PRIMEDIA INC
Form 10-K
March 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended: December 31, 2010

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File number: 1-11106

PRIMEDIA Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-3647573**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
3585 Engineering Drive, Norcross, Georgia	**30092**
(Address of principal executive offices)	(Zip Code)

(678) 421-3000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company Yes ¨ No x

The aggregate market value of the voting common equity of PRIMEDIA Inc. (PRIMEDIA) which is held by non-affiliates of PRIMEDIA, computed by reference to the closing price as of the last business day of the registrant s most recently completed second fiscal quarter, June 30, 2010, was approximately $50.8 million. The registrant has no non-voting common stock.

As of February 28, 2011, 44,272,064 shares of PRIMEDIA s Common Stock were outstanding.

The following documents are incorporated into this Form 10-K by reference: Part III of this Report on Form 10-K incorporates information by reference from the registrant s Proxy Statement for its 2011 Annual Meeting of Stockholders. The definitive Proxy Statement will be filed within 120 days of the end of the fiscal year ended December 31, 2010.

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PRIMEDIA Inc.

Annual Report on Form 10-K

December 31, 2010

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We include cross references to captions elsewhere in this Annual Report on Form 10-K, which we refer to as this Report, where you can find related additional information. The following table of contents tells you where to find these captions.

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IMPORTANT INFORMATION ABOUT THIS REPORT

In this Report, the words PRIMEDIA, Company, we, us and our mean PRIMEDIA Inc., including its subsidiaries, unless the context otherw specifies or requires.

This document contains forward-looking statements that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and often contain words such as expects, anticipates, intends, plans, believes, seeks or will. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. For us, particular uncertainties which could adversely or positively affect our future results include, among others: general economic trends and conditions and, in particular, trends and conditions in the apartment and other rental property and new home sales sectors of the residential real estate industry; changes in technology and competition; implementation and results of our ongoing strategic initiatives; demand by customers for our services; expenses or adverse results of litigation; changes in U.S. federal tax laws; and numerous other matters of national, regional and local market scale, including those of a political, economic, business, competitive and regulatory nature. In addition, the results and impact of our January 2011 announcement that we are exploring strategic alternatives, including the possible sale of the Company, could affect our actual future results and cause such results to differ from those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

PART I

ITEM 1. BUSINESS

General

We are a targeted media company that provides consumers with the information and tools they need to find a place to live. Our consumer directories are targeted primarily for the apartment and other rental property sectors of the residential real estate industry, as well as selected new home markets, and are provided free to consumers through online, print and mobile platforms. We derive advertising revenue by providing our advertiser clients property management companies, private owner/landlords, new home builders and real estate professionals with products and services that generate measurable results in the form of cost-effective, quality leads.

Our principal digital assets include ApartmentGuide.com, Rentals.com, RentalHouses.com, NewHomeGuide.com and AmericanHomeGuides.com. According to comScore Media Metrix, our Apartments/Rentals Network of Sites averaged 3.8 million monthly unique visitors and over 6.6 million monthly unique visits during 2010. The average monthly number of leads we produce for our advertisers has grown by over 25% year over year, and leads derived from our online and mobile services now represent more than 80% of the total leads we deliver to our advertiser clients.

We produce printed directories for 75 markets and distribute them through display rack programs, many of which are on an exclusive basis, with large national and regional retail chains, including grocery, drug, convenience, video, fitness and mass merchandise retailers. In 2010, we distributed printed directories to approximately 21,000 retail and other locations.

Over the past several years, we have aggressively divested assets no longer part of our core businesses. Our continuing operations are currently comprised solely of what we have described historically as our Consumer Guides segment.

In January 2011, we announced that we are exploring strategic alternatives, including a possible sale of the Company. We have not set a definitive timetable for completing exploration of strategic alternatives, and there can be no assurance that the process will result in any transaction. We do not expect to make further disclosures with respect to this process while it is continuing.

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Apartments

Our Apartments division comprised approximately 93.3% of our advertising revenue for 2010 and 93.7% of our advertising revenue for fourth quarter 2010.

Apartment Guide

Thirty-six years old, Apartment Guide, our flagship brand and largest business, delivers apartment and apartment community rental information to consumers through a combination of Internet, print and mobile products and services. ApartmentGuide.com offers many premium features, including flexible search functionality, detailed photos and floorplans, virtual tours, as well as detailed information on metro areas and neighborhoods. Our ApartmentGuide.com mobile platform continues to expand through launches of iPhone® and Android applications, which together have generated over one million downloads.

We currently produce 77 Apartment Guide printed directories in 75 markets, averaging over 15,000 apartment community listings in print over 40% more listings than our nearest print competitor within these markets. Most of our Apartment Guide printed directories are published bi-monthly.

Apartment Guide advertising revenue is generated primarily from property management companies that manage larger apartment communities (generally in excess of 50 units) that experience ongoing vacancies. A majority of our 2010 revenue was derived from contracts at least 12 months in duration, and a majority of these contracts were renewed when they expired. In 75 of our local markets, clients may purchase integrated media packages, which include online, mobile and print advertising. However, as we continue to pursue enhancements to our product portfolio and market segment expansion to grow our customer count, we are providing more flexibility to clients, based on specific markets and market segments, to purchase more customized mixes of products, product features and services on a stand-alone or package basis.

Apartment Guide s national competitors include Rent.com (owned by eBay), Apartments.com (owned by Classified Media Ventures), For Rent (published by Dominion Enterprises), Apartment Finder (published by Network Communications Inc.) and, to a lesser extent, Move.com (owned by Move, Inc.).

Rentals.com

Rentals.com is a comprehensive real estate rental site with one of the largest collections of single-unit rental property listings on the Internet. The Rentals.com Network of Sites, which includes Rentals.com and RentalHouses.com, averages approximately 27,000 listings of single-family homes, townhomes, condos and smaller apartment communities, as well as select inventory of apartments from ApartmentGuide.com. Our advertiser clients use Rentals.com and RentalHouses.com to list their rental vacancies, including through the self-provisioning feature of the website we call the Ad Store, and peruse the expert advice and tips on managing their rental properties. A majority of our customers are derived from the Ad Store, while a majority of our listings are derived from property management companies.

Advertising revenue is generated primarily from private owner/landlords, investors and property managers that own or manage single-unit rental properties or smaller apartment communities (generally less than 50 units) that experience vacancies intermittently. Listings on the Rentals.com and RentalHouses.com Network of Sites are generally purchased on a monthly basis, though longer-term packages are available for property management company clients. In some of its markets, advertisers purchase basic and premium listings. In other markets, basic listings are provided free of charge, with premium upgrades available for charges that vary by category and market.

Competitors of Rentals.com and RentalHouses.com include craigslist.org (owned by craigslist, Inc.), HomeRentals.net (owned by RealEIS, LLC), RentalHomesPlus.com (owned by Classified Ventures LLC), Move.com (owned by Move, Inc.) and, to a lesser extent, traditional newspapers.

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New Homes

Our New Homes division, comprising approximately 6.7% of our advertising revenue for 2010 and 6.3% of our advertising revenue for fourth quarter 2010, provides display and classified advertising for new home builders to showcase product and inventory on a national and local basis through a network of home-related websites, including NewHomeGuide.com, AmericanHomeGuides.com, NewHomeDirectory.com, FloridaGuide.com, and many others specific to states and metropolitan areas with significant home building activity. In 2010, New Homes produced 19 printed directories, averaging over 1,700 new home community listings in print. New Homes printed directories generally are published bi-monthly.

New Homes advertising revenue is generated primarily from new home builders and advertising agencies representing new home builders. Most of our clients purchase integrated media packages that include online, mobile and print advertising, though our products and services are offered nationwide on a stand-alone or package basis.

Our New Homes division competes primarily with national competitors such as Move.com (owned by Move, Inc.), New Home Finder (published by Network Communications, Inc.), Housing Guide of America (owned by a consortium of local and regional magazine publishers), newhomesource.com (owned by Builder Homesite, Inc.), the iNest real estate brokerage (owned by Lending Tree, LLC) and, to a lesser extent, traditional newspapers.

Distribution

In 2010, our distribution function, DistribuTech, distributed free publications, including PRIMEDIA s directories and over 2,100 third-party titles, flyers and special piece advertising materials, to approximately 21,000 retail and other locations, in 38 states and Washington, D.C. DistribuTech maintains display rack programs, many of which are on an exclusive basis, which we refer to as retail display allowances, or RDAs, with several large national and regional retail chains. The free directories are typically displayed in free-standing, multi-pocket racks located in high-visibility, high-traffic locations at the entrance or exit of these locations.

The primary function of DistribuTech is to ensure priority placement for PRIMEDIA s directories through RDAs and to reduce our overall distribution costs through revenue from third-party customers who pay DistribuTech for distribution services. Over the past three years, we have experienced substantial declines in revenue from third-party DistribuTech customers that have scaled back or ceased operations or that are providing an Internet-only product. In addition, historically, we have paid substantial premiums for the exclusive nature of many of our RDAs, which has contributed to relatively high fixed costs within this function.

Beginning in 2008, we undertook strategic initiatives to significantly reduce the cost structure of our distribution function, including the relatively high costs of RDAs. During 2010, we implemented a plan to further reduce our ongoing distribution costs arising from RDAs that were underperforming. As a result of these initiatives, our distribution costs decreased from $85.2 million in 2008 to $60.9 million in 2009 and to $40.0 million in 2010. We intend to continue aggressively reducing our distribution cost structure.

Our overall distribution strategy is to reduce our print distribution costs as we devote greater resources to opportunities for growth that digital media present and eliminate less effective distribution locations, while focusing our efforts on retaining and servicing locations that produce the best results for PRIMEDIA s advertisers in terms of leads. We intend to move to a smaller, more efficient distribution model that primarily relies on third-party distribution services, in combination with more limited internal resources, to deliver our printed directories.

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Technology

We use technology to improve our operations by increasing productivity, improving effectiveness and minimizing costs. With the introduction of mobile technologies, such as wireless data networks and laptop/handheld technologies, the use of technology has expanded within our organization to include customer relationship management activities and business workflow functionality.

We back up critical website data at various times throughout the day and retain it at certified third-party facilities. We have firewalls and switchgear designed to help ensure network security. We rely increasingly on hosted providers for many of our corporate applications. These applications are provided over our network to us and configured to meet our needs, although the software itself is not installed at our locations.

