PRIMEDIA INC
Form 10-Q
October 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM ______ TO ______

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.)**
3585 Engineering Drive, Norcross, Georgia	**30092**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (678) 421-3000

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at October 27, 2010
Common Stock, par value $0.01 per share	44,210,659

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PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheet (Unaudited)

	September 30, 2010	December 31, 2009
	(Dollars in thousands, except per share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 4,729	$ 9,472
Accounts receivable (net of allowance for doubtful accounts of $1,023 and $1,217, respectively)	26,753	24,802
Inventories	461	432
Prepaid expenses and other	8,364	16,583
Deferred tax asset, net	1,079	1,470
Total current assets	41,386	52,759
Property and equipment (net of accumulated depreciation and amortization of $33,650 and $80,932, respectively)	17,506	17,997
Intangible assets, net	17,429	20,667
Goodwill	129,305	129,305
Deferred tax asset - non-current, net		8,275
Other non-current assets	9,899	10,726
Total assets	$ 215,525	$ 239,729
Liabilities and stockholders deficiency		
Current liabilities:		
Accounts payable	$ 5,719	$ 11,788
Accrued expenses and other	27,082	39,294
Deferred revenue	2,935	2,099
Revolving credit facility	8,700	
Current maturities of long-term debt and capital lease obligations	2,718	2,922
Total current liabilities	47,154	56,103
Long-term debt	205,917	222,349
Deferred revenue	6,375	7,650
Deferred tax liability - non-current, net	104	
Other non-current liabilities	53,768	55,786
Total liabilities	313,318	341,888
Commitments and contingencies (Note 16)		
Stockholders deficiency:		
Common stock - par value $0.01; 350,000,000 shares authorized; 45,857,397 and 45,793,697 shares issued, respectively; 44,210,659 and 44,146,959 shares outstanding, respectively	458	457
Additional paid-in capital (including warrants of $31,690)	2,375,689	2,373,684
Accumulated deficit	(2,395,743)	(2,398,469)
Common stock in treasury, at cost (1,646,738 shares)	(76,304)	(76,304)
Accumulated other comprehensive loss, net	(1,893)	(1,527)

Total stockholders deficiency		(97,793)		(102,159)
Total liabilities and stockholders deficiency	$	215,525	$	239,729

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

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PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Operations (Unaudited)

	Three Months Ended September 30,	
	2010	2009
	(Dollars in thousands, except per share data)	
Revenue, net:		
Advertising	$ 52,287	$ 55,774
Distribution	6,150	7,240
Total revenue, net	58,437	63,014
Costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	3,277	5,645
Marketing and selling	19,698	18,832
Distribution and circulation	9,640	12,971
General and administrative expenses	9,386	8,873
Depreciation and amortization of property and equipment	3,249	3,130
Amortization of intangible assets	898	617
Provision for restructuring costs	331	(156)
Interest expense	2,737	3,897
Amortization of deferred financing costs	215	233
Other (income) expense, net	(1,012)	1,173
Total costs and expenses	48,419	55,215
Income from continuing operations before provison for income taxes	10,018	7,799
Provision for income taxes	(3,455)	(2,103)
Income from continuing operations	6,563	5,696
Discontinued operations, net of tax	338	(1,957)
Net income	$ 6,901	$ 3,739
Basic and diluted earnings (loss) per common share:		
Continuing operations	$ 0.15	$ 0.13
Discontinued operations	0.01	(0.05)
Net income	$ 0.16	$ 0.08
Dividends declared per share of common stock outstanding	$ 0.07	$ 0.07
Weighted-average basic shares of common stock outstanding	44,210,659	44,146,959
Weighted-average diluted shares of common stock outstanding	44,388,489	44,167,675

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

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PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Operations (Unaudited)

