NEXIA HOLDINGS INC
Form 10KSB
May 18, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)
[X] Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2003.

[ ] Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 (No fee required) for the transition period from _________ to ________.

Commission file number: 33-22128-D

Nexia Holdings, Inc.
(Name of Small Business Issuer in Its Charter)

Nevada	84-1062062
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

268 West 400 South, Suite 300, Salt Lake City, Utah	84101
(Address of Principal Executive Offices)	(Zip Code)

(801) 575-8073
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of each Exchange on Which Registered
Common Stock ($0.001 Par Value)	None

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ____

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB [X].

The issuer's total consolidated revenues for the year ended December 31, 2003 were $787,585.

The aggregate market value of the registrant's common stock, $0.001 par value (the only class of voting stock), held by non-affiliates was approximately $260,453 based on the average closing bid and asked prices for the Common Stock on May 12, 2004 of $0.002 per share.

On May 12, 2004, the number of shares outstanding of the registrant's common stock, $0.001 par value was 507,586,094., the number of shares of preferred stock, $0.001 par value was 5,100,000.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

General.

As used herein the terms "Company" and "Nexia" refer to Nexia Holdings, Inc., a Nevada corporation and its subsidiaries and predecessors. Nexia was incorporated under the laws of the State of Colorado on April 20, 1987. Nexia has undergone several name changes since its organization. The Company moved its domicile to the State of Nevada on October 5, 2000, by merging with a Nevada corporation established for the purpose of facilitating the change of domicile. Nexia has been involved in several previous business activities, all of which were discontinued in February of 1998. On August 29, 2000, the Company became a holding company by purchasing a majority interest in Wichita Development Corporation ("Wichita"), whose primary business function became real estate operations. The shares held in Wichita were subsequently spun-off to Company shareholders in January of 2001 on a pro rata basis.

On February 15, 2002 the Company entered into a Stock Purchase Agreement ("Agreement") with Axia Group, Inc., a related party ("Axia"), pursuant to which the Company issued to Axia 255,100,000 restricted shares of the Company's common stock in exchange for essentially all of the assets and liabilities of Axia including a portfolio of securities, real estate holdings and publicly reporting shell-companies. The shares issued to Axia equaled approximately 82% of the issued and outstanding shares of the Company after the close of the transaction. Axia on December 10, 2002 spun-off those 255,100,000 shares of the Company's common stock to Axia's shareholders on a pro rata basis. Nexia intends to manage the Axia interests acquired as a result of this transaction in a manner similar to that previously followed by Axia. For more information on this transaction, see the Company's Form 8-K filed February 27, 2002 and as amended on May 1, 2002.

On June 30, 2003, Nexia sold its interest in Wichita Development Corporation (Wichita) and its subsidiaries Salt Lake Development Corporation and Wichita Properties to Diversified Financial Resources Corporation ("DFRC"). The agreement provides that Nexia transfer to DFRC 100% of all shares that Nexia held in Wichita (86,795,794) in exchange for among other things, a promissory note in the sum of $150,000 and 1,148,251 restricted shares of the common stock of DFRC with a guaranteed resale value of $1.00 per share, whereby, within 36 months of the sale, DFRC is bound to issue sufficient additional shares such that the total value at liquidation will equal $1,000,000. The Wichita common shares transferred to DFRC were approximately 83% of the issued and outstanding shares of Wichita. Control of Wichita included the ownership of Salt Lake Development Corporation, a subsidiary corporation of Wichita.

Forward Looking Business Plan

The Company successfully acquired essentially all of the assets and liabilities of Axia including a portfolio of securities, real estate holdings and publicly reporting shell-companies on February 15, 2002. The following discussion represents the Company's plans to operate the business acquired from Axia in the purchase agreement previously discussed. Property descriptions, legal discussions and similar areas are a reflection of those acquisitions from Axia which constitute the majority of the Company's assets and operations at the present.

Business of Issuer

Financial Consulting

The Company, through its subsidiary, Hudson Consulting Group, Inc., provides a variety of financial consulting services to a wide range of clients.

Our business model is to provide an expanded scope of financial, business, and investment oriented consulting services to select start-up companies and existing public companies. Specifically, the Company helps client companies by creating a series of infrastructure-based partnerships that take advantage of the Company's expertise in: uncovering private placement funding sources; strategic business planning; SEC registration documentation; "edgarization" of SEC forms and filings; transactional document preparation; clerical and record keeping assistance to clients; restructuring capital formation; identifying merger and acquisition opportunities.

The Company's clients may choose to be acquired by the Company's reporting companies and create their own public shareholder base with a self underwritten offering or may choose to take advantage of the Company's shareholder base in a registered spin-off, or a dividend. The self-underwritten option requires a company to raise

capital before obtaining a quote, whereas a registered spin-off or dividend enables clients to obtain a quote prior to raising any new capital.

The Company employs several methods to locate prospective clients. We advertise directly through print media to attract both private and public corporations to engage our services, obtain referrals from previous clients and do our own research of various databases that profile public companies.

The Company charges clients monthly or predetermined fees which vary in both amount and form. Acceptable payments include cash, securities of the client corporation, other assets, or some combination of the three. This payment arrangement allows many organizations, especially start-up ventures and those experiencing financial difficulties, to obtain the Company's services without draining necessary cash resources. However, accepting stock as compensation occasionally impairs the Company's cash flow, and for this reason acceptable payments and the size of payments the Company charges for its services vary with the volatility of the clients' securities, the amount and nature of work involved, and the expenses related to the services being rendered.