Production and Fulfillment

We provide most of the content for our websites, but we outsource some technology, production and content. All of our printed directories are printed and bound by independent printers. The principal raw material used in our printed directories is paper, which is purchased from merchants. In 2010, paper prices increased as the year progressed. We expect paper costs to increase slightly in 2011.

Sales and Marketing

Because our directories are free to users, we compete for audience on the basis of the relevance and usefulness of our search results and the features, availability and ease of use of our tools and information. Our websites are marketed to end users through our printed directories and through search engine optimization, e-mail marketing and online advertising, which we purchase on a non-exclusive basis with companies such as Google, MSN, Yahoo!, Advertising.com and others. We monetize visits to our websites through various advertising revenue formats, such as flat fees, cost per action, cost per impression and cost per click, which comprise the substantial majority of our advertising revenue.

We sell our advertising products and services to our advertiser clients through our direct sales force. Our sales force is comprised currently of approximately 370 sales people. The sales force is generally organized vertically, focusing on specific categories and product lines, and by market. Generally, sales people are responsible for developing new accounts and servicing existing customers. Most of our sales people live in the market they serve. We also maintain an in-house telemarketing sales force, supplemented by local and regional support in the field, which focuses on specific customer segments within markets.

Our marketing personnel conduct a variety of marketing programs designed to raise the general awareness of our businesses, generate leads for the sales organization and promote our various product lines. These programs include participation in trade shows and industry trade groups, public relations, digital/online promotion, advertising and production of collateral literature.

In 2010, more than 72% of our Internet audience was generated through non-paid sources, such as repeat visitation, word-of-mouth, natural search and public relations. We selectively utilize paid-marketing sources, such as search engine marketing, affiliate relationships and co-branded partner deployments.

One of our individual advertisers comprised 1.4% of our total revenue in 2010, while another comprised 1.3%. All of our other individual advertisers comprised less than 1.0% of our total revenue in 2010.

Employees

During 2010, our overall headcount declined by approximately 14.3%, primarily due to the elimination of certain administrative and support positions as a result of automation and consolidation of functions. Our sales force headcount also declined by 17.8%. As of December 31, 2010, we had approximately 815 employees, of which

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approximately 70 were part-time, compared to approximately 900 employees at the end of 2009, of which approximately 20 were part-time. Our employees are not represented by any collective bargaining agreements. We consider our relations with our employees to be good.

Intellectual Property

We own various registered trademarks, including Apartment Guide, and have service mark applications pending for others. We also have the right to use a number of unregistered service marks in connection with our businesses. So long as these marks remain in continuous use in connection with similar goods and services, their terms can be perpetual, subject, with respect to registered trademarks, to the timely renewal of such registrations in the United States Patent and Trademark Office. Most of our content and databases are copyrighted, as are certain of our software and user manuals. The absence of a registration does not waive copyright protection.

Discontinued Operations

Over the past several years, we have aggressively sought to divest assets no longer part of our current core businesses. Details about our divestitures during the year ended December 31, 2008 are as follows:

Segment, Group or Division	Year of Inclusion in Discontinued Operations	Basis for Inclusion in Discontinued Operations	Year of Disposition	Consideration Form	Consideration Amount	Pre-tax Gain on Disposition Recognized During the Year Ended December 31, 2008
					(Dollars in thousands)	
PRIMEDIA Healthcare (part of Education segment), a medical education business(1)	2006	Announcement of active pursuit of sale of segment	2008	Cash	$ 200	$ 132
Enthusiast Media segment(2)	2007	Sale of segment	2007	Cash	1,177,900	651
Auto Guides division(3)	2007	Announcement of intent to sell or shut down operations of division	2008	Cash	2,100	42

(1) Remaining operations were shut down, resulting in a loss of approximately $0.4 million.

(2) Final adjustments, including the recording of additional gain, were made in 2008, resulting in payment of approximately $4.4 million to acquirer.

(3) Remaining operations were shut down, resulting in a loss of approximately $0.8 million.

There was no pre-tax gain or loss on disposition recognized during the years ended December 31, 2010 and 2009.

As of December 31, 2010 and 2009, there were no assets or liabilities of businesses held for sale.

The financial results for all divestitures are reported as discontinued operations in the consolidated statement of operations for all periods presented and are more fully discussed in Item 7   Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Report.

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Company Organization

PRIMEDIA Inc. was incorporated on November 22, 1991 in the State of Delaware as K-III Communications Corporation, and in 1997, we changed our name to PRIMEDIA Inc. Our principal executive offices are located at 3585 Engineering Drive, Norcross, Georgia 30092, and our telephone number is (678) 421-3000.

Available Information

We maintain a website located at www.primedia.com on which, among other things, we make available, free of charge, various corporate governance materials and reports that we file or furnish to the United States Securities and Exchange Commission (SEC). Our Corporate Governance Guidelines, Code of Ethics, and charters for each of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, are all provided on this website. We will post any waivers of our Code of Ethics granted to any of our directors or executive officers on the Investor Relations portion of this website. Our reports and other filings, including, without limitation, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all other documents, including amendments thereto, filed with or furnished to the SEC, are made available as soon as practicable after their receipt by the SEC. We are not incorporating the information on our website into this Report, and our website and the information appearing on our website are not included in, and are not part of, this Report.

ITEM 1A. RISK FACTORS

Below, we have described our present view of certain important risk factors. This discussion of risk factors contains forward-looking statements, as discussed on page 1 of this Report. These risk factors may be important to understanding any statement in this Report or elsewhere. The following information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes contained elsewhere in this Report.

The results and impact of our announcement that we are exploring strategic alternatives cannot be determined.

In January 2011, we announced that we are exploring strategic alternatives, including a possible sale of the Company. There can be no assurance that our review of strategic alternatives will result in any agreement or transaction, or that if an agreement is executed, that a transaction will be consummated. We do not intend to disclose developments with respect to this process while it is continuing. The process of exploring strategic alternatives may be disruptive to our business operations, create uncertainties with current and potential customers, employees and business relationships, which could affect our business, financial condition or results of operations. In addition, the market price of our stock may be volatile as we consider strategic alternatives, and volatility may persist or be increased if and when a decision to pursue a particular alternative (or no alternative) is announced.

Affiliates of Kohlberg Kravis Roberts & Co. L.P. (KKR) have control of a majority of our outstanding common stock and have the power to elect all the members of our Board of Directors and to approve any action requiring stockholder approval, including potentially any strategic alternatives discussed above.

As of February 28, 2011, approximately 58.8% of the outstanding shares of our common stock were held by investment partnerships of which KKR Associates, L.P. and KKR GP 1996 LLC are the general partners. KKR Associates and KKR GP 1996 have sole voting and investment power with respect to these shares.

Consequently, KKR Associates, L.P. and KKR GP 1996 LLC and their respective general partners and members, including those on our Board of Directors, control us and have the power to elect all of our directors and approve any action requiring stockholder approval, including adopting amendments to our certificate of incorporation and approving mergers or sales of all or substantially all of our assets. KKR Associates, L.P. and KKR GP 1996 LLC will also be able to prevent or cause a change of control at any time.

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Our stock price is volatile.

Our common stock price has experienced substantial volatility in the past and may remain volatile in the future. Volatility can arise as a result of a number of the factors discussed in this Risk Factors section, as well as divergence between our actual or anticipated financial results and published expectations of analysts; announcements that we, our competitors or our customers may make; and the relatively small portion of our outstanding shares that is in the hands of public investors, as opposed to our officers, directors and controlling-interest investors. In addition and as also discussed above, the market price of our stock may be volatile as we consider strategic alternatives, and volatility may persist or be increased if and when a decision to pursue a particular alternative (or no alternative) is announced.

Deterioration in general economic conditions, and in the specific industries in which we operate, have adversely affected and are expected to continue to adversely affect advertising revenue.

National and local market economic conditions affect the overall levels of advertising revenue. Negative economic conditions, including a U.S. recession and the nationwide and local downturn in the housing markets, have adversely affected and are expected to continue to adversely affect our overall level of advertising revenue, and a failure of economic conditions to improve in our markets could adversely affect our future business, financial condition and results of operations.

We depend on large property management companies in the apartment leasing sector of the residential real estate industry for a majority of our revenue, and any economic or industry developments that adversely affect the number and value of leasing transactions generated could adversely impact our financial results.

The return on investment for our large property management company advertisers depends upon the comparison of how many leases we are generating for the managed communities in a particular local market, and the value of such leases, to the amount charged for our advertising. Many of the factors affecting the number and value of lease transactions are beyond our control. In markets where occupancy levels are extraordinarily high or extraordinarily low, the management company s return on investment can be adversely affected, and the management company may choose to decrease the level of advertising, which could adversely affect our revenue. The effects of occupancy rates can be mitigated or exacerbated by effective rent levels, which are essentially average rent amounts after giving effect to free months of rent and other incentives.

Our new homes division depends on the new home sales sector of the residential real estate industry, which is cyclical.

Approximately 6.7% of our 2010 advertising revenue was generated from sales of advertising products to new home builders in the residential real estate industry. This sector, which is cyclical, directly affects the success of our New Homes division. The return on investment for our new home builder advertisers depends on the success rate of actual sales that are closed in comparison to the advertising expenses paid. If our advertisers experience lower return on investment because actual sales decline for reasons beyond our control, they tend to decrease their advertising budget, which adversely affects our revenue.

Economic recession, unfavorable taxation laws and regulations, higher credit standards, unavailability of mortgage loans, increased interest rates, increased unemployment, lower consumer confidence or lower wages can cause consumers to reduce their activity in the residential real estate industry, thus negatively impacting local new home sales markets. The United States economy is currently experiencing its worst downturn in the residential real estate industry in over 50 years. The duration of this downturn, as is true of most trends in the real estate industry, is unpredictable, and as a result, our prospects in this area are also unpredictable.

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The markets for our products and services are highly competitive.

The markets for our products and services are disbursed throughout the United States. Generally, other online and print apartment and new home-targeted resources for the consumer represent our main competitors. To a lesser extent, we also compete with traditional newspapers and yellow pages.

Competition for advertising is generally based on audience or traffic levels and demographics, price, service and advertising results. Competition from all relevant media and services affects our ability to attract and retain consumers and advertisers and to maintain or increase our advertising rates. This competition has intensified as a result of the continued developments of digital media technologies. Distribution of advertising over the Internet, as well as through mobile phones and other devices, continues to increase in popularity. As a result, a shift from print advertising to online alternatives has contributed to significant declines in print advertising.

