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PRIMEDIA INC
Form 8-K/A
November 07, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) August 24, 2001

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

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ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

- (a) On August 24, 2001, PRIMEDIA Inc. ("PRIMEDIA" or the "Company") completed the acquisition of the publishing business of EMAP, Inc. ("EMAP") for purchase consideration of approximately \$525 million.

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(b) Pro forma financial information.

An introduction to the pro forma consolidated financial statements is attached as page 3. The unaudited pro forma statements of consolidated operations for the year ended December 31, 2000 and the six months ended June 30, 2001, and an unaudited pro forma consolidated balance sheet at June 30, 2001, along with a description of all pro forma adjustments, are attached as pages 4 through 12.

(c) Audited consolidated financial statements of EMAP.

EMAP's audited consolidated financial statements as of and for the year ended March 31, 2001 and the notes thereto and the unaudited consolidated financial statements as of and for the three months ended June 30, 2001 and the notes thereto are attached as pages 13 through 32.

(d) Exhibits

23.1 Consent of PricewaterhouseCoopers, LLP

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The unaudited pro forma statements of consolidated operations for the year ended December 31, 2000 and the six months ended June 30, 2001 give effect to the acquisitions of all of the outstanding common stock of About.com, Inc. ("About") and EMAP as if they had occurred on January 1, 2000. The unaudited pro forma statement of consolidated operations for the year ended December 31, 2000 includes adjustments to reflect the historical operating results of About for the twelve months ended December 31, 2000 and the historical operating results of EMAP for the twelve months ended March 31, 2001. The historical operating results of PRIMEDIA for the six months ended June 30, 2001 include the operating results of About subsequent to the merger date (February 28, 2001). The unaudited pro forma statement of consolidated operations for the six months ended June 30, 2001 includes adjustments to reflect the historical operating results of About for the two months ended February 28, 2001 and the historical operating results of EMAP for the six months ended June 30, 2001. The historical balance sheet of PRIMEDIA as of June 30, 2001 includes the financial position of About. The unaudited pro forma consolidated balance sheet as of June 30, 2001 gives effect to the acquisition of EMAP as if it had occurred on June 30, 2001, based on the purchase method of accounting.

The Company believes the accounting used for the pro forma adjustments provides a reasonable basis on which to present the unaudited pro forma consolidated financial statements. The pro forma adjustments do not include any synergies expected to be derived from the transactions. In addition, the pro forma adjustments do not include the pro forma impact of PRIMEDIA's other acquisitions during 2000 or 2001 because the impact of such acquisitions is not significant to the consolidated entity. The pro forma statements of consolidated operations and pro forma consolidated balance sheet are unaudited and were derived by adjusting the historical consolidated financial statements of the Company, About and EMAP. THE UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS ARE PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED TO BE INDICATIVE OF

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THE COMPANY'S CONSOLIDATED RESULTS OF OPERATIONS OR CONSOLIDATED FINANCIAL POSITION HAD THE TRANSACTIONS BEEN CONSUMMATED ON THE DATES ASSUMED AND DO NOT PROJECT THE COMPANY'S CONSOLIDATED RESULTS OF OPERATIONS OR CONSOLIDATED FINANCIAL POSITION FOR ANY FUTURE DATE OR PERIOD.

The unaudited pro forma consolidated financial statements and accompanying notes thereto should be read in conjunction with the PRIMEDIA historical consolidated financial statements and the notes thereto included in PRIMEDIA's Annual Report on Form 10-K for the year ended December 31, 2000 and PRIMEDIA's Quarterly Report on Form 10-Q for the six months ended June 30, 2001, PRIMEDIA's Current Report on Form 8-K/A dated February, 28, 2001 relating to the merger of PRIMEDIA and About, which includes About's historical consolidated financial statements as of December 31, 2000 and 1999 and for the three years in the period ended December 31, 2000 and the notes thereto, as well as EMAP's historical consolidated financial statements as of and for the year ended March 31, 2001 and as of and for the three months ended June 30, 2001 and the notes thereto included herein.

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PRIMEDIA INC. AND SUBSIDIARIES
 UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
 AT JUNE 30, 2001
 (dollars in thousands)

	Historical PRIMEDIA (Including About) -----
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 13,300
Accounts receivable, net	258,073
Inventories, net	34,351
Current portion of deferred subscription acquisition costs	-
Net assets held for sale	20,677
Prepaid expenses and other	77,309
Total current assets	----- 403,710
Property and equipment, net	188,349
Other intangible assets, net	528,487
Excess of purchase price over net assets acquired, net	1,561,146
Deferred income tax asset, net	135,000
Other investments	163,288
Related party receivable from EMAP America Partners	-
Related party receivable from For Him Magazine	-
Deferred subscription acquisition costs	-
Other non-current assets	80,343
	----- \$3,060,323 =====

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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 74,787
Accrued interest payable	27,165
Accrued expenses and other	220,834

Deferred revenues (a)	215,796
Current maturities of long-term debt	8,074

Total current liabilities	546,656
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Long-term debt	1,720,207
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Deferred revenues	62,486
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Related party payables to EMAP plc	-
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Other non-current liabilities	19,117
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Exchangeable preferred stock	562,141
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Shareholders' equity:

Series J convertible preferred stock	-
Common stock	2,240

Additional paid-in capital	2,130,012
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Accumulated deficit	(1,855,115)
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Accumulated other comprehensive loss	(3,967)
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Unearned compensation	(48,589)
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Common stock in treasury, at cost	(74,865)
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Parent investment	-
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Total shareholders' equity	149,716
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\$3,060,323

Pro forma
Consolidated
With About
and EMAP

ASSETS

Current assets:

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Cash and cash equivalents	\$ 13,300
Accounts receivable, net	314,938
Inventories, net	48,737
Current portion of deferred subscription acquisition costs	-
Net assets held for sale	20,677
Prepaid expenses and other	87,052