Entities from many different industries employ the Company's consulting services. The decision to accept a prospective client depends on the client's financial stability, the type of services needed, and the compensation format. A key to the Company's success is management's ability to improve and maintain its client base and successfully liquidate its compensation.

Real Estate Investment

The combined statements of operations, stockholders equity and cash flows for the year ended December 31, 2003 include only the real estate operations of Diversified Holdings - I, Inc., Golden Opportunity Development Corporation, Downtown Development Corporation, Wasatch Capital Corporation, Kearns Development Corporation, West Jordan Real Estate Holdings, Inc., Canton's Wild Horse Ranch II, Inc., Oasis International Hotel & Casino, Inc., Canton Industrial Corporation of Salt Lake City, Inc., and Canton Tire Recycling of West Virginia, Inc. (collectively referred to as the 'entities'). Pursuant to the recapitalization of the Company on February 15, 2002, these entities have been treated as the acquiring entities for accounting purposes. The Company is the surviving entity for legal purposes. Because the recapitalization involved entities under common control, Interpretation 39 requires that there be no adjustment to the carrying values of the assets or liabilities at the date of the recapitalization.

Nexia's real estate operations primarily involve the acquisition, management, lease and sale of real estate holdings. Nexia owns a variety of commercial and residential properties in Utah and other parts of the United States. The Company seeks to locate and acquire undervalued real estate (which is primarily commercial) with little or no cash down. Once acquired, the Company's real estate holdings are leased. Though the Company seeks to generate and maximize rental income through the management and lease of the property, our primary goal is to acquire real estate which will substantially appreciate in value and for which we can realize a substantial gain upon disposition.

Organization

The following chart shows the companies currently owned by Nexia Holdings, Inc., including a consulting company, four holders of real estate and four companies that no longer have operations:

[SEE ATTATCHED ORGANIZATIONAL FLOW CHART]

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                            Nexia Holdings, Inc.
                            (A Holdings Company)
                                     =
                                     =
                         Diversified Holdings I, Inc.
                             (A Holdings Company)
                                     =
   Hudson Consulting Group,          =        West Jordan Real Estate
            Inc.---------------------=----------- Holdings, Inc.
      (A Consulting Firm)            =             (Real Estate)
                                     =
                                     =
Wasatch Capitol Corporation          =          Kearns Development
        Corporation -----------------=----------- (Real Estate)
       (Real Estate)                 =
                                     =
 Kearns Development Corporation      =            Golden Opportunity
       (Real Estate) ----------------=--------- Development Corporation
                                     =         (An Inactive Corporation)
                                     =
                                     =
Canton Industrial Corporation        =        Canton's Wild Horse Ranch II,
       Of Salt Lake City ------------=-----------        Inc.
    (An Inactive Corporaion)         =          (An Inactive Corporation)
                                     =
 Oasis International Hotel &         =        Canton Tire Recycling of West
           Casino, Inc. -------------=------------  Virginia, Inc.
  (An Inactive Corporation)                    (An Inactive Corporation)
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The Company also has a substantial interest in approximately 14 shell companies. The Company intends to provide assistance in finding operations for these companies through reverse mergers with operating companies. The value of these companies cannot be determined at this time in light of the fact that: 1) no substantial assets are currently in the companies; 2) The Company has identified no business opportunities for these companies; and 3) The Company's shareholding in these entities are illiquid in light of recent rule changes on the resale of securities in blank check companies. The Company and its president have assisted in filing Form 10-SB's to enable these companies to become fully reporting under the Securities Exchange Act of 1934. Each of these entities is currently delinquent in its required filings with the Securities and Exchange Commission. The Company's president now also holds a substantial interest in these entities.

Governmental Regulation

The Company and its facilities are subject to normal government regulation at the federal, state and local level. The Company must comply with government regulations regarding employment, wages, access for handicapped and disabled persons and other laws, rules, regulations and ordinances. Although the Company does not foresee any change in existing local, state, or federal regulations, if changes should occur, the Company believes that it can adapt to such new regulations and that those changes would not have any significant effect on revenues or current operations of the Company. However, no assurance can be made that compliance or failure to comply with future regulation will not have a materially adverse effect on the business, operating results or financial condition of the Company.

Competition

The Company expects to be involved in intense competition with other business entities, many of which will have a competitive edge over the Company by virtue of their stronger financial resources and prior experience in business. There are numerous entities in both the real estate markets in which the Company currently owns property and in the financial consulting area that would be in competition with the Company, though there are no dominant operations which the Company can identify as a continuing direct competitor to the Company's operations. There is no assurance that the Company will be successful in operating any business which it may acquire in the future.

Employees

The Company's subsidiaries have a total of 5 full time employees as of December 31, 2003. Management of the Company expects to use consultants, attorneys, and accountants as necessary, and anticipates a need to engage at least two (2) additional employees.

During the quarter ending September 30, 2003, Nexia's subsidiary, Hudson Consulting Group, Inc., temporarily discontinued cash payments to its employees. Consequently, Nexia has relied upon the issuance of S-8 shares to pay certain employees and consultants. On July 21, 2003, Nexia issued 5,000,000 shares of S-8 common stock to Jared Gold for services rendered valued at $10,000, or $0.002 per share, the market price on the date of grant. In September, 2003 Nexia issued 17,550,000 shares of its common stock to employees under its S-8 Registration Statements for its Employee Benefit Plans. Michael Golightly, an attorney employed by the Company was issued 7,550,000 shares as compensation for past services to the Company and in partial settlement of obligations related to his employment. Shane Stone, serving as accounting manager for the Company was issued 10,000,000 shares as compensation for his services in working on financial and quarterly reports for the Company and in partial settlement of obligations related to his employment.