The majority of our current product offerings are built upon integrated media packages that feature online, mobile and print components. However, we are continuing to aggressively develop and market our online products and services, and we could experience a decline in advertising revenue if we are unable to migrate clients that have a preference for our print advertising to our website offerings in volumes or at rates sufficient to offset declines in print advertising.

If we are not successful in growing our digital products and services, our business, financial condition and prospects will be adversely affected.

Our growth depends, to a significant degree, upon the development of our digital products and services. Accordingly, our ability to grow and succeed over the long term depends on various factors, including, among other things:

- increasing our online traffic and attracting and retaining visitors to our websites, which may be adversely affected by search engines (including Google, the primary search engine directing traffic to our websites) changing the algorithms responsible for directing search queries to web pages;
- attracting advertisers to our websites, which depends partly on our ability to generate online traffic and partly on the rate at which users engage in lease or sale transactions with advertisers using our websites;
- maintaining appropriate levels of advertising rates on our websites, which will depend, in part, on the market position of our brands;
- exploiting new and existing technologies to distinguish our products and services from those of our competitors and developing new content, products and services, which may move in unanticipated directions due to the development of competitive alternatives, rapid technological change, regulatory changes and shifting market preferences;
- investing funds and resources in online opportunities, in which some of our existing competitors and possible additional entrants may have greater operational, financial and other resources than we do or may be better positioned to compete for certain opportunities; and
- attracting and retaining talent for critical positions.

Even if we continue to develop our digital products and services, we may not be successful in generating or increasing revenue from these products or services due to increasing competition and economic conditions, and our business, financial condition and prospects would be adversely affected.

If we are unable to meet rapid changes in technology, our services and technology and systems may become obsolete.

The Internet and e-commerce are constantly changing. Due to the costs and management time required to introduce new services and enhancements, we may not be able to respond in a timely manner to competitive innovations. To remain competitive, we must continue to enhance and improve the functionality and features of our online businesses. Further, to remain competitive, we must meet the challenges of the introduction by our competitors of new services using new technologies or the introduction of new industry standards and practices. In addition, the vendors we use to support our technology may not provide the level of service we expect or may not continue to provide their product or services on commercially reasonable terms or at all. If we fail to meet any of these potential changes, or our vendors fail to provide the necessary support to our technology, our results of operations and financial condition could be negatively impacted.

Our success and growth depend, to a significant degree, upon the protection of our intellectual property rights.

As a media company, we have a significant intellectual property portfolio, especially copyrights and trademarks, and have allocated considerable resources toward intellectual property maintenance, prosecution and enforcement. For example, we hold and maintain or have pending applications for numerous copyrights and trademarks in connection with our various products and services, such as Apartment Guide. In addition, we also continuously develop and create proprietary software to enhance our ability to effectively and efficiently update the listings in our online and print directories. We may be unable to deter infringement or misappropriation of our data and other proprietary information, detect unauthorized use or take appropriate steps to enforce our intellectual property rights. Any unauthorized use of our intellectual property could make it more expensive for us to do business and consequently harm our business.

We may be unable to realize the benefits of our net operating loss carryforwards (NOLs), and, as a result, lose our future tax savings, which could have a negative impact on our liquidity and financial position.

NOLs may be utilized to offset federal and state taxable income in future years and reduce income taxes otherwise payable on such taxable income, subject to certain adjustments. The Internal Revenue Service (IRS) or state taxing authorities could challenge the amount of the NOLs, which could result in increases in future income tax liabilities. Based on current federal and state corporate income tax rates, our NOLs could provide a benefit to us, if fully utilized, of significant future tax savings. However, if we do not have sufficient taxable income in future years to use the tax benefits before they expire, we will lose the benefit of these NOLs permanently. Our inability to utilize available NOLs could require us to pay substantial additional federal and state taxes and interest, which may adversely affect our liquidity and financial position.

Future legislation may result in our inability to realize the tax benefits of our NOLs.

It is possible that legislation or regulations will be adopted in the future that would limit our ability to use the tax benefits associated with our aggregate federal NOLs of approximately $445.9 million.

Our use of NOL carryforwards could be limited by ownership changes.

In addition to the general limitations on the carryback and carryforward of NOLs under Section 172 of the Internal Revenue Code (the Code), Section 382 of the Code imposes further limitations on the utilization of NOLs by a corporation following various types of ownership changes, generally resulting in more than a 50 percentage point change in ownership of a corporation within a three year period. Therefore, the future utilization of our NOLs may be subject to limitation for regular federal income tax purposes.

We cannot be certain that the limitations of Section 382 will not limit or deny in full our future utilization of available NOLs, if any. Such limitation or denial could require us to pay substantial additional federal and state taxes and interest. Moreover, we cannot be certain that future ownership changes will not limit or deny in full our future utilization of all available NOLs. If we cannot utilize available NOLs, if any, we may be required to pay substantial additional federal and state taxes and interest. Such tax and interest liabilities may adversely affect our liquidity and financial position.

The soundness of financial institutions could adversely affect us.

We have relationships with several financial institutions as lenders under our credit facility and engage in transactions with other counterparties in the financial services industry. Defaults by, or even rumors or questions about, financial institutions or the financial services industry generally, could result in losses or defaults by these institutions. As a result of Lehman Brothers, Inc. ceasing to be a participating lender in our credit facility, the total capacity under our revolving credit facility was reduced by $12.0 million to $88.0 million in 2009. In the event that the volatility of the financial markets further adversely affects financial institutions that are lenders under our credit facility, we may be unable to access our credit facility or complete financing transactions as intended, which could adversely affect our revenue and results of operations.

Our credit agreement limits our business flexibility by imposing operating and financial restrictions on our operations.

Our credit agreement imposes specific operating and financial restrictions on us. These restrictions impose conditions or limitations on our ability to, among other things: change the nature of our business; incur additional indebtedness; create liens on our assets; sell assets; issue stock; engage in mergers, consolidations or transactions with our affiliates; make investments in or loans to specific subsidiaries; make guarantees or specific restricted payments; and declare or make dividend payments on our common stock.

Our failure to comply with the terms and covenants in our credit agreement could lead to a default under the terms of such agreement, which would entitle the lenders to accelerate the indebtedness and declare all amounts owed due and payable. If that occurred, we might not be able to refinance or otherwise satisfy our debt obligations, which could have a substantial adverse effect on our ability to continue as a going concern. We may not be able to comply with these restrictions in the future, or, in order to comply with these restrictions, we may have to forego opportunities that might otherwise be beneficial to us.

Our accounting policies and methods are key to how we report our financial condition and results of operations and may require management to make estimates about matters that are uncertain.

Accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with accounting principles generally accepted in the United States of America (GAAP).

Management has identified certain accounting policies and estimates as being critical because they require management s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning revenue, recognizing an expense, recovering an asset or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty of estimates about these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates and Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements contained elsewhere in this Report for more information.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The following table sets forth certain information with respect to our principal locations as of December 31, 2010. These properties were leased by us initially for use in our operations, but as a result of divestitures and consolidations, certain of these properties are now subleased to third-party tenants; only the Norcross location is used in our current operations.

Principal Locations	Principal Use	Approximate Rentable Square Feet (RSF)	Type of Ownership Expiration Date of Lease
Norcross, GA 3585 Engineering Drive	Executive and administrative offices	86,600	Lease expires in 2016
Carrollton, TX 4101 International Parkway	Sublease	201,180	Lease expires in 2014; 71,484 RSF sublet as of December 31, 2010
New York, NY 1440 Broadway	Sublease	170,700	Lease expires in 2015; fully sublet as of December 31, 2010
New York, NY 261 Madison	Sublease	72,100	Lease expires in 2017; 70,633 RSF sublet as of December 31, 2010

Of the total of approximately 1.0 million rentable square feet currently under lease, approximately 0.4 million rentable square feet are fully subleased to third parties. We consider the locations presently used by us for our operations to be adequate for our present needs. If we are forced for any reason to vacate any of our facilities due to lease expirations or any other reasons, we believe that equally suitable alternative locations are available on equally favorable terms in all of the locations where we do business.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. RESERVED

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EXECUTIVE OFFICERS OF THE REGISTRANT

Our current executive officers are:

Corporate Officers

Dean B. Nelson Chairman of the Board Age: 52	Mr. Nelson became Chairman of the Board in 2003 and also served as President and Chief Executive Officer from October 2005 to September 2007. He has served as the Chief Executive Officer of Capstone Consulting LLC, a strategic consulting firm, since March 2000.
Charles J. Stubbs President and Chief Executive Officer Age: 38	Mr. Stubbs has served as President and Chief Executive Officer since 2008. From November 2004 to May 2008, he was the President and CEO of YellowPages.com. Prior to that time, Mr. Stubbs served as President of BellSouth IntelliVentures, the electronic media division of BellSouth Advertising and Publishing Group. Before joining BellSouth, Mr. Stubbs was Executive Vice President of Infospace, a Bellevue, Washington-based entity that develops and markets Internet and wireless solutions for wireless operators and content sites.
Kim R. Payne Senior Vice President and Chief Financial Officer Age: 42	Ms. Payne has served as Chief Financial Officer since 2007. Previously, she had served as Chief Financial Officer of our operating subsidiary since August 2006. She joined us as an accountant in 1991 and during her tenure has served in various finance management roles at our operating subsidiary, including Financial Analyst, Director of Analysis and Planning, and Vice President of Finance.
Arlene Mayfield Senior Vice President and President, Apartment Guide and New Home Guide Age: 48	Ms. Mayfield has served as Senior Vice President since 2007 and President of the Apartment Guide and New Home Guide businesses since 2005 and 2008, respectively. Previously, she had served as Vice President of the New Home Guide from September 2003 through October 2005. She began her career with us in 1993 as the Publisher of the Albuquerque Apartment Guide. Ms. Mayfield was promoted to Publisher of the Orlando Apartment Guide in 1997 and subsequently to Regional Director for the Eastern Region in 1999.
Keith L. Belknap, Jr. Senior Vice President, General Counsel and Secretary Age: 53	Mr. Belknap has served as Senior Vice President, General Counsel and Secretary since 2007. Mr. Belknap is responsible for oversight of our legal and corporate and business development functions. From February 2006 through March 2007, he served as Assistant General Counsel of PPG Industries, Inc. From April 2003 through February 2006, he served as a Principal Counsel to Georgia-Pacific Corporation. Prior to April 2003, Mr. Belknap was Counsel at Skadden, Arps, Slate, Meagher & Flom LLP.
J. Michael Barber Senior Vice President and Chief Accounting Officer Age: 44	Mr. Barber has served as Chief Accounting Officer since 2008. Prior to joining us in October 2007, Mr. Barber served as Executive Vice President and Chief Accounting Officer of HomeBanc Corp. from September 2004 through October 2007. HomeBanc Corp. filed for bankruptcy protection in August 2007. From 2001 to August 2004, he served as Senior Vice President/Manager of Accounting Policy and Reporting with Union Planters Corp., a bank holding company. Prior to 2001, Mr. Barber was a Senior Manager in the banking practice of PricewaterhouseCoopers LLP. Mr. Barber is a certified public accountant.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NYSE under the ticker symbol PRM. As of February 28, 2011, there were 637 holders of record of our common stock. The following table sets forth, for the quarterly periods indicated, the high, low and closing sales prices per share of our common stock as quoted on the NYSE at the end of regular trading, as well as the cash dividends declared per share of common stock:

	Stock Prices			Cash Dividends
2010 Quarters Ended	**High**	**Low**	**Close**	**Declared per Share**
March 31	$ 4.16	$ 2.48	$ 3.44	$0.07
June 30	3.88	2.92	2.93	0.07
September 30	3.84	2.52	3.80	0.07
December 31	5.37	3.60	4.20	0.07

	Stock Prices			Cash Dividends Declared per Share
2009 Quarters Ended	**High**	**Low**	**Close**	
March 31	$ 3.00	$ 1.60	$ 2.47	$0.07
June 30	4.05	1.80	2.01	0.07
September 30	3.25	1.72	2.52	0.07
December 31	4.29	2.36	3.61	0.07

Dividends

Our bank credit facilities impose certain limitations on the amount of dividends permitted to be paid on our common stock. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Capital and Other Resources Financing Arrangements.

We announced on March 3, 2011 that our Board of Directors had authorized a regular quarterly cash dividend of $0.07 per share of common stock, payable on or about March 23, 2011, to stockholders of record on March 14, 2011. We currently expect that we will continue to pay a regular quarterly dividend, at the discretion of our Board of Directors.

Equity Compensation Plan Information

Information required by this item with respect to our equity compensation plans is incorporated by reference to our Proxy Statement for our 2011 Annual Meeting of Stockholders. The definitive Proxy Statement will be filed within 120 days of the end of the fiscal year ended December 31, 2010.

Recent Sales of Unregistered Securities

There have been no recent sales of unregistered securities.

Issuer Purchases of Equity Securities

In 2008, our Board of Directors authorized a stock repurchase program (the Repurchase Program) to repurchase up to $5.0 million of our common stock. The Repurchase Program expired on December 31, 2010. Under the terms of the Repurchase Program, we repurchased shares in open market purchases or through privately negotiated transactions. To the extent repurchases were made, cash on hand was used to fund such repurchases. As of December 31, 2008, we had not repurchased any shares under the Repurchase Program. However, during the three months ended March 31, 2009, we repurchased 0.2 million shares of our common stock for approximately $0.4 million at a weighted-average price (including brokerage commissions) of $1.79 per share. We did not repurchase any additional shares of our common stock during 2009 or 2010. The reacquired shares have been designated as treasury shares.

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Performance Graph

The stock performance graph is not and shall not be deemed incorporated by reference by any general statement incorporating by reference this Report into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, (collectively, the Acts) except to the extent that we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such Acts.

The graph below compares the cumulative total stockholder return of our Common Stock with the cumulative total return of the S&P 500 Index and two different customized peer groups, the Old Peer Group and the New Peer Group, for the period commencing December 30, 2005 and ending December 31, 2010. The Old Peer Group is comprised of Move, Inc., Martha Stewart Living Omnimedia, Inc., The Knot, Inc. and Market Leader, Inc. The New Peer Group is comprised of Move, Inc., Martha Stewart Living Omnimedia, Inc., The Knot, Inc., Market Leader, Inc. and LoopNet, Inc. We elected to change our peer group because we believe the addition of LoopNet, Inc. in the New Peer Group provides a more relevant comparison to our business model and industry than the Old Peer Group. The graph assumes that $100 was invested in our Common Stock, in the index and in each of the peer groups on December 30, 2005 and that all dividends were reinvested on a quarterly basis.

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10
PRIMEDIA Inc.	$ 100	$ 105	$ 101	$ 28	$ 52	$ 66
S&P © 500	100	114	118	72	89	101
Old Peer Group (4 Stocks)	100	127	66	33	41	44
New Peer Group (5 Stocks)	100	124	74	37	48	52

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data were derived from the audited consolidated financial statements. The data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto included elsewhere in this Report.

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PRIMEDIA INC. AND SUBSIDIARIES

	As of and for the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share amounts)				
Operating Data:					
Revenue, net	$ 232,218	$ 257,931	$ 304,105	$ 314,800	$ 307,929
Depreciation and amortization of property and equipment	12,845	13,256	14,475	12,612	11,501
Amortization of intangible assets	5,093	2,970	2,870	3,492	3,286
Interest expense	11,313	15,670	19,338	77,660	126,940
Income (loss) from continuing operations	$ 19,625	$ 4,540	$ 49,027	$ (55,678)	$ (65,114)
Discontinued operations, net of tax	(1,361)	(1,052)	10,441	547,123	103,344
Cumulative effect of change in accounting principle, net of tax(1)					22
Net income	18,264	3,488	59,468	491,445	38,252
Income applicable to common stockholders	$ 18,264	$ 3,488	$ 59,468	$ 491,445	$ 38,252
Basic and diluted income (loss) applicable to common stockholders per common share(2):					
Income (loss) from continuing operations	$ 0.44	$ 0.10	$ 1.11	$ (1.26)	$ (1.48)
Discontinued operations	(0.03)	(0.02)	0.24	12.40	2.35
Cumulative effect of change in accounting principle(1)					0.00
Income applicable to common stockholders	$ 0.41	$ 0.08	$ 1.35	$ 11.14	$ 0.87
Dividends declared per share of common stock	$ 0.28	$ 0.28	$ 0.28	$ 2.15	$
Basic common shares outstanding (weighted-average)(2)	44,195,208	44,124,538	44,176,398	44,118,943	43,997,665
Diluted common shares outstanding (weighted-average)(2)	44,437,845	44,214,003	44,197,590	44,118,943	43,997,665
Balance Sheet Data:					
Goodwill and intangible assets, net	$ 144,879	$ 149,972	$ 152,942	$ 155,712	$ 862,025
Total assets	212,732	239,729	286,154	256,864	1,254,329
Long-term debt(3)	205,283	222,349	245,531	247,575	1,316,959

Notes to Selected Financial Data

(1) Effective January 1, 2006, we adopted GAAP related to the accounting for share-based payments, using the modified prospective method. Prior to the adoption of this statement, we expensed the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003 in accordance with GAAP, which was adopted on January 1, 2003 using the prospective method. Upon adoption, we were also required to expense the fair value of any awards that were granted prior to January 1, 2003 and that were not fully vested as of January 1, 2006. The cumulative effect of adopting this change in accounting principle was less than $0.1 million, which is included in the results of operations for the year ended December 31, 2006.

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(2) Income (loss) per common share has been determined based on income (loss) applicable to common stockholders, divided by the weighted-average number of common shares outstanding for all years presented.

The following are securities that could potentially dilute basic income per share in the future:

	December 31,				
	2010	2009	2008	2007	2006
Warrants	1,645,000	1,645,000	1,645,000	1,645,000	1,645,000
Stock options	1,759,095	1,833,345	2,706,344	3,192,865	3,602,504
Shares of restricted stock	774,170	219,855	415,634	19,763	62,409

For the years ended December 31, 2010, 2009, 2008, 2007 and 2006, the following potentially dilutive securities were not included in the weighted-average number of common shares outstanding used in the computation of diluted income per common share:

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Warrants	1,645,000(a)	1,645,000(a)	1,641,915(a)	1,645,000(c)	1,645,000(c)
Stock options	1,788,459(a)	2,484,615(a)	3,394,845(a)	3,316,297(c)	3,663,715(c)
Shares of restricted stock	642,551(b)	429,903(b)	310,830(b)	38,513(c)	112,959(c)

(a) Excluded because the strike price was greater than the average market price of the Company s common stock during the period, and the inclusion would be anti-dilutive or the calculation under the treasury stock method resulted in no additional diluted shares.

(b) Excluded because either the performance goals related to the shares were not met at the end of the period or the calculation under the treasury stock method resulted in no additional diluted shares.

(c) Excluded because the effect of inclusion would be anti-dilutive due to the Company s loss from continuing operations.

(3) Excludes current maturities of long-term debt.

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis summarizes our financial condition and operating performance and should be read in conjunction with our historical consolidated financial statements and notes thereto included elsewhere in this Report.

Executive Summary

Our Company

We are a targeted media company that provides consumers with the information and tools they need to find a place to live. Our consumer directories are targeted primarily for the apartment and other rental property sectors of the residential real estate industry, as well as selected new home markets, and are provided free to consumers through a combination of online, print and mobile platforms. We derive advertising revenue by providing our advertiser clients property management companies, private owner/landlords, new home builders and real estate professionals with products and services that generate measurable results in the form of cost-effective, quality leads.

Our principal digital assets include ApartmentGuide.com, Rentals.com, RentalHouses.com, NewHomeGuide.com and AmericanHomeGuides.com. According to comScore Media Metrix, our Apartments/Rentals Network of Sites averaged 3.8 million monthly unique visitors and over 6.6 million monthly unique

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visits during 2010. The average monthly number of leads we produce for our advertisers has grown by over 25% on a full year basis, and leads derived from our online and mobile services now represent more than 80% of the total leads we deliver to our advertiser clients.

We produce printed directories for 75 markets and distribute them through display rack programs, many of which are on an exclusive basis, with large national and regional retail chains, including grocery, drug, convenience, video, fitness and mass merchandise retailers. In 2010, we distributed printed directories to approximately 21,000 retail and other locations.