	Nine Months Ended September 30,	
	2010	2009
	(Dollars in thousands, except per share data)	
Revenue, net:		
Advertising	$ 157,425	$ 170,373
Distribution	18,959	26,305
Total revenue, net	176,384	196,678
Costs and expenses:		
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	12,073	18,128
Marketing and selling	58,006	59,344
Distribution and circulation	31,056	48,031
General and administrative expenses	27,800	30,306
Depreciation and amortization of property and equipment	9,550	9,998
Amortization of intangible assets	3,238	1,853
Provision for restructuring costs	5,477	25,643
Interest expense	8,554	12,353
Amortization of deferred financing costs	669	682
Other income, net	(2,545)	(5,289)
Total costs and expenses	153,878	201,049
Income (loss) from continuing operations before (provison) benefit for income taxes	22,506	(4,371)
(Provision) benefit for income taxes	(8,907)	1,438
Income (loss) from continuing operations	13,599	(2,933)
Discontinued operations, net of tax	(1,592)	(4,730)
Net income (loss)	$ 12,007	$ (7,663)
Basic and diluted earnings (loss) per common share:		
Continuing operations	$ 0.31	$ (0.07)
Discontinued operations	(0.04)	(0.10)
Net income (loss)	$ 0.27	$ (0.17)
Dividends declared per share of common stock outstanding	$ 0.21	$ 0.21
Weighted-average basic shares of common stock outstanding	44,189,662	44,117,064
Weighted-average diluted shares of common stock outstanding	44,338,038	44,117,064

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

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PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders Deficiency (Unaudited)

Nine Months Ended September 30, 2010

	Common Stock		Additional		Common	Accumulated Other	Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Stock in Treasury	Comprehensive Loss, Net	Stockholders Deficiency
	(Dollars in thousands, except per share data)						
Balance at December 31, 2009	45,793,697	$ 457	$ 2,373,684	$ (2,398,469)	$ (76,304)	$ (1,527)	$ (102,159)
Comprehensive income:							
Net income				12,007			12,007
Other comprehensive loss							
Unrealized losses on cash flow hedges, net						(366)	(366)
Total comprehensive income							11,641
Non-cash charges for stock-based compensation			2,065				2,065
Issuances of common stock, net of shares withheld for employee taxes and other	63,700	1	(60)				(59)
Cash dividends declared on common stock ($0.21 per share)				(9,281)			(9,281)
Balance at September 30, 2010	45,857,397	$ 458	$ 2,375,689	$ (2,395,743)	$ (76,304)	$ (1,893)	$ (97,793)

Total comprehensive income for the three months ended September 30, 2010 and 2009 was $6.7 million and $5.3 million, respectively. Total comprehensive loss for the nine months ended September 30, 2009 was $4.8 million.

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

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PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2010	2009
	(Dollars in thousands)	
Operating activities:		
Net income (loss)	$ 12,007	$ (7,663)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	13,457	12,533
Impairment of cost-method investments		1,500
Gain on sale of cost-method investments		(2,260)
Gain on repurchase of debt	(1,408)	(3,635)
Stock-based compensation	2,065	1,231
Deferred income taxes	9,386	(1,632)
Bad debt expense	864	3,589
(Increase) decrease in:		
Accounts receivable, net	(2,815)	(2,029)
Inventories	(29)	282
Prepaid expenses and other	8,141	16,011
(Decrease) increase in:		
Accounts payable	(5,750)	(4,971)
Accrued expenses and other	(11,274)	6,194
Deferred revenue	(439)	(1,275)
Other non-current liabilities	(3,616)	3
Other, net	1	15
Net cash provided by operating activities	20,590	17,893
Investing activities:		
Proceeds from sale of cost-method investments		2,260
Additions to property and equipment	(9,704)	(7,667)
Other, net	3	
Net cash used in investing activities	(9,701)	(5,407)
Financing activities:		
Payment of dividends on common stock	(9,281)	(9,257)
Borrowings under revolving credit facility	19,700	5,000
Repayments under revolving credit facility	(11,000)	(18,200)
Payments for deferred and other financing fees		(512)
Payments for repurchase of debt	(12,784)	(10,080)
Repayments of borrowings under credit agreements	(1,875)	(1,875)
Capital lease payments	(333)	(477)
Payments related to issuances of common stock, net of value of shares withheld for employee taxes	(59)	(173)
Repurchases of common stock		(427)
Net cash used in financing activities	(15,632)	(36,001)

Decrease in cash and cash equivalents		(4,743)		(23,515)
Cash and cash equivalents, beginning of period		9,472		31,470
Cash and cash equivalents, end of period	$	4,729	$	7,955
Supplemental information:				
Cash paid for interest, including interest on capital leases and restructuring liabilities	$	8,721	$	12,691
Cash refunded for income taxes, net	$	(9,833)	$	(19,558)
Noncash investing and financing activities:				
Accrued property and equipment acquisitions	$	552	$	468
Equipment acquisitions under capital leases	$		$	102

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

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PRIMEDIA INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 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, 2010 and December 31, 2009, the results of consolidated operations of the Company for the three and nine months ended September 30, 2010 and 2009, consolidated changes in stockholders deficiency of the Company for the nine months ended September 30, 2010, and consolidated cash flows of the Company for the nine months ended September 30, 2010 and 2009. The adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. 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, 2009, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for a full year.