On December 4, 2003, the Company's board of directors approved the delivery of options to purchase 1,600,000 shares of the Company's common stock to 8 employees of the Company for services rendered to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company. Each employee received 200,000 shares.

On December 8, 2003, the Company's board of directors approved the delivery of options to purchase 4,000,000 shares of the Company's common stock to 8 employees of the Company for services rendered to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company. Each employee received 500,000 shares.

Risk Factors

You should carefully consider the following risks before making an investment in our Company. In addition, you should keep in mind that the risks described below are not the only risks that Nexia faces. The risks described below are all the risks that Nexia currently believes are material to our business. However, additional risks not presently known to us, or risks that we currently believe are not material, may also impair our business operations. You should also refer to the other information set forth in this Annual Report on Form 10-KSB, including the discussions set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as our financial statements and the related notes.

Nexia's business, financial condition, or results of operations could be adversely affected by any of the following risks. If we are adversely affected by such risks, then the trading of our common stock could decline, and you could lose all or part of your investment.

Nexia's auditor's report on our financial statements includes an explanatory paragraph with respect to substantial doubt existing about its ability to continue as a going concern.

As of December 31, 2003, Nexia had incurred a loss from operations and had an accumulated deficit resulting from losses in prior years. As a result, its financial statements include a note stating that these conditions raise substantial doubt about its ability to continue as a going concern, but the financial statements do not include any adjustments that might result from this uncertainty.

Nexia may face significant competition.

There are numerous businesses, corporations, individuals and firms that are engaged in the type of business activities that Nexia is presently engaged in. Many of those entities are more experienced and possess significantly greater financial and personnel resources than Nexia currently has. While Nexia intends to be competitive with those entities, there can be no assurance that such will be the case.

Limited ability to market services and properties.

Due to the limited resources available to Nexia, the sales and marketing of our services and properties have been limited. Nexia's future success is dependent upon our ability to market and sell our services and properties with those limited resources.

Nexia is subject to compliance with securities law, which exposes it to potential liabilities, including potential rescission rights.

Nexia has periodically offered and sold our common stock to investors pursuant to certain exemptions from the registration requirements of the Securities Act of 1933, as well as those of various state securities laws. The basis for relying on such exemptions is factual; that is, the applicability of such exemptions depends upon Nexia's conduct and that of those persons contacting prospective investors and making the offering. Nexia has not received a legal opinion to the effect that any of our prior offerings were exempt from registration under any federal or state law. Instead, it has relied upon the operative facts as the basis for such exemptions, including information provided by investors themselves.

If any prior offering did not qualify for such exemption, an investor would have the right to rescind its purchase of the securities if it so desired. It is possible that if an investor should seek rescission, such investor would succeed. A similar situation prevails under state law in those states where the securities may be offered without registration in reliance on the partial exemption from the registration or qualification provisions of such state statutes under the National Securities Markets Improvement Act of 1996. If investors were successful in seeking rescission, we would face severe financial demands that could adversely affect our business and operations. Additionally, if we did not in fact qualify for the exemptions upon which we have relied, we may become subject to significant fines and penalties imposed by the SEC and state securities agencies.

Additional Capital is Necessary to Implement Nexia's Business Plan.

Nexia does not believes that it has sufficient cash, cash equivalents and operating income to maintain its business at its existing level in 2004. Nexia will require significant new capital in order to execute its strategic plan and believes that this capital will only be available through an offering of shares of its common stock. Nexia's success in raising this capital will depend upon its ability to access equity capital markets and we may not be able to do so or to do so on acceptable terms. If it fails to obtain funds on acceptable terms, it will not be able to execute its strategic plan and would have to delay or abandon some or all of its plans for growth. If it is able to obtain funds, it believes that the terms of such arrangement will result in an offering that is highly dilutive to existing holders of shares of our common stock because of the price at which it would have to issue those shares and the large number of shares it would have to issue at those prices.

Need for Additional Specialized Personnel.

Although Nexia's management is committed to the business and continued development and growth of the business, the addition of specialized key personnel and persons to assist management in the expansion of Nexia's operations will be necessary. There can be no assurance that Nexia will be able to locate and hire such specialized personnel on acceptable terms.

There is no established, stable market for Nexia's common stock.

Nexia's common stock is quoted on the Over-the-Counter Electronic Bulletin Board ("OTCBB") and traded sporadically. A large number of shares of outstanding common stock are restricted and are not freely-tradeable. An established public trading market for our common stock may never develop or, if developed, it may not be able to be sustained. The OTCBB is an unorganized, inter-dealer, over-the-counter market that provides significantly less liquidity than other markets. Purchasers of Nexia's common stock may therefore have difficulty selling their shares should they desire to do so.

Volatility of Stock Price.

The trading price of Nexia's Common Stock has in the past and may in the future be subject to significant fluctuations. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price for many companies in industries similar to or related to that of Nexia and which have been unrelated to the operating performance of these companies. These market fluctuations may adversely affect the market price of Nexia's Common Stock.

Penny stock regulations may impair Nexia's shareholders' ability to sell their stock.

Nexia's shares of common stock is deemed a "penny stock." Penny stocks generally are equity securities with a price of less than $5.00 per share, other than securities registered on certain national securities exchanges. Penny stocks are subject to rules and regulations that impose additional sales practice requirements on broker-dealers who sell the securities to persons other than established customers and accredited investors, and these additional requirements may restrict the ability of broker-dealers to sell a penny stock.