Fiscal 2010 Fourth Quarter Results

	Three Months Ended December 31,		$ Change Favorable/	% Change Favorable/
	2010	2009	(Unfavorable)	(Unfavorable)
	(Dollars in thousands, except per share data)			
Total revenue, net	$ 55,834	$ 61,253	$ (5,419)	(8.8)%
Provision for income taxes	(3,594)	(3,535)	(59)	(1.7)
Income from continuing operations	6,026	7,469	(1,443)	(19.3)
Discontinued operations, net of tax	231	3,679	(3,448)	(93.7)
Net income	$ 6,257	$ 11,148	$ (4,891)	(43.9)

Total revenue, net decreased due to a $3.8 million decrease in Apartments advertising revenue, a $0.6 million decrease in New Home advertising and a $1.1 million decrease in distribution revenue. The decrease in revenue was primarily due to a 13.0% decrease in revenue per apartment community served in our Apartment Guide business, which was partially offset by a 5.3% increase in communities served. The decrease in New Homes advertising revenue was due to a 20.7% decrease in revenue per community served, partially offset by a 6.0% increase in new home communities served. The decrease in distribution revenue was due to a 14.4% decrease in the number of pockets sold in our display racks, due largely to the reduction in retail locations serviced, and a 0.5% decrease in the average revenue per pocket.

Income from continuing operations decreased primarily due to lower revenue of $5.4 million, partially offset by decreases of $4.0 million in total expenses in 2010, primarily in distribution and circulation and cost of goods sold.

Net income decreased due to the factors above as well as a $3.4 million decrease in discontinued operations, net of tax, which was the result of a benefit recorded in 2009 from our estimated liability for certain tax-related contingencies, primarily due to the lapsing of the statutes of limitations.

2010 Summary Consolidated Results

	Years Ended December 31,		$ Change Favorable/	% Change Favorable/
	2010	2009	(Unfavorable)	(Unfavorable)
	(Dollars in thousands, except per share data)			
Total revenue, net	$ 232,218	$ 257,931	$ (25,713)	(10.0)%
Provision for income taxes	(12,501)	(2,098)	(10,403)	(495.9)
Income from continuing operations	19,625	4,540	15,085	332.3
Discontinued operations, net of tax	(1,361)	(1,052)	(309)	(29.4)
Net income	$ 18,264	$ 3,488	$ 14,776	423.6

Business Trends and Outlook

The continuing deterioration in the economy generally and in the conditions in the residential real estate industry in particular have resulted in relatively higher occupancy levels and lower effective rent levels on a national basis. Though local market conditions vary, our advertisers generally have responded to these conditions with shifts in marketing strategies and budget cuts, which have depressed and may continue to depress our advertising revenue. As we look ahead, we believe advertisers will continue to be cautious with their budgets, focusing more on total advertising spend than on ROI, and advertising revenue is likely to continue to be challenged into 2011.

Overall, we expect our advertisers to increasingly favor digital media choices in their advertising budgets, and we are continuing to aggressively develop and market our online and mobile offerings. The greater portion of the value we now deliver (in the form of leads) on a national basis has shifted to our digital products and services. However, at least in the shorter term, we anticipate continuing decreases in revenue per community served as we increase apartment communities served. We believe that our growth will depend, to a significant degree, upon the value of our online products and services and our ability to monetize this value.

During 2011, we intend to continue to grow our client count and market share in our largest business, Apartment Guide, and pursue enhancements to our product portfolio and market and market segment expansion. We also intend to grow our Rentals.com business by focusing on improving site engineering and performance, while increasing traffic, primarily through search engine optimization. Our visibility around 2011 revenue for Apartments is extremely limited, given general economic and market conditions, though we currently expect to see a 6.5% to 7.5% year-over-year decline in first quarter 2011 Apartments revenue, which includes the impact of delayed revenue recognition of approximately $0.6 million, which is more fully discussed in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements contained elsewhere in this Report.

We anticipate continued pressure on our New Homes business during 2011, and we remain focused on managing costs for this business in accordance with anticipated levels of revenue and managing our client relationships to best position us for opportunities as economic conditions improve. We currently expect a year-over-year decline in New Homes revenue of approximately $1.0 million in first quarter 2011.

We anticipate that DistribuTech will continue to be impacted by lower revenue from customers that publish free publications and are scaling back or ceasing operations or providing an Internet-only product and by further reductions in retail locations serviced. Since 2008, we have undertaken strategic initiatives to substantially reduce the cost structure of our distribution function. As a result, distribution costs decreased from $60.9 million in 2009 to $40.0 million in 2010. We intend to continue aggressively manage our distribution cost structure. We currently expect a year-over-year decline in DistribuTech revenue of approximately $1.0 million in first quarter 2011.

Our overall distribution strategy is to reduce our overall print distribution costs as we devote greater resources to opportunities for growth that digital media present and eliminate less effective locations, while focusing our efforts on retaining and servicing locations that produce the best results for PRIMEDIA advertisers in terms of leads. We intend to move to a smaller, more efficient distribution model that primarily relies on third-party distribution services, in combination with more limited internal resources, to deliver our directories.

In January 2011, we announced that we are exploring strategic alternatives, including a possible sale of the Company. We have not set a definitive timetable for completing exploration of strategic alternatives, and there can be no assurance that the process will result in any transaction. We do not expect to make further disclosures with respect to this process while it is continuing. The process of exploring strategic alternatives may be disruptive to our business operations, create uncertainties with current and potential customers, employees and business relationships, which could affect our business, financial condition or results of operations.

Transition Plan

We relocated our corporate headquarters from New York to Norcross, Georgia in 2007. We continued to utilize certain of our New York-based functions through the first half of 2008 and to incur their associated costs.

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Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations is based upon the amounts reported in our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts. The significant accounting policies, outlined in Note 2, Summary of Significant Accounting Policies, to the consolidated financial statements contained elsewhere in this Report, are integral to an understanding of management s discussion and analysis. The accounting policies and estimates that we believe are the most critical to an understanding of the results of operations and financial condition are those that require complex management judgment regarding matters that are highly uncertain at the time policies were applied and estimates were made. These accounting policies and estimates are discussed below. We base some of our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Additionally, GAAP allows or requires many assets and liabilities to be accounted for at fair value, which is defined to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also requires that certain assets be assessed for impairment based on fair value. In cases where active markets do not exist, as discussed below, modeling or other techniques may be required to estimate fair value. Different estimates reasonably could have been used in the current period that would have had a material effect on these financial statements, and changes in these estimates are likely to occur from period to period in the future.

We have discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of the Board of Directors, and the Audit Committee has reviewed our disclosures relating to them in this Management s Discussion and Analysis.

Goodwill Impairment Testing. Goodwill is deemed to have an indefinite life and is not amortized but is subject to an impairment test, at least annually. Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed in business combinations. The value of goodwill is ultimately derived from an entity s ability to generate net earnings after the acquisition. A decline in net earnings could be indicative of a decline in the fair value of goodwill and result in impairment. For that reason, we test, at a reporting unit level, goodwill for impairment and have established October 31 as the annual impairment testing date. A reporting unit is an operating segment or one level below an operating segment for which discrete financial information is available and reviewed regularly by management. Our assets and liabilities are assigned to reporting units to the extent that they are employed in or are considered a liability related to the operations of the reporting units and are considered in determining the fair value of the reporting units. We presently have only one reporting unit. The impairment test involves comparing the fair value of the asset to its carrying value. As long as the fair value is greater than the carrying value, there is no impairment to goodwill.

The assumptions used in determining the fair value of our reporting unit include management s expectations of cash flows in the next five years plus an expected residual value; a discount factor, approximating our weighted-average cost of capital using market participant assumptions (13%); and our combined federal and state statutory tax rate (38%).

While we believe all assumptions utilized in our assessment of goodwill for impairment are reasonable and appropriate, changes in actual earnings, the growth rate of future earnings, our weighted-average cost of capital and our combined federal and state statutory tax rate could all cause different results for the calculation of the fair value of our reporting unit. In management s estimation, the most sensitive of these assumptions is cash flows from future earnings.

Over the past seven years, our actual revenue and earnings before interest, taxes, depreciation and amortization, and other (EBITDA) have generally been within a range of 7% higher to 7% lower than our forecasted amounts. In our annual impairment testing, we determined that the estimated fair value of our reporting unit

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substantially exceeded its carrying value. Historically, we have also performed a sensitivity analysis of our calculated fair value by assuming our cash flows from future earnings to be 20% lower than our forecast. The results indicated that such declines would not result in an indicated goodwill impairment.

Long-Lived Assets. We review our long-lived assets for impairment whenever events and circumstances indicate assets might be impaired. Those events and circumstances include, but are not limited to, a significant change in the extent to which an asset is utilized (e.g., when a decision is made to dispose of an asset and certain other criteria are met), a significant decrease in the market price of an asset and a significant adverse change in the business climate that could affect the value of an asset, and operating or cash flow losses associated with the use of an asset. When such a review is conducted, we use an estimate of undiscounted cash flows, which are derived from our historical experience and long-term business plans, over the remaining lives of the assets to measure recoverability. If the estimated cash flows are less than the carrying value of an asset, the loss is measured as the amount by which the carrying value of the asset exceeds fair value.

During the fourth quarter of 2010 and 2009, factors were identified indicating that the carrying value of certain of our advertiser lists might not be recoverable. We 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 $1.0 million and $0.5 million, respectively, which is included in amortization of intangible assets in the consolidated statement of operations. During 2009, we also determined that the decline in the value of these assets was occurring faster than the expense being recognized using the straight-line method of amortization. To better match the deterioration in the value of the assets, we also 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. During 2010, we determined the asset had a shorter estimated useful life, which was changed effective January 1, 2011.

Income Taxes and Tax-Related Liabilities. Our income tax expense is affected by judgments we must make about the realizability of our net deferred tax assets and our reserves for uncertain tax positions. Our net income is also impacted by our judgments about our tax-related contingent liabilities.