The Company s banking arrangements allow it to fund outstanding checks drawn on zero-balance disbursement accounts when presented to the financial institution for payment, resulting in book overdrafts. Book overdrafts in the amount of $2.0 million, $3.7 million and $5.4 million are recorded in accounts payable in the condensed consolidated balance sheet as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively, and are reflected as an operating activity in the condensed consolidated statement of cash flows.

Recent Accounting Pronouncements

Enhanced Disclosures of Fair Value Measurements

In February 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2010-06, which requires new disclosures regarding:

Transfers in and out of Levels 1 and 2 of the fair value hierarchy. Separate disclosure is required for the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and the reasons for the transfers.

Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number) must be presented.

ASU 2010-6 also provides clarification on existing disclosures about:

Level of disaggregation. Fair value measurement disclosures for each class of assets and liabilities are to be provided. A class is often a subset of assets or liabilities within a line item in the condensed consolidated balance sheet.

Disclosures about inputs and valuation techniques. Disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements are required for fair value measurements that fall in either Level 2 or Level 3 of the fair value hierarchy.

The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

The Company adopted all of the disclosure requirements of ASU 2010-6, effective January 1, 2010, except for those about purchases, sales, issuances and settlements. (see Note 6).

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued ASU 2009-13, which provides new criteria for separating consideration in multiple-deliverable arrangements. Under these new criteria, multiple-deliverable arrangements are likely to be separated in more circumstances than under previous accounting principles generally accepted in the United States (GAAP). ASU 2009-13 establishes a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on:

vendor-specific objective evidence if available;

third-party evidence if vendor-specific objective evidence is not available; or

estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available.

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ASU 2009-13 clarifies that the allocation of revenue to each deliverable is to be based on entity-specific assumptions rather than assumptions of a marketplace participant. It also eliminates the residual method of revenue allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. A vendor will be required to determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis.

ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company will adopt ASU 2009-13 effective January 1, 2011 and is still assessing the anticipated impact, if any, on its consolidated balance sheet and statement of operations.

Note 2. Discontinued Operations

The Company has classified the results of divested entities as discontinued operations in accordance with GAAP.

The components of discontinued operations for the three and nine months ended September 30, 2010 and 2009 included in the condensed consolidated statement of operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Total revenue, net	$	$	$	$
Provision for litigation reserves and settlements	$ 43	$ (1,500)	$	$ (1,500)
Professional fees	(122)	(387)	(472)	(1,067)
Adjustments to accrued operating lease liabilities	(788)	(193)	(1,815)	(2,595)
Insurance-related expenses	(10)	28	63	(203)
Tax-related contingencies	1,340	18	1,298	681
Write-off of receivables and other assets				(259)
Other	19	(243)	(167)	(347)
Income (loss) from discontinued operations before (provision) benefit for income taxes	482	(2,277)	(1,093)	(5,290)
(Provision) benefit for income taxes	(144)	320	(499)	560
Discontinued operations, net of tax	$ 338	$ (1,957)	$ (1,592)	$ (4,730)

The components of the (provision) benefit for income taxes included in discontinued operations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Benefit (provision) for tax expense on pre-tax income (loss), adjusted for permanent differences	$ 55	$ 134	$ (81)	$ 271
Change in liability for uncertain tax positions	(200)	120	(439)	(13)
Changes in estimates included in prior year tax provision	1	66	21	302
Total (provision) benefit for income taxes	$ (144)	$ 320	$ (499)	$ 560

Amounts included in income or loss from operations of the disposed businesses before (provision) benefit for income taxes primarily represent the impact of changes in contingent obligations the Company has related to the disposition of the businesses, including changes in sublease income assumptions related to operating leases for office space subleased or assigned to the buyer or another third party; legal and other professional fees incurred in defending the Company against litigation or in attempting to force performance by third parties under leasing arrangements; actual or expected losses from litigation for which the Company is liable; write-off of uncollectable rent receivable under operating lease arrangements for real estate; insurance-related costs for events that occurred prior to the disposition; and other similar costs.