Total current assets	484,704
Property and equipment, net	192,774
Other intangible assets, net	690,348
Excess of purchase price over net assets acquired, net	1,938,823
Deferred income tax asset, net	135,000
Other investments	168,584
Related party receivable from EMAP America Partners	-
Related party receivable from For Him Magazine	-
Deferred subscription acquisition costs	-
Other non-current assets	95,132

	\$ 3,705,365
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 78,434
Accrued interest payable	27,167
Accrued expenses and other	264,033
Deferred revenues (a)	259,022
Current maturities of long-term debt	8,074

Total current liabilities	636,730

Long-term debt	1,985,207

Deferred revenues	84,932

Related party payables to EMAP plc	-

Other non-current liabilities	28,639

Exchangeable preferred stock	562,141

Shareholders' equity:	
Series J convertible preferred stock	114,232
Common stock	2,506
Additional paid-in capital	2,273,514
Accumulated deficit	(1,855,115)
Accumulated other comprehensive loss	(3,967)
Unearned compensation	(48,589)

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Common stock in treasury, at cost	(74,865)
Parent investment	-

Total shareholders' equity	407,716

	\$ 3,705,365
	=====

See notes to unaudited pro forma consolidated financial statements.

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PRIMEDIA INC. AND SUBSIDIARIES
 UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED OPERATIONS
 YEAR ENDED DECEMBER 31, 2000
 (dollars in thousands, except per share amounts)

	H

	PRIMEDIA

Sales, net	\$ 1,690,9
Operating costs and expenses:	
Cost of goods sold (excluding \$3,695 of historical non-cash compensation)	394,4
Marketing and selling	386,8
Distribution, circulation and fulfillment	255,5
Editorial	137,8
Product development	
Other general expenses (excluding \$935 of historical non-cash compensation)	225,6
Corporate administrative expenses (excluding \$27,810 of historical non-cash compensation and \$30,714 of pro forma non-cash compensation)	33,9
Depreciation of property and equipment	52,9
Amortization of intangible assets, excess of purchase price over net assets acquired and other	128,3
Non-cash compensation and non-cash non-recurring charges	35,2
Provision for severance, closures and integration costs	20,7
Gain on sale of businesses and other, net	(14,4)

Operating income (loss)	33,8

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Other income (expense):	
Provision for the impairment of investments	(188,5
Interest income (expense), net	(143,9
Amortization of deferred financing costs	(3,8
Other, net	(3,1

Loss before income tax expense	(305,6
Income tax expense	(41,2

Net loss	(346,8
Preferred stock dividends and related accretion	(53,0

Loss applicable to common shareholders	\$ (399,8
	=====
Basic and diluted loss applicable to common shareholders per common share (h)	\$ (2.

Basic and diluted common shares outstanding	161,104,0
	=====
	Pro forma
	Consolidat
	With Abou

Sales, net	\$ 1,781,6
Operating costs and expenses:	
Cost of goods sold (excluding \$3,695 of historical non-cash compensation)	425,5
Marketing and selling	428,8
Distribution, circulation and fulfillment	255,5
Editorial	137,8
Product development	18,5
Other general expenses (excluding \$935 of historical non-cash compensation)	262,9
Corporate administrative expenses (excluding \$27,810 of historical non-cash compensation and \$30,714 of pro forma non-cash compensation)	33,9
Depreciation of property and equipment	59,4
Amortization of intangible assets, excess of purchase price over net assets acquired and other	293,2
Non-cash compensation and non-cash non-recurring charges	70,5
Provision for severance, closures and integration costs	20,7
Gain on sale of businesses and other, net	(14,4

Operating income (loss)	(211,2
Other income (expense):	
Provision for the impairment of investments	(188,5

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Amortization of deferred financing costs	
Other, net	
Loss before income tax expense	---
Income tax expense	---
Net loss	
Preferred stock dividends and related accretion	---
Loss applicable to common shareholders	\$
	==
Basic and diluted loss applicable to common shareholders per common share (h)	\$

Basic and diluted common shares outstanding	2
	==

See notes to unaudited pro forma consolidated financial statements.

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PRIMEDIA INC. AND SUBSIDIARIES
 UNAUDITED PRO FORMA STATEMENT OF CONSOLIDATED OPERATIONS
 SIX MONTHS ENDED JUNE 30, 2001
 (dollars in thousands, except per share amounts)

	(Incl
	Sub
	Februa

Sales, net	\$
Operating costs and expenses:	
Cost of goods sold	
Marketing and selling	
Distribution, circulation and fulfillment	
Editorial	
Other general expenses (excluding \$856 of historical non-cash compensation)	
Corporate administrative expenses (excluding \$11,042 of historical non-cash compensation and \$1,540 of pro forma non-cash compensation)	

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Depreciation of property and equipment	
Amortization of intangible assets, excess of purchase price over net assets acquired and other	
Non-cash compensation and non-cash non-recurring charges	
Provision for severance, closures and integration costs	
Gain on sale of businesses and other, net	
Operating income (loss)	
Other income (expense):	
Provision for the impairment of investments	
Interest income (expense), net	
Amortization of deferred financing costs	
Other, net	
Loss before income tax expense	
Income tax expense	
Net loss	
Preferred stock dividends and related accretion	
Loss applicable to common shareholders	\$
Basic and diluted loss applicable to common shareholders per common share (h)	\$
Basic and diluted common shares outstanding	19

	About Pro forma Adjustments

Sales, net	\$ (23,429) (b)
Operating costs and expenses:	
Cost of goods sold	--
Marketing and selling	(28,596) (b)
Distribution, circulation and fulfillment	--
Editorial	--
Other general expenses (excluding \$856 of historical non-cash compensation)	67 (e) 384 (f)
Corporate administrative expenses (excluding \$11,042 of historical non-cash compensation and \$1,540 of pro forma non-cash compensation)	(4,830) (j)
Depreciation of property and equipment	--
Amortization of intangible assets, excess of purchase price over net assets acquired and other	19,160 (g)
Non-cash compensation and non-cash non-recurring charges	563 (c) 682 (d) 295 (i)