<u>Valuation Allowances for Deferred Tax Assets</u>. Deferred tax assets and liabilities arise from temporary differences (i.e., amounts that are recognized as income or deducted as expenses at different times for GAAP and tax purposes). Deferred tax assets also arise from benefits recorded from NOLs (i.e., amounts representing losses for tax purposes that may be utilized in future years to offset taxable income), and alternative minimum tax credits (i.e., amounts paid that will offset regular tax in future periods). A net deferred tax asset must be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50%) that some portion or all of the deferred tax asset will not be realized. The valuation allowance must be sufficient to reduce the net deferred tax asset to the amount that is more likely than not to be realized. Changes in the valuation allowance are recorded as increases or decreases in income tax expense. Future realization of the tax benefit of an existing deductible temporary difference or carryforward ultimately depends on the existence of sufficient taxable income of the appropriate character (e.g., ordinary income or capital gain) within the carryback or carryforward period available under the tax law. There are four possible sources of taxable income that may be available under the tax law to realize a tax benefit for deductible temporary differences and carryforwards:

- Future reversals of existing taxable temporary differences;
- Future taxable income exclusive of reversing temporary differences and carryforwards;
- Taxable income in prior carryback year(s) if carryback is permitted under the tax law; and
- Tax-planning strategies that would, if necessary, be implemented to, for example:
  - Accelerate taxable amounts to utilize expiring carryforwards; or
  - Change the character of taxable or deductible amounts from ordinary income or loss to capital gain or loss.

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Evidence available about each of those possible sources of taxable income will vary for different tax jurisdictions and, possibly, from year to year. To the extent evidence about one or more sources of taxable income is sufficient to support a conclusion that a valuation allowance is not necessary, other sources need not be considered. Consideration of each source is required, however, to determine the amount of the valuation allowance that is recognized for deferred tax assets. After consideration of the available evidence, a valuation allowance, if warranted, is established to reduce the deferred tax asset to the amount that is more likely than not to be realized.

In evaluating the ability to realize deferred tax assets, including NOLs, and any need for a valuation allowance, it is necessary to first consider the recognition threshold for uncertain tax positions and reduce the deferred tax assets by any required reserve for uncertain tax positions.

As of December 31, 2010, we had aggregate federal NOLs of approximately $445.9 million, which are available to reduce future taxable income, and the substantial majority expire between 2020 and 2024. In addition, we have state and local NOLs in various jurisdictions in which we and/or our subsidiaries file income tax returns. These state and local NOLs expire over various periods based on applicable state and local regulations.

The federal, state and local NOLs are the single largest component of our net deferred tax asset. Additionally, since amortization of tax-deductible goodwill and trademarks ceased for GAAP purposes on January 1, 2002, we expect that deferred tax liabilities will arise each quarter because the taxable temporary differences related to the amortization of these assets are not expected to reverse prior to the expiration period of our deductible temporary differences unless the related assets are sold or an impairment of the assets is recorded. Consequently, we may record a valuation allowance in excess of our net deferred tax assets to the extent the difference between the book and tax basis of indefinite-lived intangible assets is not expected to reverse during the NOL period.

Based on the weight of objectively verifiable available positive and negative evidence, at December 31, 2010, we have recorded a valuation allowance against all but $15.5 million of our net deferred tax asset because we believe only this portion is more likely than not to be realized. We will need to generate approximately $44.3 million in future pre-tax income for financial reporting purposes to realize this asset.

Elements of positive evidence about the realizability of our asset included:

- remaining lives of the NOLs;
- historical income when results are normalized to remove the impact of discontinued operations and to reflect the completion of the Company s relocation from New York to Norcross; and
- forecasted income, utilizing the same forecast as for goodwill impairment testing in future periods.

Elements of negative evidence about the realizability of our asset included:

- historical losses and
- uncertainty as to the timing and exact amount of future earnings as a result of current economic conditions, the U.S. residential real estate industry, as well as the uncertainty of the effectiveness of the steps we have taken, and will take, to mitigate the adverse impact on our businesses.

We may release additional valuation allowance in future periods when we can conclude that a greater portion of the net deferred tax assets is more likely than not to be realized. To the extent we report taxable income in future periods, we intend to use NOLs, to the extent allowable, to offset that taxable income and reduce cash outflows for income taxes. Our ability to use our 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.

Uncertain Tax Positions. GAAP for the accounting for uncertainty in income taxes prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Uncertainty can arise because:

- a tax position is not more likely than not to be sustained upon examination by the taxing authority;

the tax position is more likely than not to be sustained, but for a lesser amount; or

the tax position is more likely than not to be sustained, but not in the financial period in which the tax position was originally taken.

Under GAAP, in order to be recognized, tax benefits from a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We must adjust our reserves for uncertain tax positions, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of an examination.

We or one of our subsidiaries file income tax returns in the United States federal jurisdiction and various state and local jurisdictions, and we are routinely under audit by multiple tax authorities. We are currently under audit by the Internal Revenue Service (IRS) for our 2005 through 2008 federal consolidated income tax filings and other material state taxing jurisdictions for income tax filings for the years 2005 through 2007. We reported NOLs from tax years back to 1992 on federal and state tax returns currently under, or open to, examination. We believe that our accrual for tax liabilities is adequate for all open audit years based on our 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.

At December 31, 2010, we had total unrecognized tax benefits of $79.4 million and a recorded liability for uncertain tax positions of $27.2 million. A number of years may elapse before a particular matter for which we have established a reserve is examined and finally resolved, and due to the uncertainty regarding the timing of the completion of income tax examinations, it is difficult to assess when changes in our estimated liability will occur. However, 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 a recorded liability for uncertain tax positions and accrued interest of approximately $1.4 million.

Tax-related Contingent Liabilities. In connection with the sale of assets and the divestiture of businesses, we may agree to indemnify the buyer and related parties for certain losses or liabilities incurred by the buyer with respect to liabilities related to the pre-closing operations of the assets sold, including tax liabilities not assumed by the buyer in the transaction.

As with any liability, we have accrued for those tax-related contingent obligations that are considered probable and reasonably estimable. Over time, circumstances could change that might increase the likelihood of payment related to a specific indemnity for which no reserve has been established. Additionally, our estimate about the amount due under a specific indemnity could change. Either of these situations will result in a change in our net income.

During the year ended December 31, 2010, we reduced certain tax-related contingent liability obligations as a result of the conclusion of the bankruptcy proceedings of an acquirer of one of the Company s former subsidiaries and the lapsing of the statutes of limitation, and resulted in a $1.8 million benefit to earnings in discontinued operations.

Internal Use Software Development Costs. We capitalize certain costs associated with our internally developed software. Specifically, we capitalize the costs of materials and services incurred in developing or obtaining internal use software. These costs include, but are not limited to, the cost to purchase software, the cost to write program code, payroll and related benefits and travel expenses for those employees who are directly involved with and who devote time to our software development projects. Capitalized software development costs are amortized, on a straight-line basis, over the period expected to be benefitted, which is typically a maximum of two years for Internet-related development costs and a maximum of three years for all other development costs. We periodically review our internal use software assets to assess whether they are expected to be in use throughout the remainder of their estimated useful lives assigned when they were placed in service. If any asset is

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identified that is not expected to be in use for the duration of its estimated useful live when it was placed in service, we must amortize the remaining unamortized balance of the asset over a shorter period corresponding to the new estimated life of the asset.

We capitalized $10.0 million, $9.9 million and $9.5 million of costs related to internal use software in 2010, 2009 and 2008, respectively, and recognized approximately $9.1 million, $8.8 million and $10.5 million of related amortization expense for the years ended December 31, 2010, 2009 and 2008, respectively.

Reserves for Exit or Disposal Cost Obligations. Reserves for exit or disposal cost obligations include those related to our restructuring activities and those related to office leases for businesses previously disposed of. Over the past several years, we have implemented a number of plans to streamline our expense structure. The plans have included employee-related termination costs resulting from the elimination of certain positions; charges associated with vacating certain leased properties, including office and warehouse space, as a result of the co-location of operations within a number of markets or leasing less space in a market due to a reduced number of employees; charges resulting from actions taken with respect to certain of our RDAs, which are intended to reduce our distribution costs; and charges to terminate other contracts.

In recent years, we have also sold some of our businesses, and for various reasons, we remain liable for the leases of real estate those businesses occupied. For example, pursuant to the terms of the sale agreement, the leases of real estate may not have been assumed by or assigned to the acquirer, or the acquirer may have failed to perform under the terms of a sublease assignment, while we retain primary liability under the original lease. In one instance, a portion of the sublease was repudiated in the acquirer s bankruptcy proceedings, which resulted in a portion of the real estate being put back to us.

We must apply judgment in determining the proper reserves for all of the obligations discussed above; however, management believes its assumptions surrounding the cash flows for the aforementioned leased real estate are the most sensitive. We usually pay these obligations over the remaining lease terms, which typically range from less than one year up to five or more years. Our key assumptions include the duration of future vacancy periods, the amount and timing of future settlement payments, if any, and the amount and timing of future sublease income. In developing our assumptions, we consider our historical settlement experience, the owner of the property, the location and condition of the property, the terms underlying the lease, the specific marketplace demand and general economic conditions. Our actual cash flows may differ from our estimates, and we make adjustments for changes in our estimates in the period in which the changes become known.

The following is operational information related to our reserves for exit or disposal cost obligations related to real estate:

	As of and for the Years Ended December 31,		
	2010	**2009**	**2008**
	(Dollars in thousands)		
Reserve for leases related to office closures with no future benefit (included in accrued expenses and other and other non-current liabilities on the consolidated balance sheet)	$ 17,280	$ 20,545	$ 21,163
Net provision during the year (included in provision for restructuring costs on the consolidated statement of operations)	11	4,604	3,136
Obligations for accrued operating lease liabilities of divested entities with no future benefit (included in accrued expenses and other and other non-current liabilities on the consolidated balance sheet)	10,386	11,790	9,402
Net provision (benefit) during the year (included in discontinued operations on the consolidated statement of operations)	2,650	2,770	(2,123)

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Stock-Based Compensation. Under the fair value recognition provisions of GAAP, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period. During the past two years, the most commonly granted form of stock-based compensation has been restricted stock, which may be either service-based or performance-based. The estimation of the fair value of an award requires the use of certain assumptions, including expected dividends. Generally, the amount of expense expected to be recognized for restricted stock awards at the grant date is impacted by the following:

Factor	Impact on Expected Expense
Closing price of common stock on grant date:	
Higher price	Higher expense
Lower price	Lower expense
Anticipated forfeiture rate:	
Increased rate	Lower expense
Decreased rate	Higher expense
Expected dividends:	
Higher dividends	Lower expense
Lower dividends	Higher expense

Awards of performance-based restricted stock also require estimates about whether and to what extent applicable performance thresholds are likely to be achieved, which results in vesting of the award according to a predetermined formula.

Total recorded stock-based compensation expense was as follows:

	Years Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Restricted stock	$ 2,039	$ 568	$ 1,288
Stock options	633	713	820
Total	$ 2,672	$ 1,281	$ 2,108

At all times, we must have recognized expense at least equal to the fair value of all vested awards.