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Note 3. Intangible Assets

Intangible assets subject to amortization consist of the following:

	Weighted-Average Amortization Period (Years)	September 30, 2010 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	December 31, 2009 Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(Dollars in thousands)					
Advertiser lists	12	$ 93,953	$ 82,875	$ 11,078	$ 93,953	$ 79,825	$ 14,128
Other	6	5,742	5,669	73	5,742	5,481	261
		$ 99,695	$ 88,544	$ 11,151	$ 99,695	$ 85,306	$ 14,389

Intangible assets not subject to amortization had a carrying value of $6.3 million as of September 30, 2010 and December 31, 2009 and consisted of trademarks. Amortization expense for intangible assets subject to amortization was $0.9 million and $0.6 million for the three months ended September 30, 2010 and 2009, respectively, and $3.2 million and $1.9 million for the nine months ended September 30, 2010 and 2009, respectively.

During the fourth quarter of 2009, factors were identified indicating that the carrying value of certain of the Company s advertiser lists might not be recoverable. The Company determined that the expected undiscounted cash flows associated with one advertiser list were less than the carrying value and, as a result, recorded an impairment charge of approximately $0.5 million during the year ended December 31, 2009. The Company also determined that the decline in the value of these assets was occurring faster than the expense was being recognized using the straight-line method of amortization. To better match the deterioration in the value of the assets, the Company concluded that an accelerated method of amortization over a shorter estimated life would be appropriate and made this change in estimate effective January 1, 2010. This resulted in an increase in amortization expense of $0.4 million and $1.6 million for the three and nine months ended September 30, 2010, respectively, over what it would have been absent the change in estimate.

Note 4. Property and Equipment, Net

During the second quarter of 2010, the Company retired approximately $54.1 million of fully depreciated property and equipment, primarily capitalized software, that is no longer in use. There was no impact to the Company s net income or cash flows for any period in 2010 as a result of the retirement of these assets.

Note 5. Cost-Method Investments

During the nine months ended September 30, 2009, the Company sold certain of its cost-method investments, which had previously been written down to their estimated fair value of $0.0 million, for cash and recorded a corresponding gain of $2.3 million to other income, net in the condensed consolidated statement of operations. During 2010, there were no sales of cost-method investments.

Note 6. Fair Value

The table below presents the Company s liabilities measured at fair value on a recurring basis as of September 30, 2010:

Liability Description	Fair Value at September 30,	Fair Value Measurements Using Quoted Prices in Active Markets	Significant Other Observable	Significant Unobservable

	2010	for Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
		(Dollars in thousands)		
Derivative financial instrument liabilities	$ 2,911	$	$ 2,911	$
	$ 2,911	$	$ 2,911	$

The table below presents the Company s liabilities measured at fair value on a recurring basis as of December 31, 2009:

		Fair Value Measurements Using		
Liability Description	Fair Value at December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Derivative financial instrument liabilities	$ 1,929	$	$ 1,929	$
	$ 1,929	$	$ 1,929	$

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The table below presents the Company s assets measured at fair value on a non-recurring basis as of December 31, 2009:

Asset Description	Carrying Value at December 31, 2009	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
		(Dollars in thousands)			
Advertiser list (1)	$ 2,732	$	$	$ 2,732	$ 502
	$ 2,732	$	$	$ 2,732	$ 502

(1) One of the Company s advertiser lists was measured at fair value as of December 31, 2009 because the Company identified factors indicating its carrying value might not be recoverable. The Company determined that the expected undiscounted cash flows associated with this asset were less than the carrying value and recorded an impairment charge of approximately $0.5 million to reduce the asset to its fair value. Fair value was determined using the discount rate adjustment technique with a discount rate equal to current rates that would be offered to the Company for debt with a remaining maturity equal to the expected remaining life of the asset. Because it was not necessary to re-measure the advertiser list for fair value during 2010 and since it was recorded at its carrying value, net of accumulated amortization, no disclosure is necessary as of September 30, 2010.