Any acquisitions that Nexia undertakes could be difficult to integrate, disrupt its business, dilute shareholder value and significantly harm its operating results.

Nexia expects to review opportunities to buy other business or technologies that would complement its current business, expand the breadth of its markets, or that may otherwise offer growth opportunities. If we make any future acquisitions, we could issue stock that would dilute existing stockholders' percentage ownership, incur substantial debt or assume contingent liabilities. Potential acquisitions also involve numerous risks, including:

- problems assimilating the purchased operations, technologies or

products;
o unanticipated costs associated with the acquisition;
o diversion of management's attention from our core business;
o adverse effects on existing business relationships with suppliers and customers;
o risks associated with entering markets in which we have no or limited prior experience; and o potential loss of the purchased organization's or our own key employees.

Nexia cannot assure that it would be successful in overcoming problems encountered in connection with such acquisitions and its inability to do so could significantly harm its business.

Nexia is subject to various risks connected to the ownership of real property.

Nexia's investments are subject to varying degrees of risk generally incident to the ownership of real property. Real estate values and income from Nexia's current properties may be adversely affected by changes in national or local economic conditions and neighborhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, occupancy rates in Nexia's properties, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes and other natural disasters which may result in uninsured losses, acts of war, adverse changes in zoning laws, and other factors which are beyond the control of Nexia.

In addition, real estate investments are relatively illiquid. The ability of Nexia to vary its ownership of real estate property in response to changes in economic and other conditions is limited. If Nexia must sell an investment, there can be no assurance that Nexia will be able to dispose of it in the time period it desires or that the sales price of any investment will recoup the amount of Nexia's investment.

Nexia's real property is also subject to real property taxes. The real property taxes on the real property may increase or decrease as property tax rates change and as the property is assessed or reassessed by taxing authorities. If property taxes increase, Nexia's operations could be adversely affected.

Reports to Security Holders

The Company is not required to deliver an annual report to security holders and will not voluntarily deliver a copy of the annual report to the security holders. Should the Company choose to create an annual report, it will contain audited financial statements. The Company will file all of its required information with the Securities and Exchange Commission ("SEC").

The public may read and copy any materials that are filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The statements and forms filed by the Company with the SEC have been filed electronically and are available for viewing or copy on the SEC maintained Internet site that contains reports, proxy, and information statements, and other information regarding issuers that file electronically with the SEC. The Internet address for this site can be found at: http://www.sec.gov. Information is also available on the Nexia website located at: http://www.nexiaholdings.com.

ITEM 2. DESCRIPTION OF PROPERTY

Location and Description

Nexia acquired through its purchase of the former Axia subsidiaries the ownership or leasehold rights to industrial, commercial, warehouse, office, and undeveloped commercial and residential real estate. This acquisition of properties was not limited to any specific geographic area. Regardless of the type of property, future acquisitions will not be limited to any specific geographic area. At the end of 2003, Nexia owned, leased, or had interests in properties in Utah and West Virginia.

Investment Policies

Nexia's policy is to actively pursue the acquisition of real estate for investment income and appreciation in property value. During the past year, Nexia has placed an emphasis on acquiring property which management feels is undervalued. Rather than limiting itself to specific types of real estate, Nexia's policy has been to focus primarily on terms of financing and potential return on capital. Nexia generally looks for properties that can be purchased by

assuming the existing financing or by paying the balance of the purchase price with a nominal cash expenditure and/or the issuance of shares of Nexia's common stock.

Nexia has no present intention to invest in first or second mortgages, interests in Real Estate Investment Trusts, or Real Estate Limited Partnerships. However, Nexia's board of directors is not precluded in the future from considering or participating in such investments.

Nexia currently has no limitations on the percentage of assets which may be invested in any one investment or the type of securities and investments in which it may invest. However, the board of directors in its discretion may set policies without a vote of Nexia's securities holders regarding the percentage of assets which may be invested in any one investment or type of investment. Nexia's current policy is to evaluate each investment based upon its potential capital return to Nexia on a relatively short term basis. Furthermore, Nexia does not plan to enter into the business of originating, servicing, or warehousing mortgages or deeds of trust except as may be incidental to its primary purpose of acquiring real estate.

There is a risk that Nexia may lose control of its properties through foreclosure if enough funds are not derived from the rental income for both the financing and operation of its properties. Currently, due to expanded acquisition activity and deficiencies in rental income from the properties acquired, Nexia does not have sufficient rental revenues to cover the debt service and operating costs of all properties. Nexia currently has to use capital from other sources to fund this deficit. Although management hopes to increase the occupancy rates, and thus increase the rental income so that such income will cover both operations and debt service, no such assurances can be made.

Description of Real Estate and Operating Data

Below is a list of the properties owned by Nexia and/or its consolidated subsidiaries as of December 31, 2003. Also included are any changes in the ownership status of such properties which have occurred between the end of 2003 and the filing of this Form 10-KSB. All references to current principal balances of encumbrances against the properties are as of December 31, 2003, only.

Commercial Properties

Nexia's subsidiaries own interests in the four commercial properties described below.