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Provision for severance, closures and integration costs	--
Gain on sale of businesses and other, net	--

Operating income (loss)	(11,154)
Other income (expense):	
Provision for the impairment of investments	
Interest income (expense), net	--
Amortization of deferred financing costs	--
Other, net	--

Loss before income tax expense	(11,154)
Income tax expense	--

Net loss	(11,154)
Preferred stock dividends and related accretion	--

Loss applicable to common shareholders	\$ (11,154)
	=====
Basic and diluted loss applicable to common shareholders per common share (h)	
Basic and diluted common shares outstanding	15,846,145 (h)
	=====

	Historical EMAP

Sales, net	\$ 162,808
Operating costs and expenses:	
Cost of goods sold	38,461
Marketing and selling	31,476
Distribution, circulation and fulfillment	26,949
Editorial	17,205
Other general expenses (excluding \$856 of historical non-cash compensation)	26,951
Corporate administrative expenses (excluding \$11,042 of historical non-cash compensation and \$1,540 of pro forma non-cash compensation)	--
Depreciation of property and equipment	1,059
Amortization of intangible assets, excess of purchase price over net assets acquired and other	87,796
Non-cash compensation and non-cash non-recurring charges	--
Provision for severance, closures and integration costs	--
Gain on sale of businesses and other, net	--

Operating income (loss)	(67,089)
Other income (expense):	
Provision for the impairment of investments	(14,981)
Interest income (expense), net	(952)
Amortization of deferred financing costs	--

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Other, net	--

Loss before income tax expense	(83,022)
Income tax expense	(358)

Net loss	(83,380)
Preferred stock dividends and related accretion	--

Loss applicable to common shareholders	\$ (83,380)
	=====
Basic and diluted loss applicable to common shareholders per common share (h)	
Basic and diluted common shares outstanding	

	Pro forma Consolidated With About and EMAP

Sales, net	\$ 1,017,377
Operating costs and expenses:	
Cost of goods sold	261,196
Marketing and selling	264,888
Distribution, circulation and fulfillment	165,898
Editorial	98,763
Other general expenses (excluding \$856 of historical non-cash compensation)	157,182
Corporate administrative expenses (excluding \$11,042 of historical non-cash compensation and \$1,540 of pro forma non-cash compensation)	16,090
Depreciation of property and equipment	33,261
Amortization of intangible assets, excess of purchase price over net assets acquired and other	182,536
Non-cash compensation and non-cash non-recurring charges	15,123
Provision for severance, closures and integration costs	12,502
Gain on sale of businesses and other, net	(503)

Operating income (loss)	(189,559)
Other income (expense):	
Provision for the impairment of investments	(45,788)
Interest income (expense), net	(75,717)
Amortization of deferred financing costs	(9,063)
Other, net	(30,716)

Loss before income tax expense	(350,843)
Income tax expense	(358)

Net loss	(351,201)

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Preferred stock dividends and related accretion		(36,321)

Loss applicable to common shareholders	\$	(387,522)
	=====	
Basic and diluted loss applicable to common shareholders per common share (h)	\$	(1.61)

Basic and diluted common shares outstanding		240,713,367
	=====	

See notes to unaudited pro forma consolidated financial statements.

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PRIMEDIA Inc. and Subsidiaries
Notes to Unaudited Pro Forma Consolidated Financial Statements
(dollars in thousands, except per share amounts)

(a) On August 24, 2001, the Company acquired the publishing business of EMAP from EMAP America Partners. The total consideration was \$525,000 comprised of \$515,000 in cash and a warrant to acquire 2,000,000 shares of the Company's common stock. The fair value of the warrant was approximately \$10,000 and was determined using a Black Scholes pricing model.

The Company has financed the acquisition of EMAP by (1) issuing \$125,000 of Series J Convertible Preferred Stock to KKR 1996 Fund 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, KKR 1996 Fund converted all of the issued and outstanding shares of the Series K Convertible Preferred Stock into 15,795,745 shares of the Company's common stock. For purposes of the pro forma statements of consolidated operations and the pro forma consolidated balance sheet, the Company has reflected the conversion of the Series K Convertible Preferred Stock as of January 1, 2000 and June 30, 2001, respectively.

The Series J Convertible Preferred Stock is convertible at the option of the holder one year from the date of issuance, into shares of the Company's common stock at a conversion price of \$125,000 divided by \$7 per share, subject to adjustment. Dividends on the Series J Convertible Preferred Stock accrue at an annual rate of 12.5% and are payable quarterly in kind. The Company 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

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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. In addition, the Company may 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 warrants to purchase 250,000, 1 million, 1.25 million and 1.5 million shares of common stock, respectively. The pro forma financial statements do not reflect the issuance of the additional 4,000,000 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.

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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 \$10,768 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 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 following is a summary of the calculation of the purchase price, as described above, as well as the allocation of the purchase price to the fair value of the net assets acquired:

Purchase consideration	\$	5
Estimated direct acquisition costs		-----
Total estimated purchase price		5
Less: Fair value of net tangible assets of EMAP, net of related party accounts and current maturities of long-term debt, which have not been acquired		-----
Total excess of purchase price over net assets acquired and intangible assets		5
Allocated to other identifiable intangibles		1

Allocated to excess of purchase price over net assets acquired

\$ 3
=====

For purposes of these pro forma financial statements, the Company has estimated \$22,000 of deal related costs, \$20,000 of which are directly related to the acquisition and are therefore reflected above in the purchase price allocation. The remaining \$2,000 are attributable to the transaction financing and are therefore reflected as a reduction to additional paid-in capital.

PRIMEDIA's management determined that the utilization of EMAP's historical net operating losses was not likely. Therefore, no deferred tax assets have been recorded in connection with the acquisition.