The carrying values and fair values of the Company s financial assets and liabilities are summarized as follows:

	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(Dollars in thousands)			
Borrowings under bank credit facilities	$ 208,397	$ 182,348	$ 224,700	$ 191,557
Derivative financial instruments	2,911	2,911	1,929	1,929

The fair value of borrowings under bank credit facilities was determined based on recently completed market transactions and the current rates that would be offered to the Company for debt of the same remaining maturity.

The valuation of the derivative financial instruments, comprised of interest rate swaps, was determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps were determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) were based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its interest rate swap contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although the Company has determined that many of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivative financial instruments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, the Company has assessed the significance

of the impact of the credit valuation adjustments on the overall valuation of its derivative financial instrument positions and has determined that the credit valuation adjustments, which amount to less than $0.1 million in the aggregate for all periods, are not significant to the overall valuation. As a result, the Company has classified its derivative financial instrument valuations, in their entirety, in Level 2 of the fair value hierarchy.

For certain assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and borrowings under the Company s revolving credit facility (the Revolving Facility), the carrying amount approximates fair value because of the short maturity of these instruments.

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Note 7. Accrued Expenses and Other and Other Non-Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Payroll, commissions and related employee benefits	$ 10,274	$ 7,319
Reserves for litigation		5,750
Restructuring liabilities	4,607	12,738
Tax-related liabilities	3,258	4,745
Divestiture reserves	3,187	3,178
Interest payable	14	181
Derivative financial instrument liabilities	797	880
Accrued professional fees	852	604
Other	4,093	3,899
	$ 27,082	$ 39,294

Other non-current liabilities consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Tax-related liabilities	$ 27,714	$ 28,365
Divestiture reserves	7,716	8,593
Derivative financial instrument liabilities	2,114	1,049
Restructuring liabilities	14,611	17,619
Other	1,613	160
	$ 53,768	$ 55,786

Note 8. Borrowings

Long-term debt consisted of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Borrowings under bank credit facilities	$ 208,397	$ 224,700
Obligations under capital leases	238	571
	208,635	225,271
Less: Current maturities of long-term debt	2,718	2,922
	$ 205,917	$ 222,349

Bank Credit Facilities

The bank credit facilities consisted of the following as of September 30, 2010:

	Revolving Facility	Term Loan B	Total
	(Dollars in thousands)		
Bank credit facilities	$ 88,000	$ 208,397	$ 296,397
Borrowings outstanding	(8,700)	(208,397)	(217,097)
Letters of credit outstanding	(2,068)		(2,068)
Unused bank commitments	$ 77,232	$	$ 77,232

On June 30, 2009, the Company s bank credit facility was amended (the Amendment). Among other things, the Amendment gives the Company the right, subject to the conditions set forth therein, to prepay or otherwise acquire with or for cash, on either a pro rata or non-pro rata basis, loans outstanding under the Term Loan B Facility and held by lenders who consent to such prepayment or

acquisition, at a discount to the par value of such principal at any time and from time to time on and after June 30, 2009 and on or prior to June 30, 2011; provided that the aggregate amounts expended by the Company in connection with all such prepayments or acquisitions do not exceed $35.0 million. All such loans prepaid or acquired will be retired and extinguished and deemed paid effective upon such prepayment or acquisition. Through September 30, 2010, the Company has utilized $27.7 million pursuant to the Amendment to repurchase and retire $34.7 million in principal outstanding.

In connection with the Amendment, the Company incurred approximately $0.5 million in modification fees, which were paid to the creditors and are being expensed over the remaining term of the loan.

There are no scheduled commitment reductions under the Revolving Facility. The loans under the Term Loan B Facility are subject to scheduled repayment in quarterly installments of approximately $0.6 million each payable on March 31, June 30, September 30 and December 31 of each year through June 30, 2014, followed by a final repayment on the Term Loan B Maturity Date of $199.0 million, which reflects completed Term Loan B Facility repurchases through September 30, 2010.

Term Loan B Facility Repurchases

During the three and the nine months ended September 30, 2010 and 2009, the Company repurchased and retired principal outstanding under its Term Loan B Facility as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)			
Principal repurchased and retired	$ 6,949	$	$ 14,428	$ 14,000
Cash paid	(6,155)		(12,784)	(10,080)
Write-off of deferred financing fees	(112)		(236)	(285)
Net gain	$ 682	$	$ 1,408	$ 3,635

The net gains are included in other income, net in the condensed consolidated statement of operations.