Wasatch Capital Corporation ("Wasatch")

Wasatch, a 76.21% owned subsidiary of Nexia, owns the Wallace-Bennett Building, located at 55-65 West 100 South, Salt Lake City, Utah. The building is a 36,797 square foot, turn-of-the-century multi-story office building. Currently, only the ground level is suitable for rent as retail space. The ground level comprises 7,816 square feet or 21% of the building. During 2001, 1640 square feet of ground floor space having the address of 61-63 West 100 South was renovated for use as an art gallery. Total cost of the renovation was $45,193.86. In January 2002, 3,545 square feet of ground floor space having the address 65 West 100 South was renovated for use as a 2002 Winter Olympic demonstration space for the Greek Ministry of Culture. Total cost of these renovations was $94,473.56. A portion of that space is currently leased to Wasatch CD Exchange, a retail outlet for used music compact disks, for a monthly rental of $1,400.72 for 1,585 square feet of the space occupied during the Olympics, the balance of the space is occupied by a retail outlet for a monthly rental of $1,050 for the 1400 square feet utilized by the tenant.

On May 9, 2003, Wasatch refinanced the underlying loan package on the Wallace-Bennett Building. The terms of the new loan package provide for a loan in the total amount of $850,000, an interest rate on the loan of 7.5%, with monthly payments of $6,848. The loan has a term of three years, resulting in a due date of May 10, 2006. Of the loan proceeds $202,920 has been set aside for construction or capital improvements to the buildings securing the loan. In the event that direct benefits from improvements to the building cannot be realized from refurbishing the building this amount will be returned to the lender to pay down the existing loan. Wasatch intends to improve the upper floor space as office space and increasing the available tenant parking on the site and has recently signed agreement to have plans for this purpose developed. The balance due on the existing note on December 31, 2003 was $ 636,291.

Currently, the rentable space on the ground level is 100% occupied. The rented ground level space is leased to a restaurant (1,719 square feet ground floor, 864 square feet of basement space), two retail stores (912 square feet & 1400 square feet), a CD exchange retail outlet (1585 square feet) and an art gallery (1,640 square feet), 561 square feet are considered to be common area and not rentable. The tenants are responsible for all of their own utilities except water and sewer. Tenants also pay their pro-rata share of all other operating expenses as well as maintenance, janitorial services, insurance, and property taxes. The average annual effective rental for the rentable ground level space is $10.00 per square foot.

The additional stories above the ground floor cannot be used until they have been remodeled and rehabilitated. Wasatch has moved forward to have plans developed to remodel the second level of the east half of the building for use as office space. The cost for the project is estimated to be $190,000. The Company intends to fund labor costs for these improvement with shares of its common stock under the Company's 2004 Benefit Plan and intends to utilize bank financing for material costs.

Downtown Development, Corp. ("DDC") (f.k.a. A-Z South State, Corp.)

DDC, a 99.08% owned subsidiary of Nexia, owns a one story retail building located at 1374 South State Street, Salt Lake City, Utah, which it purchased on December 1, 1999 for $535,000. An all-inclusive trust deed in the amount of $400,000 was placed on the property requiring monthly payments of $4,231.38 with interest at 9.725% per annum. The balance owing at December 31, 2003 was $385,535. In December of 2002 DDC obtained permanent financing with Community First National Bank, the loan bears interest at the rate of 7.16% per annum, with monthly payments of $3,061. The building is 7,000 square feet, one story tall, and constructed in the late 1960's. A furniture store had a lease for 4,500 square feet leased at $3,800 per month through the end of the year 2003, this space is currently unoccupied. A bakery currently occupies 2,500 square feet of retail space under a lease in the building. DDC expended $34,100 through March 31, 2004, in renovations to the property, this figure does not include substantial improvements made by the tenant to the property. DDC has no immediate plans to improve the non- leased space. DDC believes the property is adequately insured. The retail space in the building competes for tenants with other retail space on State Street which is a commercial zone for over one mile in each direction from the property.

Kearns Development Corporation. ("Kearns")

Kearns, a 90.7% owned subsidiary of Nexia, owns one office building located on West Sams Boulevard in Kearns, Utah (a suburb of the Greater Salt Lake area). The building contains approximately 11,709 square feet of total floor space in a single story. The building was purchased on November 29, 2000 for a total price of $750,000. The purchase was financed with a $625,000 first mortgage from Brighton Bank with an initial variable rate of 10.97% amortized over 25 years and monthly payments of $5,632, with a balance owing at December 31, 2002 of $615,012. The loan was personally guaranteed by Richard D. Surber, Nexia's President and C.E.O. This property was refinanced on January 10, 2003, a new mortgage in the sum of $660,000 was obtained from Community First Bank, an interest rate of 7.16% applies to the loan, monthly payments are $5,223 based upon a 20 year amortization with a balloon payment of the remaining balance due on January 10, 2013, however, the balance due may be called on demand. The balance owing on this loan as of December 31, 2003 was $ 645,024.

The building is leased to three major tenants occupying 100% of the office space, and generating monthly rentals of $11,173 at an average rate of $11.45 per square foot. Kearns has no present plans to renovate or improve the building. Management believes that the building is adequately insured. The building competes for tenants with other office space in the Kearns area.

West Jordan Real Estate Holdings, Inc. ("West Jordan")

West Jordan, a 88.28% owned subsidiary of Nexia, operates the Glendale Plaza, a retail shopping plaza located at 1199 South Glendale Drive, Salt Lake City, Utah. West Jordan exercised an option to purchase the shopping plaza on June 22, 2001. The loan on the property was refinanced on June 30, 2002 for a total loan amount of $1,072,500 at the current interest rate of 8%, the loan is due on demand or monthly payments of $12,417 are due each month, as of December 31, 2003 the outstanding balance owed was $981,778. The sum of $69,000 has been set aside by Imperial Bank until such time as certain tenant occupancy goals are met.