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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 as of June 30, 2001. The excess purchase price over the fair value of net tangible assets acquired has been allocated to other intangibles and goodwill based on an analysis of the Company's past experience with similar acquisitions. This adjustment is based upon preliminary estimates to reflect the allocation of purchase consideration to the acquired assets and liabilities of EMAP. The final allocation of the purchase consideration will be determined based on appraisals and a comprehensive final evaluation of the fair values and useful lives of EMAP's tangible assets acquired, identifiable intangible assets and excess of purchase price over net assets acquired at the time of the acquisition. The final determination may result in asset and liability fair values that are different than the preliminary estimates of these amounts. For purposes of purchase price allocation, it has been assumed that the fair value of deferred revenues approximates EMAP's historical carrying value. At the acquisition date, the fair value of EMAP's deferred revenues represented the fair value of the contractual performance obligation based upon the nature of the activities to be performed and the related costs to be incurred. No adjustment to the historical carrying value of deferred revenues was required.

During the year ended March 31, 2001, EMAP acquired substantially all of the assets of various magazine publishers, including all rights to certain magazines and one automobile show. The results of operations of these acquisitions have been consolidated with EMAP since the dates of acquisition. If all of these acquisitions had occurred on April 1, 2000, there would not be a material impact on the results of operations and therefore, no additional pro forma adjustments have been reflected.

(b) To eliminate the historical equity accounts of EMAP and About and various transactions with About.

(c) To reflect non-cash compensation expense in connection with the employment agreements of Scott P. Kurnit, founder and former Chief Executive Officer of About, and William C. Day, co-founder and former Chief

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Operating Officer of About. In connection with their employment agreements, Messrs. Kurnit and Day were granted options to purchase 2,605,300 shares and 877,000 shares, respectively, of PRIMEDIA common shares at an exercise price equal to thirty percent of the fair market value per share on that date. Accordingly, the adjustment reflects 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. These options vest at a rate of 25% per year and are subject to Messrs. Kurnit's and Day's continued employment. Accordingly, the compensation expense adjustments reflect this pro rata vesting on a graded basis.

(d) To reflect non-cash compensation expense in connection with the employment agreements of Messrs. Kurnit and Day. In connection with their employment agreements, Messrs. Kurnit and Day were granted 2,211,100 shares and 744,350 shares, respectively, of restricted PRIMEDIA common stock. Accordingly, the adjustment reflects a PRIMEDIA per share market value of \$9.50, which was the closing price on February 28, 2001. These shares of restricted PRIMEDIA common stock vest at a rate of 25% per year and are subject to Messrs. Kurnit's and Day's continued employment. Accordingly, the compensation expense adjustments reflect this pro rata vesting on a graded basis.

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(e) To reflect additional compensation expense to be incurred in connection with the employment agreements of Messrs. Kurnit and Day.

(f) To reflect additional compensation expense relating to eligible bonuses, the amount of which is \$2,300 on an annual basis.

(g) To adjust pro forma amortization expense based on the excess of purchase price over net assets acquired related to the About merger. This excess is amortized over an estimated useful life of three years. PRIMEDIA believes that a three-year life is responsive to the rapid rate of change in the Internet industry and is consistent with other recent mergers of a comparable nature. This adjustment is based upon preliminary estimates to reflect the allocation of purchase consideration to the acquired assets and liabilities of About. The final allocation of the purchase consideration will be determined based on appraisals and a comprehensive final evaluation of the fair values and useful lives of About's tangible assets acquired, identifiable intangible assets and excess of purchase price over net assets acquired at the time of the merger. The final determination may result in asset and liability fair values that are different than the preliminary estimates of these amounts. The pro forma adjustments represent the difference between the amortization of the \$494,582 excess of purchase price over net assets acquired over a three year period and About's historical amortization.

(h) The pro forma adjustments reflect the additional shares issued based on the exchange ratio used to consummate the merger and include the additional shares of restricted PRIMEDIA common stock to be issued to Messrs. Kurnit and Day in connection with their employment agreements that will vest in the eighteen months after the acquisition.

Pro forma loss per share has been determined based on pro forma net loss

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after preferred stock dividends and related accretion divided by the weighted average number of shares of PRIMEDIA common shares outstanding. Stock options were not included in the computation of pro forma loss per share because the effect of their inclusion would be antidilutive.

The weighted average shares outstanding for the year ended December 31, 2000, is calculated as follows:

Weighted average shares of About assuming shares issued in connection with 2000 acquisitions were outstanding for the entire year	19,
Less: Weighted averages shares of About owned by PRIMEDIA	-----
Total shares	18,

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Exchange ratio	-----
Subtotal	44,
Shares of restricted PRIMEDIA common stock issued to Messrs. Kurnit and Day that will vest in the first year of the acquisition (see note (d))	-----
Total About weighted average shares outstanding at December 31, 2000	44, =====

The adjustment to the weighted averages shares outstanding for the six months ended June 30, 2001, is calculated as follows:

Pro forma adjustment to PRIMEDIA's weighted average shares assuming shares issued in connection with the About acquisition were outstanding for the six months ended June 30, 2001	14,
Shares of restricted PRIMEDIA common stock issued to Messrs. Kurnit and Day that vest during the fourteen months ended February 28, 2001 (see note (d))	-----
Total pro forma adjustment at June 30, 2001	15, =====

(i) The pro forma adjustments reflect the amortization of the unearned compensation, on a graded basis relating to the intrinsic value of the "in-the-money" unvested replacement options that were granted to About employees on the date of the merger. On February 28, 2001, the date that

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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 these options were granted, the Company classified \$7,592 as unearned compensation relating to the unvested options. The remaining \$12,148 was included within the total purchase price of About.

(j) The pro forma adjustment reflects the elimination of merger related costs incurred by About that were charged to operations.

(k) The pro forma adjustment reflects the pro forma impact of About's acquisitions during 2000 for the periods prior to the date of acquisition.