Allowance for Doubtful Accounts. The allowance for doubtful accounts represents our estimate of losses in our accounts receivable resulting from our customers failure to make required payments. We continually monitor collections from customers and the age of outstanding balances. Each of our businesses provides for estimated credit losses based on historical analysis of the propensity of their customer base to make required payments.

The following is operational information related to our accounts receivable and related allowance for doubtful accounts:

	As of and for the Years Ended December 31,		
	2010	2009	2008
Bad debt expense as a percentage of total revenue, net	0.5%	1.6%	1.3%
Write-offs of uncollectable accounts as a percentage of total revenue, net	1.2	2.1	1.5
Allowance for doubtful accounts as a percentage of gross accounts receivable	3.9	4.7	5.2

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We aggressively pursue collection efforts on overdue accounts and, upon collection of any amounts previously written off, reverse the write-off. If future payments by our customers were to differ from our estimates, we may need to increase or decrease our allowance for doubtful accounts. We do not believe those increases or decreases would have a material impact on our long-term consolidated financial position or liquidity, although they could be material to the results of operations of any particular period in which they are recognized.

Results of Operations

Consolidated Results

Revenue, Net

Revenue Component	Years Ended December 31, 2010	Years Ended December 31, 2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)	Years Ended December 31, 2009	Years Ended December 31, 2008	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands)				(Dollars in thousands)			
Apartments	$ 193,468	$ 206,041	$ (12,573)	(6.1)%	$ 206,041	$ 211,367	$ (5,326)	(2.5)%
New Homes	13,786	18,530	(4,744)	(25.6)	18,530	39,337	(20,807)	(52.9)
Total advertising revenue	207,254	224,571	(17,317)	(7.7)	224,571	250,704	(26,133)	(10.4)
Distribution	24,964	33,360	(8,396)	(25.2)	33,360	53,401	(20,041)	(37.5)
Total revenue, net	$ 232,218	$ 257,931	$ (25,713)	(10.0)	$ 257,931	$ 304,105	$ (46,174)	(15.2)

Apartments

Apartment Guide, ApartmentGuide.com, Rentals.com and RentalHouses.com represented 93.3% of advertising revenue during the year ended December 31, 2010. The decrease in revenue in 2010 compared to 2009 was primarily due to a 12.1% decrease in revenue per apartment community served, which was partially offset by a 5.7% increase in communities served. Apartments, represented 91.7% of advertising revenue during the year ended December 31, 2009. The decrease in revenue in 2009 compared to 2008 was primarily due to a 9.3% decrease in revenue per apartment community served, which was partially offset by a 7.8% increase in communities served. The number of communities served by Apartment Guide increased, in part, as a result of enhancements to our product portfolio, intended to provide more flexibility to our clients, based on specific markets and market segments, and market expansion.

Revenue per community served decreased across all periods, in part, as a result of pricing pressure caused by negative economic and industry conditions, including high unemployment rates and low levels of new multi-family construction, and adverse market conditions, including relatively higher occupancy levels and historically low effective rent levels. Competitive conditions also pressured pricing, as our competitors continued to reduce advertising rates to retain clients. Effective rents are essentially average rent amounts after giving effect to free months of rent and other incentives. Our historical experience has been that as occupancy rates increase beyond 95%, apartment communities tend to reduce their advertising spend because they require fewer prospective tenants. As occupancy rates fall below 90%, apartment communities tend to cut back on all discretionary spending, including advertising. For these reasons, occupancy rates (both actual and expected) in excess of 95% or below 90% ordinarily result in a decrease in advertising spend. However, the effects of occupancy rates can be mitigated or exacerbated by effective rent levels.

Key occupancy-related data is as follows:

	Years Ended December 31, 2010	2009	2008
Range of occupancy rates in Apartment Guide markets	88%-98%	86%-97%	85%-97%
Average occupancy rate in Apartment Guide markets	93%	92%	93%
Apartment Guide revenue derived from markets that had occupancy rates of 95% or higher	10%	1%	17%

Apartment Guide revenue derived from markets that had occupancy rates below 90%	5%	16%	1%

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The majority of markets experienced occupancy levels between 90% and 96% throughout all periods.

The effects of occupancy rates are mitigated or exacerbated by effective rent levels. In the markets in which we print a directory, effective rents were up 3.0% for 2010 compared to 2009 and down 4.5% for 2009 compared to 2008.

New Homes

The New Home Guide, NewHomeGuide.com and AmericanHomeGuides.com businesses represented 6.7% of advertising revenue during the year ended December 31, 2010. The decrease in revenue in 2010 compared to 2009 was due to a 28.9% decrease in revenue per new home community served, partially offset by 4.9% increase in communities served. The decrease in revenue per community served from 2010 to 2009 resulted from a decline in standard advertising spending of 26.3% and a decline in premium advertising spending of 35.0% by new home builders, driven by continued weakness in the new home sales sector. New Homes, represented 8.3% of advertising revenue during the year ended December 31, 2009. The decrease in revenue in 2009 compared to 2008 was due to a 35.0% decrease in revenue per new home community served and a 27.8% decrease in communities served. The decrease in revenue per community served from 2009 to 2008 resulted from a decline in standard advertising spending of 50.4% and a decline in premium advertising spending of 66.5% by new home builders, driven by continued weakness in the new home sales sector.

The difficult conditions for new home builders persisted in 2010. We believe pressure in this business will continue over the near term and remain challenging for the foreseeable future. Since June 30, 2008, we have suspended 14 print directories that were considered less effective, and, as of December 31, 2010, we published New Home Guides in 19 markets. We may suspend additional New Home Guide print directories, which could adversely impact our revenue. We continue to focus on online offerings across all markets.

Distribution Revenue

Distribution revenue relates to our distribution arm, DistribuTech. The decrease in revenue in 2010 compared to 2009 was due to a 10.2% decrease in the average revenue per pocket due to softness in demand and a 16.7% decrease in the number of pockets sold in our display racks. The decrease in revenue in 2009 compared to 2008 was due to a 20.5% decrease in the average revenue per pocket due to softness in demand and a 21.4% decrease in the number of pockets sold in our display racks. Our distribution revenue reflects the impact of the reduction in retail locations serviced, and it continues to be adversely impacted by the loss of business from publishers within the resale home, automobile sales and employment classifieds sectors scaling back or ceasing operations or providing an Internet-only product.

As part of our distribution function, we have entered into RDAs with various retail chains, including grocery, drug, convenience, video, fitness and mass merchandise retailers for exclusive rights for distribution related to us and third-party free publications. Since the third quarter of 2008, we have implemented a plan to further reduce our ongoing distribution costs through actions related to RDAs that were underperforming. These actions included renegotiating existing RDAs at more favorable rates and/or for a shorter duration; declining to renew certain RDAs when they expired; and, most significantly, by recording a restructuring charge of $4.8 million and $20.7 million during 2010 and 2009, respectively, as a result of:

- terminating our distribution rights for some or all locations covered by certain RDAs at a negotiated price;
- discontinuing service for and vacating some locations covered by certain RDAs; and
- determining to forego distribution rights for certain locations that are not currently being serviced.

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Costs and Expenses

Costs and Expenses Component	Years Ended December 31, 2010	Years Ended December 31, 2009	$ Change (Favorable)/ Unfavorable	% Change (Favorable)/ Unfavorable	Years Ended December 31, 2009	Years Ended December 31, 2008	$ Change (Favorable)/ Unfavorable	% Change (Favorable)/ Unfavorable
	(Dollars in thousands)				(Dollars in thousands)			
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	$ 14,654	$ 23,369	$ (8,715)	(37.3)%	$ 23,369	$ 32,420	$ (9,051)	(27.9)%
Marketing and selling	74,739	77,635	(2,896)	(3.7)	77,635	75,722	1,913	2.5
Distribution and circulation	39,981	60,931	(20,950)	(34.4)	60,931	85,218	(24,287)	(28.5)
General and administrative expenses	36,749	37,906	(1,157)	(3.1)	37,906	48,700	(10,794)	(22.2)
Depreciation and amortization of property and equipment	12,845	13,256	(411)	(3.1)	13,256	14,475	(1,219)	(8.4)
Amortization of intangible assets	5,093	2,970	2,123	71.5	2,970	2,870	100	3.5
Provision for restructuring costs	6,550	25,627	(19,077)	(74.4)	25,627	5,238	20,389	389.3
Interest expense	11,313	15,670	(4,357)	(27.8)	15,670	19,338	(3,668)	(19.0)
Amortization of deferred financing costs	881	915	(34)	(3.7)	915	922	(7)	(0.8)
Other income, net	(2,713)	(6,986)	4,273	61.2	(6,986)	(2,821)	(4,165)	(147.6)
Total cost and expenses	$ 200,092	$ 251,293	$ (51,201)	(20.4)	$ 251,293	$ 282,082	$ (30,789)	(10.9)

The decrease in cost of goods sold in 2010 compared to 2009 was due to reformatting of our printed guides, including reduction in paper size, as well as distribution optimization. The decrease in 2009 compared to 2008 was due to a decrease in the cost of paper, reformatting of our printed directories, including reductions in both paper size and weight, as well as printing fewer directories.

The decrease in marketing and selling in 2010 compared to 2009 was primarily due to a reduction in our sales force headcount, partially offset by an increase in search engine marketing costs. The increase in 2009 compared to 2008 was primarily due to increased search engine marketing costs.

Our distribution and circulation costs decreased in 2009 compared to 2008 and further decreased in 2010 as a result of ongoing action with certain of our RDAs since the third quarter of 2008. As is more fully discussed under Distribution Revenue above and in Note 15, Provision for Restructuring Costs, to the consolidated financial statements contained elsewhere in this Report, other of our RDAs are part of a restructuring charge we incurred during 2010 and 2009 related to actions we took to reduce our ongoing distribution costs.

The decline in general and administrative expenses in 2010 compared to 2009 was primarily due to a decrease of $2.9 million in bad debt expense, partially offset by an increase in employee-related costs. The decline in 2009 compared to 2008 was primarily due to decreases in corporate overhead and position eliminations of $1.4 million, resulting from the relocation of our headquarters from New York to Norcross in 2008; a $2.2 million reduction in costs associated with the hiring of a new CEO in 2008; a decrease of $0.8 million in stock-based compensation; $6.4 million decrease resulting from insurance premium reductions and lower facilities costs attributable to our cost-cutting initiatives; and a decrease of $0.4 million in professional fees and legal expenses. These decreases were partially offset by an increase of $0.4 million in bad debt expense.