The property contains 72,256 square feet of retail space and approximately 77% is leased to tenants. A national chain retail store occupies 10,080 square feet of the building. They are the only tenant of the Glendale Plaza which occupy more than ten percent of the premises. The Glendale Plaza generates approximately $207,000 in annual rental income as of December, 2003, or approximately $2.86 per square foot. Present plans are to continue to operate the building as a retail shopping plaza and to increase the average rental rate. Property taxes and assessments have been paid in full on the property. West Jordan is of the opinion that this property is adequately insured.

West Jordan has expended approximately $284,049 through March 31, 2004, in capital improvements to the Glendale property since its purchase. Substantial additional improvements are needed to improve rental rates which are currently significantly below area market rates. West Jordan is in the process of initiating such improvements. The Company has hired a contractor to begin work on certain renovations. The contractor has agreed to accept a combination of shares and options to purchase shares of the Company's common stock under its 2004 Benefit Plan. The material costs will be financed or covered by operating income.

Residential Properties

One of Nexia's subsidiaries owns a interest in the residential properties described below.

Sale of Property Holdings Subsidiary

On June 30, 2003 Nexia sold its interest in Wichita Development Corporation (Wichita) and its subsidiaries Salt Lake Development Corporation and Wichita Properties to Diversified Financial Resources Corporation ("DFRC"). The agreement provided that Nexia transfer to DFRC 100% of all shares that Nexia held in Wichita (86,795,794) in exchange for among other things, a promissory note in the sum of $150,000 and 1,148,251 restricted shares of the common stock of DFRC with a guaranteed resale value of $1.00 per share, whereby, within 36 months of the sale, DFRC is bound to issue sufficient additional shares such that the total value at liquidation will equal $1,000,000. The number of Wichita common shares transferred to DFRC is approximately 83% of the issued and outstanding shares of Wichita. Control of Wichita includes the ownership of Salt Lake Development Corporation, a subsidiary corporation of Wichita.

Hudson Consulting Group, Inc. (Hudson)

Hudson, a 99.08% owned subsidiary of Nexia, owns a condominium unit located in close proximity to Brian Head Ski Resort and the surrounding resort town in southern Utah. Hudson acquired the condominium unit for investment purposes and has contracted with a management firm who rents the unit on a short-term basis. The unit is subject to a note with a current principal balance at December 31, 2003 of $29,617 and bearing an interest rate of 8.25% per annum. Monthly payments on the unit are $301. Hudson as of the date of this filing was in the process of marketing this unit for sale. Suit is currently pending against Hudson for unpaid owners fees on this unit in the sum of $10,679, Hudson intends to seek a compromise and settlement of this claim and thus cure the alleged default.

On April 22, 2003, Hudson transferred Unit A216 of the Brian Head North Condominiums to David Wolfson in exchange for Wolfson assuming all obligations of the condo, including taxes, owner's fees and the mortgage payment. As of December 31, 2003 Wolfson had ceased making payments on the property and Hudson is seeking to have the property returned to it in order to cure all past due obligations and return the condominium to management by Hudson.

Hudson also had an option to purchase a fourth condominium in the Brian Head area pursuant to a lease option agreement it executed with Richard Surber, Hudson's president, director and chief executive officer, in August, 1997. Mr. Surber owns the condominium subject to a note on the property secured by a deed of trust. Hudson leased the condominium for $900 per month, $671 of which is applied to the monthly obligations on the first note. Hudson had an option to purchase the condominium through a payment of $82,100, which was reduced monthly by the extent to which Hudson monthly rental payments decrease the principal balance due on the note. The lease option contained an alternative option price in the event the unit appreciates dramatically during the term of the lease. Hudson was also required to pay all taxes, condominium fees, maintenance and repair expenses and other charges

on the property. Hudson had the right to manage, control and sell the condominium unit during the term of lease, which by agreement of the parties came to an end on March 31, 2003.

Industrial Property

One of Nexia's subsidiaries owned an interest in the industrial property described below.

Canton Tire Recycling West Virginia, Inc. ("CTR")

CTR, a 99.08% owned subsidiary of Nexia, owns the Parkersburg Terminal, located at 516 Camden Street, Parkersburg, West Virginia. The terminal is a former fuel transfer station. The property consists of 4.5 acres on a tributary of the Ohio River and includes a former oil storage facility and a warehouse with office space. There are no encumbrances on the property. The property has been vacant and unused since its acquisition. CTR is subject to competition in finding tenants or buyers for the property, and there is a substantial likelihood that the property will remain vacant for some time. CTR is of the opinion that this property is adequately covered by insurance. CTR has no present plans to renovate or improve the property and recognized impairment expense of $29,554 and $258,788 during the years ended December 31, 2003 and 2002 respectively.

The West Virginia Division of Environmental Protection filed suit against CTR and Axia Group, Inc. the former parent corporation of CTR, seeking the completion of environmental clean up procedures at the site. CTR believes it has completed all cleanup measures which will be required by the State of West Virginia, however there can be no assurance that the State of West Virginia will not require additional cleanup on the property. For more information on the suit filed against CTR and Axia and for more information on Parkersburg properties, see "Item 3, Legal Proceedings."

CTR invested approximately $150,000 in environmental cleanup of the site over the course of its ownership of the property. All appropriate reports regarding the cleanup have been filed with regulatory agencies. CTR, the property owner, has not received any additional requests or responses for over eighteen months regarding the property.