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(l) To adjust pro forma amortization expense based on the excess of purchase price over net assets acquired and other intangible assets related to the acquisition of EMAP. For purposes of these pro forma financial statements, the Company has assumed that this excess of purchase price over net assets acquired would be amortized over an estimated useful life of fifteen years. PRIMEDIA believes that a fifteen-year life is consistent with other mergers of a comparable nature. For purposes of these pro forma financial statements, the Company has assumed that the identifiable intangible assets would be amortized over an estimated useful life of fifteen years. The final allocation of purchase price may result in amortization expense that is different than the preliminary estimate of this amount. The pro forma adjustments represent the difference between the amortization of the \$377,677 excess of purchase price over net assets acquired over a fifteen year period, the amortization of the \$161,861 other intangible assets over a fifteen year period and EMAP's historical amortization. For purposes of these pro forma financial statements, the Company has assumed that Statement of Financial Accounting Standards No. 142 ("SFAS No. 142"), "Goodwill and Other Intangibles", which was issued by the Financial Accounting Standards Board in June 2001, was not in effect. SFAS No. 142, eliminates the requirement to record amortization expense on goodwill and intangible assets with an infinite useful life.

(m) To adjust interest expense resulting from the increased level of borrowings (\$265,000) needed to finance the EMAP acquisition at an assumed weighted average interest rate of 6.71% for the six months ended June 30, 2001 and 8.08% for the year ended December 31, 2000. The interest rates used represent the weighted average interest rates on similar borrowings during these periods.

(n) To reflect quarterly dividends related to the Series J convertible preferred stock issued in connection with the EMAP acquisition. The calculation of these dividends assumes in-kind payment of dividends at an annual rate of 12.5%, on a perpetual basis.

(o) The pro forma adjustment represents the additional shares of common stock issued to consummate the acquisition, including the conversion of the Series K Convertible Preferred Stock to common stock (see note (a)).

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(p) To reflect the accretion of the difference between the Series J Convertible Preferred Stock carrying value and its redemption value. This difference is being amortized by periodic charges to additional paid in capital over a one-year period as the earliest date at which the preferred stock is convertible is one year from the date of issuance.

(q) To conform EMAP's accounting classifications to those used by PRIMEDIA.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Primedia, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, parent investment and deficit and cash flows, present fairly, in all material respects, the financial position of the publishing business of emap, Inc. acquired by Primedia, Inc. ("the Business"), as defined in Note 1, at March 31, 2001, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Business's management; our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers, LLP
Century City
California
September 28, 2001

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.

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CONSOLIDATED BALANCE SHEET AS OF MARCH 31, 2001
(IN THOUSANDS)

ASSETS

Current assets:

Cash and cash equivalents
Accounts receivable, net of allowance for doubtful accounts of \$2,575
Inventories
Current portion of deferred subscription acquisition costs
Other prepaid expenses and current assets

Total current assets

Investments

Related party receivable from EAP
Related party receivable from FHM
Deferred direct response advertising costs, net of accumulated amortization of \$30,267
Deferred subscription acquisition costs
Property and equipment, net of accumulated depreciation of \$3,533
Other assets
Excess of purchase price over net assets acquired, net of accumulated amortization of \$374,871

Total assets

LIABILITIES AND PARENT INVESTMENT AND DEFICIT

Current liabilities:

Accounts payable
Accrued liabilities
Accrued payroll and related costs
Unearned revenue
Customer incentives payable
Current portion of unearned subscription revenue
Loan payable

Total current liabilities

Unearned subscription revenue
Related party payables to PLC
Other noncurrent liabilities

Total liabilities

Commitments and contingencies (Note 10)

Parent investment and deficit:

Parent investment
Accumulated deficit

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Total parent investment and deficit

Total liabilities and parent investment and deficit

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

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2001
(IN THOUSANDS)

Net revenues:

Advertising

Newsstand

Subscriptions, net of agency commissions of \$57,835

Shows

Gravity games

Other

Total net revenues

Production, selling and other direct costs, including depreciation of \$1,986

Gross profit

General and administrative expenses

Amortization of excess purchase price over net assets acquired

Impairment of Memberships

Impairment of and equity in losses of investees

Loss from operations

Other expense:

Interest

Loss before provision for income taxes

Provision for income taxes

Net loss

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

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
 CONSOLIDATED STATEMENT OF PARENT INVESTMENT AND DEFICIT FOR THE YEAR ENDED
 MARCH 31, 2001
 (IN THOUSANDS)

	PARENT INVESTMENT -----	ACCUMULATED DEFICIT -----
Balance as of March 31, 2000	\$1,532,000	(\$201,275)
Net loss	--	(109,485)
	-----	-----
Balance as of March 31, 2001	\$1,532,000 =====	(\$310,760) =====

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

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
 CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2001
 (IN THOUSANDS)

Cash flow from operating activities:
 Net loss
 Adjustments to reconcile net income to net cash provided by operating activities:
 Amortization
 Depreciation
 Provision for bad debt

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Impairment of website development costs
Impairment of and equity in losses of investees
Changes in net assets and liabilities:
 Accounts receivable
 Inventories
 Deferred subscription acquisition costs
 Deferred direct response advertising costs
 Other assets
 Accounts payable and accrued liabilities
 Accrued payroll and related costs
 Unearned revenue
 Customer incentives payable
 Unearned subscription revenue
 Other non-current liabilities

Net cash provided by operating activities

Cash flow used in investing activities:
 Capital expenditures for property & equipment
 Acquisition of magazines
 Acquisition of Membership
 Acquisition of and advances to investees
 Other

Net cash used in investing activities

Cash flow from financing activities:
 Borrowings under revolving line of credit
 Repayment of bank borrowings
 Decrease in receivable from related party EAP
 Increase in receivable from related party FHM
 Increase in related party payable to PLC

Net cash provided by financing activities

Increase in cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Supplemental disclosure of cash flow information:
 Cash paid during the year for:

 Interest

 Taxes

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

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

emap, Inc. ("Inc") was incorporated in the State of Delaware in December 1998 (inception) as a wholly owned subsidiary of emap America Partners ("EAP"), which in turn is a wholly owned indirect subsidiary of emap plc ("PLC"). Inc is a media company, operating in one industry segment, that focuses on delivering information, entertainment, targeted communication and e-commerce in high value markets. Inc's principal operations and markets are in the United States.