Revolving Facility

Selected activity under the Company s Revolving Facility is summarized as follows:

Date	Borrowings	Repayments
	(Dollars in thousands)	
March 2009	$	$ 8,800
June 2009		4,400
July 2009	5,000	5,000
February 2010	9,000	
May 2010		9,000
August 2010	2,000	2,000
September 2010	8,700	

Covenant Compliance

Under the most restrictive covenants contained in the bank credit facilities agreement, the maximum allowable total leverage ratio, as defined in the agreement, is 5.25 to 1. As of September 30, 2010, this leverage ratio was approximately 2.7 to 1.

Pursuant to the provisions of the Term Loan B Facility and as a result of having a leverage ratio below 2.75 to 1 at September 30, 2010, the applicable margin over the eurodollar borrowing rate will be 200 basis points for the fourth quarter.

At September 30, 2010, the Company was in compliance with all of its debt covenants.

Note 9. Income Taxes

Income tax expense for the three months ended September 30, 2010 was $3.5 million, compared to an income tax expense of $2.1 million for the same period in 2009, reflecting effective tax rates of 34.5% and 27.0%, respectively. The effective tax rates are computed based on consolidated income or loss before income taxes, and income tax expense is comprised of the following:

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	Three Months Ended September 30,	
	2010	2009
	(Dollars in thousands)	
Provision for tax expense on pre-tax income, adjusted for permanent differences	$ (3,967)	$ (2,773)
Recorded reserves related to uncertain tax positions	276	711
Other miscellaneous adjustments	236	(41)
Provision for income taxes	$ (3,455)	$ (2,103)

Income tax expense for the nine months ended September 30, 2010 was $8.9 million, compared to an income tax benefit of $1.4 million for the same period in 2009, reflecting effective tax rates of 39.6% and (32.9)%, respectively. The effective tax rates are computed based on consolidated income or loss before income taxes, and income tax (expense) benefit is comprised of the following:

	Nine Months Ended September 30,	
	2010	2009
	(Dollars in thousands)	
(Provision) benefit for tax expense on pre-tax income (loss), adjusted for permanent differences	$ (9,208)	$ 1,556
Recorded reserves related to uncertain tax positions	189	389
Other miscellaneous adjustments	112	(507)
(Provision) benefit for income taxes	$ (8,907)	$ 1,438

As of September 30, 2010, the Company maintained a partial valuation allowance against its net deferred tax assets. The Company may release additional valuation allowance in future periods when it can conclude that a greater portion of the net deferred tax assets is more likely than not to be realized. To the extent the Company reports taxable income in future periods, it intends to use its net operating loss carryforwards (NOLs), to the extent allowable, to offset that taxable income and reduce cash outflows for income taxes. The Company s ability to use its federal and state NOLs and federal and state tax credit carryforwards may be subject to restrictions attributable to equity transactions in the future resulting from changes in ownership as defined under the Internal Revenue Code.

The total amount of unrecognized tax benefits decreased by $2.3 million from $82.2 million as of June 30, 2010 to $79.9 million as of September 30, 2010. The decrease is primarily a result of the available benefit of a 2009 NOL carryback. Due to the carryback of the federal NOL from 2009, the Company incurred alternative minimum tax (AMT) in the 2007 tax year, resulting in an AMT credit, which is available to reduce unrecognized tax benefits previously recorded. Approximately $23.3 million of the Company s unrecognized tax benefits would, if recognized, have an impact on the effective income tax rate, while approximately $56.6 million would not. As of September 30, 2010, the Company s recorded liability for uncertain tax positions was $27.7 million, which includes $4.4 million of interest. The Company recorded charges for interest related to the unrecognized tax benefits of $0.2 million and $0.0 million during the three months ended September 30, 2010 and 2009, respectively.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions, and the Company is routinely under audit by multiple tax authorities. The Company is currently under audit by the Internal Revenue Service for its 2005 through 2008 federal consolidated income tax filings and other material state taxing jurisdictions for income tax filings for the years 2005 through 2007. The Company reported NOLs from tax years back to 1992 on federal and state tax returns currently under, or open to, examination. The Company believes that its accrual for tax liabilities is adequate for all open audit years based on its assessment of many factors, including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and involves a series of complex judgments about future events.