Depreciation and amortization of property and equipment decreased in 2009 compared to 2008 primarily as a result of certain internal-use software becoming fully depreciated during the past 12 months, partially offset by new internal-use software being placed in service during that same period.

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The increase in amortization of intangible assets in 2010 compared to 2009 is primarily due to a change in estimate for two of our customer lists and to impairment charges, which are more fully discussed in Note 6, Goodwill and Other Intangible Assets, to the consolidated financial statements contained elsewhere in this Report. We recorded an impairment charge of $1.0 million in 2010 compared to $0.5 million in 2009 related to an advertiser list.

As is more fully discussed in Note 15, Provision for Restructuring Costs, to the consolidated financial statements contained elsewhere in this Report, over the past several years, we have implemented a number of plans to streamline our expense structure, which have resulted in restructuring charges. The plans have included employee-related termination costs resulting from the elimination of certain positions; charges associated with vacating certain leased properties as a result of the co-location of operations within certain markets or leasing less space in a market due to a reduced number of employees; charges resulting from actions taken with respect to certain of our RDAs, which are intended to reduce our distribution costs; and charges to terminate other contracts.

Our actions with respect to RDAs have included:

- terminating the Company s distribution rights for some or all locations covered by certain RDAs at a negotiated price;
- discontinuing service for and vacating some locations covered by certain RDAs; and
- determining to forego distribution rights for certain locations that are not currently being serviced.

The following table summarizes our restructuring expense by nature of the expense:

	Net Provision for the Years Ended December 31,		
	2010	2009	2008
	(Dollars in thousands)		
Employee-related termination costs	$ 1,718	$ 239	$ 1,817
RDA contracts with no future benefit	4,786	20,711	
Leases related to office closures and other contracts with no future benefit	46	4,677	3,421
Total	$ 6,550	$ 25,627	$ 5,238

Interest expense decreased in 2010 compared to 2009 primarily due to lower average debt levels, as during the second quarter of 2010, we repurchased and retired $7.5 million in principal of our Term Loan B Facility, and during the third quarter of 2010, we repurchased and retired another $6.9 million in principal of our Term Loan B Facility. Interest expense decreased in 2009 compared to 2008 primarily due to lower average debt levels, as during the second quarter of 2009, we repurchased and retired $14.0 million in principal of our Term Loan B Facility, and during the fourth quarter of 2009, we repurchased and retired another $6.3 million of our Term Loan B Facility. The decrease in 2009 compared to 2008 is also attributable to a lower weighted-average interest rate during 2009 and the redemption of the remaining $2.6 million in 8% Senior Notes outstanding during 2008. The decrease in 2009 compared to 2008 in interest expense was partially offset by an increase in interest related to borrowings against our Revolving Facility. See the discussion under Liquidity, Capital and Other Resources.

The change in other income, net in 2010 compared to 2009 is primarily due to a $5.0 million gain on the repurchase of debt during 2009, compared to a $1.4 million gain on the repurchase of debt during 2010. In addition, we recognized a gain on the sale of cost-method investments of $2.3 million during 2009, partially offset by an other-than-temporary impairment charge of $1.5 million in 2009 related to a cost-method investment. The increase in 2009 compared to 2008 was due to a gain on debt repurchases during 2009 of $5.0 million, which includes the write off of approximately $0.4 million in deferred financing fees. The corresponding loss in 2008 was approximately $0.1 million. In addition, we recognized a gain on sale of cost-method investments of $2.3 million during 2009. The increase was partially offset by an increase in other-than-temporary

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impairment charge of $1.5 million in 2009 related to a cost-method investment, compared to $0.9 million in 2008. The 2008 amount also reflects the reversal of a $2.6 million annuity obligation to one of our former CEOs due to his death in 2008, which relieved us of any further obligation to him.

Income Taxes

Our effective tax rate on income from continuing operations for 2010 was 38.9%, compared to 31.6% for 2009 and (122.6)% for 2008. Our total tax (provision) benefit for income taxes from continuing operations for 2010 was $(12.5) million, compared to $(2.1) million for 2009 and $27.0 million for 2008.

The increase in the effective rate for 2010 compared to 2009 is primarily due to a $1.1 million tax benefit recorded in 2009, under the Workers, Homeownership, and Business Assistance Act of 2009 (the Assistance Act) associated with the extended NOL carryback of 2008 to prior tax years.

The increase in the effective tax rate for 2009 compared to 2008 was primarily due to a 2008 deferred tax asset valuation allowance release of approximately $29.3 million, which is more fully discussed under Critical Accounting Policies and Estimates Income Taxes and Tax-Related Liabilities above and in Note 10, Income Taxes, to the consolidated financial statements contained elsewhere in this Report.

Primarily as a result of the ongoing amortization for tax purposes of certain indefinite-lived intangible assets, our non-current deferred tax position changed from a net asset of approximately $8.3 million at December 31, 2009 to a net liability of approximately $4.2 million at December 31, 2010.

Discontinued Operations

In accordance with GAAP, we have classified the results of our divested entities as discontinued operations in the consolidated statement of operations for all periods presented.

Additional details about our divestitures are included in Note 3, Discontinued Operations, to our consolidated financial statements contained elsewhere in this Report.

The components of discontinued operations included in the consolidated statement of operations are as follows:

	Years Ended December 31, 2010	2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)	Years Ended December 31, 2009	2008	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands)				(Dollars in thousands)			
Total revenue, net	$	$	$	%	$	$ 3,353	$ (3,353)	(100.0)%
Income (loss) from operations:								
PRIMEDIA Healthcare	$	$	$		$	$ 132	$ (132)	(100.0)
Auto Guides division						(1,668)	1,668	100.0
Provision for litigation reserves and settlements		(3,250)	3,250	100.0	(3,250)	(6,000)	2,750	45.8
Professional fees	(655)	(1,825)	1,170	64.1	(1,825)	(2,287)	462	20.2
Adjustments to accrued operating lease liabilities	(2,650)	(2,770)	120	4.3	(2,770)	2,123	(4,893)	(230.5)
Insurance-related benefits (expenses)	12	(397)	409	103.0	(397)	(1,488)	1,091	73.3
Tax-related contingencies	1,848	6,638	(4,790)	(72.2)	6,638	462	6,176	1,336.8
Write-off of receivables and other assets		(259)	259	100.0	(259)	(1,164)	905	77.7
Other	518	(249)	767	308.0	(249)	(960)	711	74.1
Loss from operations before (provision) benefit for income taxes	(927)	(2,112)	1,185	56.1	(2,112)	(10,850)	8,738	80.5
Gain on sale of businesses:								
PEM segment						651	(651)	(100.0)
PRIMEDIA Healthcare						132	(132)	(100.0)
Auto Guides division						42	(42)	(100.0)
(Provision) benefit for income taxes	(434)	1,060	(1,494)	(140.9)	1,060	20,466	(19,406)	(94.8)
Discontinued operations, net of tax (including gain on sale of businesses)	$ (1,361)	$ (1,052)	$ (309)	(29.4)	$ (1,052)	$ 10,441	$ (11,493)	(110.1)

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

	Years Ended December 31, 2010	2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)	Years Ended December 31, 2009	2008	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands)				(Dollars in thousands)			
Benefit (provision) for tax expense on pre-tax income (loss), adjusted for permanent differences	$ 106	$ (1,779)	$ 1,885	106.0 %	$ (1,779)	$ 15,046	$ (16,825)	(111.8) %
Benefit for 2008 extended NOL carryback under Worker, Homeownership, and Business Assistance Act of 2009		9,347	(9,347)	(100.0)	9,347		9,347	N/A
						1,227	(1,227)	(100.0)

Provision for tax benefit on gain on sale of business								
Change in liability for uncertain tax positions	(834)	(6,687)	5,853	87.5	(6,687)	(1,347)	(5,340)	(396.4)
Changes in estimates included in prior year tax provision	294	179	115	64.2	179	5,540	(5,361)	(96.8)
Total (provision) benefit for income taxes	$ (434)	$ 1,060	$ (1,494)	(140.9)	$ 1,060	$ 20,466	$ (19,406)	(94.8)

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Details about our provision for litigation reserves and settlements and adjustments to accrued operating lease liabilities are more fully discussed in Note 19, Commitments and Contingencies, to our consolidated financial statements contained elsewhere in this Report. During the year ended December 31, 2008, we recorded a charge of $4.5 million related to settlement of the CK Media litigation and $0.5 million related to the settlement of an unrelated case. We paid the total settlements of $5.0 million in 2009. During the year ended December 31, 2009, we recorded an increase in reserves for litigation-related losses of $3.3 million, primarily as a result of an agreement to settle the About.com case in its entirety for $5.75 million, which was paid in 2010. There was no similar provision during 2010. We had no reserve for litigation-related losses as of December 31, 2010, while we had a reserve of $5.8 million at December 31, 2009, which was paid in 2010.

The change in adjustments to accrued operating lease liabilities from 2008 to 2009 was primarily attributable to a $2.7 million decrease in income related to the building lease for Workplace Learning and a $2.7 million charge resulting from the bankruptcy proceedings of the buyer of PEM. In 2005, we sold substantially all of the assets of Workplace Learning for the assumption of ongoing liabilities, while retaining a secondary liability as the assignor of the building lease. During 2009, we reassumed the building lease on behalf of Workplace Learning and entered into a sublease with the current tenant for a portion of the space. Historically, each month, our liability has been reduced either by fulfilling our liability as lessee under the building lease or due to a sub-lessee s or successor-in-interest s performance under the terms of the sublease, which results in income for us. During the year ended December 31, 2009, there was a $2.7 million decrease in the level of income we recorded as a result of the assignee s or successor in interest s performance. In 2007, we sold our PEM segment, and in connection with the sale, we entered into a sublease agreement with the buyer for office space where PEM was headquartered. During 2009, the buyer filed a petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. In the bankruptcy proceedings, the sublease was rejected, a new sublease was entered into with the buyer at a reduced rate, and the buyer put certain of the space back to us. As a result, we recorded a charge of $2.7 million to adjust our remaining liability under our lease for all of the office space, to record brokerage fees related to the new sublease and to write off certain amounts receivable from the buyer.