On January 15, 1999, Inc consummated an agreement whereby it effectively acquired all of the outstanding Class A Common Stock, Class B Common Stock and outstanding stock options of the Petersen Companies, Inc. ("Petersen") for a purchase price of \$34 per share and assumption of debt for approximately \$1.5 billion in the aggregate. Subsequent to the acquisition, the name of the Petersen Companies, Inc. was changed to emap, USA. In addition to emap, USA, which develops and distributes magazines in multiple markets, Inc has two other wholly owned subsidiaries: emap Digital ("Digital"), formed in April 2000, which was created to enhance the size and value of Inc into an e-commerce environment; and Liberty Management Corp., acquired in May 1999, which produces automobile shows. emap, USA has one wholly owned subsidiary: Memberships (also known as the Affinity Development Group), acquired in April 2000, which consists of two automobile clubs associated with Motor Trend and Hot Rod magazines. Subsequent to March 31, 2001, the Motor Trend and Hot Rod automobile clubs were shut down.
(See Note 9.)

On August 23, 2001 Inc. assigned all of the assets and liabilities of For Him Magazine ("FHM") to another wholly owned indirect subsidiary of PLC. FHM is a magazine title of PLC, which was launched in the US by emap USA in February 2000.

On August 24, 2001 PLC sold the stock of Inc to Primedia, Inc. ("Primedia") for \$505 million in cash plus warrants to purchase 2,000,000 shares of Primedia's common stock.

BASIS OF PRESENTATION

The consolidated financial statements reflect the consolidated activity of the publishing business of Inc. acquired by Primedia (the "Business") comprising the operations and assets and liabilities of Inc. excluding the operations and assets and liabilities of FHM for the year ended March 31, 2001 after elimination of intercompany transactions.

The Business's consolidated financial statements have been prepared using "push-down" accounting and, accordingly, reflect the acquisition of Petersen for approximately \$1.5 billion.

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

CASH EQUIVALENTS

Cash equivalents consist primarily of debt instruments with original maturities of three months or less. The carrying amounts of cash and cash equivalents reported in the balance sheet approximate fair value.

INVENTORIES

Inventories, consisting of magazines in process and paper held at a printing company, are stated at the lower of cost, which approximates the first-in, first-out method, or market.

INVESTMENTS

The Business's investments in 20% to 50%-owned affiliates are accounted for using the equity method. Investments in less than 20%-owned affiliates are accounted for using the cost method.

DEFERRED SUBSCRIPTION ACQUISITION COSTS

Deferred subscription acquisition costs consist of agency commissions paid to obtain subscriptions and are amortized over the life of the related subscriptions ranging from 12 to 36 months.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are depreciated over their estimated useful lives which ranges from 3 to 5 years, using the straight-line method. Leasehold improvements are amortized over the lesser of ten years or the terms of the related leases.

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INTERNAL USE SOFTWARE AND WEBSITE DEVELOPMENT COSTS

The Business has adopted the provisions of Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). SOP 98-1 requires the capitalization of certain external and internal computer software costs incurred during the application development stage. Capitalized software costs are included in property and equipment and are amortized using the straight-line basis over 3 years. The Business has adopted the provisions of Emerging Issues Task Force Issue 00-2 ("EITF 00-2") in accounting for internal use web-site software development costs. EITF 00-2 provides that certain planning and training costs incurred in the development of web-site software be expensed as incurred, while application development stage costs are to be capitalized pursuant to SOP 98-1. Capitalized web-site software costs, net of accumulated amortization, are included in prepaid expenses and other current assets and are amortized using the straight-line method over their estimated useful life of one year. During the year ended March 31, 2001, the Business recorded an impairment charge of \$0.8 million associated with its web-site development costs, which is included in production, selling and other direct costs.

EXCESS OF PURCHASE PRICE OVER NET ASSETS ACQUIRED

The excess of the purchase price over the fair value of net tangible assets acquired, principally relating to the Petersen acquisition and subsequent magazines acquired, is amortized using the straight-line method over estimated useful lives of 10 to 15 years.

IMPAIRMENT OF LONG-LIVED ASSETS

The Business reviews its long-lived assets and intangible assets for impairment on a continual basis. An impairment loss would be recognized when estimated undiscounted future cash flows attributable to an asset are less than its carrying amount. The amount of the impairment loss would be the amount by which the carrying amount of the impaired asset exceeds the fair value of the asset.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Business to concentration of credit risk consist of cash and cash equivalents and accounts receivable. Cash and cash equivalents are deposited with major financial institutions, and at times may be in excess of FDIC insurance limits. The Business generally does not require collateral from its customers. During the year ended March 31, 2001, no customer comprised greater than 10% of the accounts receivable balance or more than 10% of revenues.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION

Advertising revenue, net of provisions for related rebates and discounts, is recognized at the "on sale" date of the publication containing the advertisement. Subscription revenue is deferred and recognized pro rata as fulfilled over the terms of such subscriptions and is recorded net of related agency commissions. Sales of magazines intended for retail distribution on newsstands are recorded at the time such publications are available for sale by distributors to the public and are reduced by estimated provisions for returns and retail display allowances. Revenues and costs associated with shows and the Gravity Games are recognized on the occurrence of the event.

The Business has entered into certain agreements with third parties to license the Business's trademarks. These agreements typically provide that the Business will receive minimum guarantees and share in future royalties based on product sales.