The Company does not presently expect that there will be significant changes to the unrecognized tax benefit within 12 months of September 30, 2010. However, due to uncertainty regarding the timing and ultimate resolution of federal and certain state income tax examinations of open statutory periods, the Company s expectations may change. Additionally, the statutes of limitations in certain state and local jurisdictions are expected to lapse within the next 12 months and may result in a decrease of unrecognized tax benefits and accrued interest of approximately $1.5 million.

Note 10. Stockholders   Equity

Stock Repurchase Plan

The Company s Board of Directors has authorized a program (the   Repurchase Program) to repurchase up to $5.0 million of the Company s common stock through December 31, 2010. Under the terms of the Repurchase Program, the Company may repurchase shares in open market purchases or through privately negotiated transactions. The Company has used cash on hand to fund repurchases of its common stock and expects to use cash on hand to fund any additional stock repurchases under the Repurchase Program. During the nine months ended September 30, 2009, the Company repurchased 0.2 million shares of its common stock for

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approximately $0.4 million at a weighted-average price, including brokerage commissions, of $1.79 per share. The reacquired shares have been designated as treasury shares. As of September 30, 2010, the Company had $4.6 million available for further share repurchases, and it may make additional stock repurchases in 2010 pursuant to the Repurchase Program.

Note 11. Stock-Based Compensation

Stock Options

During the second quarter of 2008, the Compensation Committee of the Board of Directors (the Compensation Committee) approved awards of options to purchase 0.8 million shares of common stock, at an exercise price of $6.42 per share, granted under the PRIMEDIA Inc. Stock Purchase and Option Plan, as amended (the Stock Compensation Plan), to certain of its employees and directors that vest with respect to one-third of the shares underlying such options on each of December 31, 2008, 2009 and 2010. During the second and third quarters of 2009, awards of options to purchase less than 0.1 million shares of common stock at a weighted-average exercise price of $2.11 were granted under the Stock Compensation Plan, to certain of the Company s employees that vest with respect to one-third of the shares underlying such options on each anniversary date during 2010, 2011 and 2012. There were no stock options granted during the nine months ended September 30, 2010.

Restricted Stock

Performance Share Plan

During 2008, 2009 and 2010, the Compensation Committee approved awards of performance-based restricted stock for 2008, 2009 and 2010, to be granted under the Stock Compensation Plan, to certain employees of the Company. The extent to which an award vests is based on the Company s level of performance during the year in which the grant is made. Under the terms of each grant, the restricted stock is forfeited if less than 90% of the applicable performance goal is achieved and fully vests if at least 100% of the applicable performance goal is achieved. If at least 90%, but less than 100%, of the applicable performance goal is achieved, a portion of the restricted stock vests pursuant to a predetermined formula. Restricted stock vests on the date of determination by the Compensation Committee of the extent to which the applicable performance goal is achieved, provided the grantee is employed by the Company at such time. At that time, restrictions on the vested portion of the award lapse, and the corresponding shares are distributed to the grantee. Performance-based restricted stock is expensed based on the likelihood of the Company achieving the performance targets.

Restricted stock granted in 2008, targeted at 0.2 million shares, vested or was forfeited based on the Company s level of achievement of performance goals for the year ended December 31, 2008. Vested shares were distributed during the first quarter of 2009. The performance targets for the 2009 awards were set during the first quarter of 2009, at which time approximately 0.3 million shares were granted. The performance targets for the 2009 awards were not met, and the performance-based restricted shares were deemed forfeited as of December 31, 2009. The performance targets for the 2010 awards were set during the first quarter of 2010, at which time approximately 0.3 million shares were granted.

Service Plan

During 2009 and 2010, the Compensation Committee approved awards that totaled approximately 0.7 million shares of service-based restricted stock granted under the Stock Compensation Plan to certain employees of the Company. The restricted stock vested or will vest at 100% as long as the employee is employed with the Company through specified vesting dates between 2010 and 2013.

A summary of the Company s restricted stock award activity, under both performance and service plans, during the nine months ended September 30, 2010 is presented below:

	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of period	219,855	$ 3.43
Granted	746,376	3.56
Vested and distributed	(63,700)	3.73

Vested and surrendered (1)	(17,127)	3.75
Forfeited		
Outstanding at end of period	885,404	