On April 9, 2004, the property was sold for $1,816.70 in unpaid property taxes due on the property as a result of a clerical oversight. CTR will make an attempt to reacquire the property, if possible, for the cost of the back taxes and legal fees associated with the sale and any legal costs necessitated by that effort. The Company recognized a loss from disposition of $29,559 during the year ended December 31, 2003.

Undeveloped Land

Nexia, through its subsidiaries, owns approximately six (6) small parcels of undeveloped raw land in Utah and Kansas. There are currently no plans to develop these properties. If valid offers are received on these parcels, they may be sold. During 2003, the Company recognized an impairment expense of $173,966 on these parcels based on their assessed market value.

Insurance

Nexia is of the opinion that each of these properties described above is adequately insured.

ITEM 3. LEGAL PROCEEDINGS

The following cases may have a material impact on the Company:

State of West Virginia vs. Canton Tire Recycling West Virginia, Inc., Canton Industrial Corporation and CyberAmerica Corporation - Suit was filed on August 14, 1998 in the Circuit Court of Wood County, Parkersburg, West Virginia as file no. 98 C 354 seeking the completion of clean up procedures for property owned by Canton Tire Recycling West Virginia, located in the city of Parkersburg. The state requested that certain waste material present on the site and any remaining material in the on site storage tanks be removed and that an oil/water separator located on the property be cleaned out. The Company and the State of West Virginia entered into a Consent Decree by which the Company agreed to submit and complete a Remediation and Sampling Work Plan and the payment of

$88,000 in fines and penalties ($8,000 has been paid, $20,000 was paid prior to May 31, 2000, similar payments were made in 2001 and 2002 and the final payment is due May 31, 2003.) The work required by the Remediation and Sampling Work Plan has been completed and submitted to the State. This information included test results indicating that soil contamination testing required by the Plan reported contamination exceeding state guidelines. The nature and cost of further testing or clean-up as a result of that report cannot be determined at this time. No further request for additional work or testing has been received from the State of West Virginia. The Company made a final payment of this matter with a $5,000 cash payment in February 2004, which the State of West Virginia has accepted as final settlement of the court order.

Hudson Consulting Group, Inc. v. Chequemate International, Inc., dba C-3D Digital, Inc. Suit was filed on November 16, 2000 in the Third Judicial District Court, for Salt Lake County, State of Utah, Civil No. 000909325. The Company seeks recovery of its damages as a result of the failure of Chequemate to deliver 75,000 shares of its common stock as provided for in an Advisory Agreement between the parties dated July 29, 1999. Damages are sought for the highest value of these shares during the period that delivery was not made, in late July of 2000 the shares traded at approximately $2.68 per share. Partial delivery of shares due under the agreement was received by Hudson in June of 2000 leaving 75,000 shares due and owing. The parties have signed a settlement agreement wherein the defendant agrees to deliver 514,000 shares of its common stock to Hudson and agrees to include these shares in a registration statement. The shares have been received by Hudson and the registration statement, including the shares received by Hudson has been filed with the SEC. The agreement further provides that in the event the sale of the shares does not generate $90,000 in proceeds that the defendant will issue additional shares to Hudson to cover any shortfall. Upon receipt of the share certificate a notice of dismissal of the lawsuit was filed with the court by Hudson. On January 2, 2003 Hudson filed suit in the Third Judicial District Court, for Salt Lake County, State of Utah, Civil No. 030900004. This cause of action seeks recovery of the failure of C-3D to honor the terms of the settlement agreement from the prior action, recovery of $63,965.50 is sought for the difference in sales proceeds from the stock delivered under the settlement agreement and the agreed upon settlement figure of $90,000. Defendant's registered agent has been served but no answer has been filed and the court has signed a default judgment as to C-3D. Attempts to contact officers of C-3D have failed and at present it appears that the company is no longer operating. On May 14, 2003 the court granted a default judgment in the sum of $74,245.50.

Hudson Consulting Group, Inc. v. Ohana Enterprises, Inc., Isaac P. Simmons, Kathryn A. Christmann, Gerard Nolan, David Cronshaw, Interactive Ideas, Jonathan Thomas and Phillip Crawford. Suit was filed on March 17, 2003 in the Third Judicial District Court in and for Salt Lake County, State of Utah, Case No. 030905949. Suit was filed by Hudson to seek payment under an August 27, 2002 Stock Purchase Agreement, wherein the named defendants purchased a controlling interest in a Delaware corporation known as Torchmail Communications, Inc. which changed its name subsequent to the transfer to Ohana Enterprises, Inc. The total sales price was $300,000 of which only the first $100,000 has been paid. The defendants have claimed that Hudson misrepresented the status of Ohana prior to the transfer and are denying any further obligation to make payments. In February of 2004 Hudson agreed to settle the litigation and all related claims in exchange for a cash payment of $117,000, such that each party, except the defendant Gerard Nolan, will be released from all claims, including counterclaims and third party claims and all costs are to be paid by the party incurring them.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Effective March 29, 2004 a majority of the issued and outstanding shares consented to an amendment to the Company's Articles of Incorporation to increase the number of authorized common shares to 10,000,000,000, the number of authorized preferred shares was not changed and remains at 50,000,000. A certificate of amendment to carry out this change was been filed with the Nevada Secretary of State on March 29, 2004. Additional information can be found by referring to the Schedule 14(c) information statement filed on March 5, 2004.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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The Company's common stock is quoted on the Electronic Bulletin Board under the symbol, "NXIA.OB". Trading in the common stock in the over-the-counter market has been limited and sporadic and the quotations set forth below are not necessarily indicative of actual market conditions. Further, these prices reflect inter-dealer prices without retail mark-up, mark-down, or commission, and may not necessarily reflect actual transactions. The high and low bid prices for the common stock for each quarter of the years ended December 31, 2002 and 2003 are as follows:

YEAR	QUARTER ENDING	HIGH	LOW
2002	March 31, 2002	$0.310	$0.040
	June 30, 2002	$0.065	$0.020
	September 30, 2002	$0.022	$0.006
	December 31, 2002	$0.020	$0.003
2003	March 31, 2003	$0.015	$0.004
	June 30, 2003	$0.008	$0.0005
	September 30, 2003	$0.013	$0.001
	December 31, 2003	$0.030	$0.006
2004	March 31, 2004	$0.015	$0.001

Common Stock

As of May 12, 2004, the number of issued and outstanding shares of the Company's common stock was 507,586,094. The number of common stock shares authorized is 10,000,000,000.