Minimum guarantees are deferred and recognized as revenue on a straight-line basis over the term of the license agreement. Royalties are recognized as earned. The Business recorded approximately \$2.9 million in licensing revenues during the year ended March 31, 2001.

ADVERTISING EXPENSES

The Business capitalizes its direct response advertising costs, in accordance with Statement of Position 93-7, "Reporting on Advertising Costs," pursuant to which qualified direct response advertising is capitalized and amortized over the expected period of future benefit of approximately 17 months. Capitalized advertising costs are related to three types of subscription promotion activities: renewal promotions, inserts and gifts mainly relating to Christmas promotions. Such capitalized costs include primarily printing and postage to current and potential subscribers and totaled approximately \$11.6 million at March 31, 2001, net of accumulated amortization. Amortization expense for direct response advertising costs was \$13.6 million for the year ended March 31, 2001, and is included in production, selling and other direct costs. The Business expenses all other costs of advertising as incurred. Advertising expense was approximately \$1.4 million for the year ended March 31, 2001.

GENERAL AND ADMINISTRATIVE EXPENSES

Allocation of general and administrative expenses of emap, Inc. between the Business and FHM has been based on the revenues of their respective operations, which management believes is a reasonable basis for allocation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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INCOME TAXES

Income taxes have been determined on a separate company basis as if the Business was a corporation and are accounted for under Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," ("SFAS 109") whereby deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138 in June of 1999, to delay the effective date of adoption to fiscal years beginning after December 15, 2000. SFAS 133 as amended establishes new standards of accounting and reporting for derivative instruments and hedging activities. SFAS 133 requires that all derivatives be recognized at fair value in the statement of financial position, and that the corresponding gains and losses be reported either in the statement of operations or as a component of comprehensive income, depending on the type of hedging relationship that exists. The Business does not believe that adoption of this statement will have a significant impact on the Business's consolidated financial position, results of operations, or cash flows.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"), which provides additional guidance related to applying generally accepted accounting principles in financial statements. In June 2000, the SEC issued Staff Accounting Bulletin No. 101B, which requires implementation of SAB 101 no later than the fourth fiscal quarter of fiscal years beginning December 15, 1999. Implementation of SAB 101 did not have a significant impact on the Business's consolidated financial position, results of operations, or cash flows.

- (b) In March 2000, the FASB issued Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion 25" ("FIN 44"). FIN 44 clarifies the application of APB 25 and became effective on July 1, 2000, except for the provisions relating to repricings and the definition of an employee, which apply to awards issued after December 31, 1998. The adoption of FIN 44 did not have a material impact on the Business's consolidated financial position, results of operations or cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
- RECENTLY ISSUED ACCOUNTING STANDARDS (CONTINUED)

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In September 2000, the FASB issued SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which replaces SFAS 125, which revised standards for accounting for securitizations and other transfers of financial assets and collateral. SFAS 140 carries over most of SFAS 125's provisions without reconsideration. To date, the Business has not engaged in any transactions that would fall under SFAS 140 and does not believe that adoption of SFAS 140 will have a significant impact on its consolidated financial position, results of operations or cash flows.

In June 2001, the FASB issued SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other intangible Assets". SFAS 141 requires that all business combinations be accounted for under the purchase method of accounting, eliminates the use of the pooling-of-interests method and requires that the purchase method be used for business combinations initiated after June 30, 2001. SFAS 142 requires that goodwill and certain intangible assets no longer be amortized to earnings and that goodwill and intangible assets be reviewed for impairment. Under SFAS 142, goodwill acquired in a business combination completed after June 30, 2001 will not be amortized. The amortization of goodwill for previous acquisitions will cease upon adoption of the SFAS 142, which will be April 1, 2002. The Business has not determined the impact of SFAS 142 on its existing goodwill and intangible assets.

In August 2001, the FASB issued SFAS 144, "Accounting for Impairment or Disposal of Long Lived Assets", which supersedes FASB 121. The Business has not assessed the impact of SFAS 144 on its existing long-lived assets. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001.

2. ACQUISITION OF MAGAZINES

During the year ended March 31, 2001, the Business acquired substantially all of the assets of various magazine publishers, including all rights to certain magazines and one automobile show (the Acquisitions). The results of operations of the Acquisitions have been included with those of the Business since the dates of acquisition. If all these acquisitions had occurred on April 1, 2000 there would not be a material impact on the results of operations.

The cash purchase price of the Acquisitions aggregated approximately \$15.7 million, plus the assumption of certain liabilities. As a result of these additional acquisitions, the Business recorded goodwill of approximately \$18.2 million.

3. INVENTORIES

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Inventories consisted of the following (in thousands):

Paper	\$ 13,497
Magazines in process	2,132

	\$ 15,629
	=====

4. PROPERTY AND EQUIPMENT

The components of property and equipment are as follows (in thousands):

Property and equipment	\$ 4,935
Leasehold improvements	3,469
Less accumulated depreciation and amortization	(3,533)

	\$ 4,871
	=====

5. REVOLVING LINE OF CREDIT

emap, Inc. has a revolving line of credit for \$20 million with a bank, which expires in September 2001. Interest accrues at LIBOR plus 0.3% and is payable either 7 days, 14 days, 1, 2, 3 or 6 months, as selected by the Business. As of March 31, 2001, \$4 million had been drawn under the line of credit.

emap, Inc. has a revolving line of credit totaling \$10 million with a bank, which expires in November 2001. Interest accrues at LIBOR plus 0.3% and is payable either 7 days, 14 days, 1, 2, 3 or 6 months, as selected by emap, Inc. In January 2001, \$9 million was drawn down under the line of credit and subsequently \$4 million was repaid in February and the remaining \$5 million in March 2001.

