,473	$ 2,208	$ (4,901)	$ 26,780

	Liability as of January 1, 2005	Net Provision for the Nine Months Ended September 30, 2005	Payments during the Nine Months Ended September 30, 2005	Liability as of September 30, 2005
Severance and closures:				
Employee-related termination costs	$ 1,501	$ 1,489	$ (2,387)	$ 603
Termination of leases related to office closures	34,450	67	(4,262)	30,255
Total severance and closures	$ 35,951	$ 1,556	$ (6,649)	$ 30,858

The remaining liability related to real estate lease commitments for space that the Company no longer occupies, is expected to be paid through 2015. The employee-related termination costs are expected to be paid through 2006. To reduce the lease related costs, the Company has aggressively pursued subleases of its available office space. These leases have been recorded at their net present value amounts and are net of sublease income amounts. The Company evaluates the appropriateness of its reserves on a quarterly basis.

As a result of the implementation of this new plan, the Company has closed 4 office location and has terminated a total of 70 individuals.

Liabilities of $3,848 and $3,972 representing the current portion of the provision for severance, closures and restructuring related costs are included in accrued expenses and other on the condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively. Liabilities of $22,932 and $25,501 representing the non-current portion of the provision for severance, closures and restructuring related costs are included in other non-current liabilities on the condensed consolidated balance sheets as of September 30, 2006 and December 31, 2005, respectively.

For purposes of the Company s bank credit facility and Senior Note agreements, the provision for severance, closures and restructuring related costs is excluded from the Company s calculation of consolidated EBITDA.

11. Income per Common Share

Income per common share for the three and nine months ended September 30, 2006 and 2005 has been determined based on net income divided by the weighted average number of common shares outstanding for all periods presented.

The securities that could potentially dilute basic earnings per share in the future consist of approximately 9,870,000 warrants at September 30, 2006 and 2005, and 20,142,640 and 22,103,785 stock options at September 30, 2006 and 2005, respectively.

12. Commitments and 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.

In 2005, the Company sold the remaining net assets of Workplace Learning for the assumption of liabilities, however, the Company retained a secondary liability regarding the Carrolton, TX building lease and a lease for satellite time. At the time of the sale the Company received a third party guarantee of up to $10,000 against those lease obligations to reimburse the Company for lease payments made.

In 2006, the Company made certain lease payments on behalf of Workplace Learning pursuant to its secondary liability. During the second quarter of 2006, the Company determined that it was probable that the Company would be responsible for the lease payments. As a result, as of September 30, 2006, the Company has a receivable of $10,000 included in prepaid expenses and other current assets for the amount due from the third party guarantor, and a total liability of $15,231 for the fair value of the future lease payments, net of estimated sublease income, on the accompanying condensed consolidated balance sheet. During the second quarter of 2006, the Company recorded a related provision in discontinued operations of $5,584 and a charge to discontinued operations of $1,643 for the net lease payments made by the Company prior to June 30, 2006. As of September 30, 2006, no further provisions were deemed necessary.

13. Business Segment Information

The Company s products compete primarily in the United States, in three principal segments: Enthusiast Media, Consumer Guides and Education. PRIMEDIA believes that this structure aligns its businesses to provide a clearer sense of its strategic focus and operating performance.

The Enthusiast Media segment produces and distributes content through magazines and via the Internet to consumers in various niche and enthusiast markets. It connects buyers and sellers through the Company s consumer magazine brands, Internet, events, video programs, licensing and merchandising.

The Consumer Guides segment is the nation s largest publisher and distributor of free publications, including *Apartment Guide, New Home Guide* and *Auto Guide* and operates related Internet sites.

The Education segment consists of the businesses that provide content for schools, universities, government and other public institutions as well as training. It includes Channel One, Films Media Group and PRIMEDIA Healthcare, a continuing medical education business.

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

Information regarding the operations of the Company in different business segments is set forth below based primarily on the nature of the targeted audience. Corporate represents items not allocated to other business segments. PRIMEDIA evaluates performance based on several factors, of which the primary financial measure is segment earnings before interest, taxes, depreciation, amortization and other charges (income) (Segment EBITDA). Other charges (income) include non-cash compensation, provision for severance, closures and restructuring related costs and (gain) loss on sale of businesses and other, net.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Revenues, net:				
Enthusiast Media	$ 162,182	$ 154,688	$ 467,640	$ 449,907
Consumer Guides	81,352	81,310	244,036	236,429
Education	10,610	10,996	40,596	48,231
Intersegment Eliminations	(109)	(66)	(225)	(234)
Total	$ 254,035	$ 246,928	$ 752,047	$ 734,333
Segment EBITDA:(1)				
Enthusiast Media	$ 34,354	$ 32,417	$ 88,287	$ 88,348
Consumer Guides	21,699	17,791	57,609	53,947
Education	(2,952)	(1,738)	(3,064)	3,969
Corporate Overhead	(6,586)	(6,302)	(20,553)	(19,967)
Total Segment EBITDA	46,515	42,168		