6. INCOME TAXES

For the year ended March 31, 2001, the Business's provision for income taxes consisted primarily of actual state taxes paid. At March 31, 2001, the Business had no liability for federal or state income taxes based on the net loss from operations during the year. Deferred income taxes reflect the net tax effects of the operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Business's deferred tax assets and liabilities as of March 31, 2001, are as follows (in thousands):

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INCOME TAXES (CONTINUED)

Deferred tax assets:

Net operating loss carryforward
Amortization expense
Impairment
Depreciation expense
Vacation pay accrual
Subscription revenues
Other accruals

Total deferred tax assets

Deferred tax liabilities:

Capitalized advertising costs
Prepaid expenses
Bad debt expense
State income taxes
Other

Net deferred tax assets

Valuation allowance

Net deferred tax assets

At March 31, 2001, the Business had net operating loss carryforwards available to reduce future federal taxable income of approximately \$88 million, which expire through 2018. In addition, at March 31, 2001, the Business had net operating loss carryforwards available to reduce future state taxable income. Due to the Business filing in multiple jurisdictions, this amount and the related expiration dates and amounts that are deductible, vary by state.

7. RELATED PARTIES

The acquisition of Petersen was funded through a combination of capital infusion in Inc and debt held by EAP. During the year ended March 31, 2001, the Business loaned \$56.8 million to EAP to pay the interest on the related third party debt incurred in the acquisition. This loan which is included in related party receivables at the balance sheet date is interest-free.

The related party receivable from FHM of \$21.8 million at March 31, 2001 represents the funding of FHM operations and is interest free.

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. RELATED PARTIES (CONTINUED)

During the year ended March 31, 2001, the Business borrowed \$29 million from PLC. This amount, which is included in related party payables at the balance sheet date, bears interest based on a monthly short-term rate prevailing in the United Kingdom.

8. PARENT INVESTMENT

Parent investment represents the total amount of authorized capital stock of Inc. consisting of 150,000 shares of common stock, par value \$0.01, of which 125,000 shares were issued and outstanding and wholly owned by EAP at March 31, 2001, and the related additional paid-in capital of Inc, which reflects the "push-down" accounting of the purchase of Petersen for approximately \$1.5 billion.

9. IMPAIRMENTS

MEMBERSHIP

In April 2000, the Business acquired Affinity Development Group ("Memberships") for \$17 million in cash and forgiveness of an \$11 million note receivable, which was advanced prior to March 31, 2000. The acquisition was accounted for as a purchase resulting in goodwill of approximately \$28 million, which was being amortized using the straight-line method over 3 years. During the year ended March 31, 2001 the Business recorded an impairment charge of approximately \$18 million, which amounted to the unamortized balance of goodwill as it was determined that the fair value of the division was zero.

DIGITAL INVESTMENTS

During the year ended March 31, 2001 the Business recorded an impairment charge relating to two investments of Digital of approximately \$14 million, which represents the combined carrying value of those investments as it was determined their fair value was zero.

10. COMMITMENTS AND CONTINGENCIES

LEASES

The Business, through Inc. leases office space under noncancelable operating leases with various expiration dates through August 2012. Rent expense, net of rental income, for the year ended March 31, 2001 totaled \$5.1 million. The terms of the leases include renewal options and require payments of real estate taxes, insurance and other expenses. Rent expense is recognized on a straight-line basis over the lease period.

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEASES (CONTINUED)

As of March 31, 2001, minimum future annual rentals under long-term leases are as follows (in thousands):

Year Ending MARCH 31, -----	TOTAL -----
2002	\$ 8,198
2003	8,198
2004	8,354
2005	7,512
2006	7,020
Thereafter	22,055

Total	\$61,337 =====

The Business, through Inc. has entered into certain subleases for a portion of its corporate headquarters. The remaining terms of these subleases range from one to eight years. Aggregate future minimum rentals to be received under these subleases are approximately \$2.6 million as of March 31, 2001. The Business, through Inc. has also entered into a sublease for a portion of its New York sales office. The term of this sublease expires in 2004 and aggregate future minimum rentals to be received under this sublease are approximately \$3.3 million.

LEGAL MATTERS

Inc. and, accordingly, the Business is subject to various legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of any ultimate liability with respect to these actions will not materially affect the Business's consolidated financial position, results of operations or cash flows.

11. 401(K) PLAN

Inc. has adopted a 401(k) Profit Sharing Plan (the 401(k) Plan). Pursuant to the 401(k) Plan, the Business makes matching contributions equal to 50% of the first 6% of the participants' basic compensation. The Business recorded expense of \$913,000, representing its matching contributions for the year ended March 31, 2001.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
UNAUDITED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2001
(IN THOUSANDS)

ASSETS

Current assets:

Accounts receivable, net of allowance for doubtful accounts of \$ 2,583
Inventories
Current portion of deferred subscription acquisition costs
Other prepaid expenses and current assets

Total current assets

Investments

Related party receivable from EAP
Related party receivable from FHM
Deferred direct response advertising costs, net of accumulated amortization of \$34,168
Deferred subscription acquisition costs
Property and equipment, net of accumulated depreciation of \$ 4,024
Other assets
Excess of purchase price over net assets acquired, net of accumulated amortization of \$398,320

Total assets

LIABILITIES AND PARENT INVESTMENT AND DEFICIT

Current liabilities:

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Bank overdraft
Accounts payable and accrued liabilities
Accrued payroll and related costs
Unearned revenue
Customer incentives payable
Current portion of unearned subscription revenue
Loan payable

Total current liabilities

Unearned subscription revenue
Related party payables to PLC
Other noncurrent liabilities

Total liabilities

Commitments and contingencies

Parent investment and deficit:
Parent investment
Accumulated deficit

Total parent investment and deficit

Total liabilities and parent investment and deficit

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

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PUBLISHING BUSINESS OF EMAP, INC. ACQUIRED BY PRIMEDIA, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2001 AND 2000
(IN THOUSANDS)

	2001 ----
Net revenues:	
Advertising	\$49,283
Newsstand	9,688
Subscriptions, net of agency commissions of \$12,012 (2001) and \$15,838 (2000)	11,407
Shows	4,577

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Gravity games
Other

135
5,100