Shareholders:

As of May 12, 2004, there were approximately 590 shareholders of record.

Dividends:

The Company has not declared a cash dividend during the fiscal years ending December 31, 2002 and 2003.

Preferred Stock

As of April 21, 2004, the number of shares of Series A Convertible Preferred Stock issued and outstanding is 5,100,000, Richard Surber, president of the Company is the only holder of these preferred shares. The Series A Convertible Preferred Shares have voting rights which equate to 100 shares of common stock for every 1 Series A Preferred share and may be converted into $10 worth of common stock.. A total of 10,000,000 shares have been designated and authorized as Series A Preferred Shares of a total number of 50,000,000 authorized shares of preferred stock.

Dividends:

The Company has not declared a cash dividend for the Series A Convertible Preferred Stock during the fiscal year ended December 31, 2003. Rights to dividends are granted to the Series A Convertible Preferred Stock equal to those of the Common Stock, when, as and if declared by the Directors of Nexia, to be paid in cash or in common stock equal to market value at the election of the Company.

Conversion Rights:

Conversion rights into shares of Common Stock are given to the Series A Convertible Preferred Stock based upon that number of shares of the Company's Common Stock equal in market value to $10.00 at the time of conversion.

Limited Market for Common Stock.

There is currently a limited trading market for our shares of common stock, and there can be no assurance that a more substantial market will ever develop or be maintained. Any market price for shares of common stock of Nexia is likely to be very volatile, and numerous factors beyond our control may have a significant adverse effect. In addition, the stock markets generally have experienced, and continue to experience, extreme price and volume fluctuations which have affected the market price of many small capital companies and which have often been unrelated to the operating performance of these companies. These broad market fluctuations, as well as general economic and political conditions, may also adversely affect the market price of our common stock. Further, there is no correlation between the present limited market price of our common stock and our revenues, book value, assets or other established criteria of value. The present limited quotations of our common stock should not be considered indicative of the actual value of Nexia Holdings, Inc. or our common stock.

Risks of "Penny Stock".

Nexia Holdings Inc.'s common stock (OTC BB: NXIA) is deemed to be "penny stock" as that term is defined in Rule 3a51-1 of the Securities and Exchange Commission. Penny stocks are stocks (i) with a price of less than $5.00 per share; (ii) that are not traded on a "recognized" national exchange; (iii) whose prices are not quoted on the NASDAQ automated quotation system (NASDAQ-listed stocks must still meet requirement (i) above); or (iv) in issuers with net tangible assets less than $2,000,000 (if the issuer has been in continuous operation for at least three years) or $5,000,000 (if in continuous operation for less than three years), or with average sales of less than $6,000,000 for the last three years. Until recently, there had been no "established public market" for our common stock during the last five years. While our stock has traded between $0.31 and $0.0005 per share over the past two years, there is no assurance that this price level will continue, as there has thus far been low volume. Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 of the Securities and Exchange Commission require broker/dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be a "penny stock."

Moreover, Rule 15g-9 of the Securities and Exchange Commission requires broker/dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stocks to that investor. This procedure requires the broker/dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker/dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for investors in our common stock to resell their shares to third parties or to otherwise dispose of them.

RECENT SALES OF UNREGISTERED SECURITIES

The Company issued no unregistered securities within the period covered by this report which have not been previously reported on Form 10-QSB.

In March of 2003, a Stock Purchase Agreement was entered into between Nexia Holdings, Inc. and Chen Li, an individual resident of San Diego, California, whereby Nexia sold to Ms. Li Five Million (5,000,000) shares of restricted common stock of Nexia as consideration for Ms. Li making a loan in the sum of $30,000 to Nexia's subsidiary corporation, West Jordan Real Estate Holdings, Inc. The Company issued the shares pursuant to section

4(2) of the Securities Act of 1933 in an isolated private transaction by the Company which did not involve a public offering. The Company made this offering based on the following factors: (1) The issuance was an isolated private transaction by the Company which did not involve a public offering, being made to a single entity; (2) there was only one offeree who was issued stock; (3) the offeree acquired the stock with investment intent; (4) there were no subsequent or contemporaneous public offerings of the stock; (5) the stock was not broken down into smaller denominations; and (6) the negotiations for the issuance of the stock took place directly between the offeree and the Company.

Subsequent Events

On January 29, 2004, the board of directors authorized the issuance of 10,000,000 shares of the Company's common stock to each of the Company's directors, Richard Surber, Gerald Einhorn, Adrienne Bernstein and John E. Fry, Jr. The stock was issued as compensation for the services provided by the directors and were issued with a restrictive legend and pursuant to Section 4(2) of the Securities Act of 1933.

On April 8, 2004, the Company's board of directors authorized the issuance of 5,000,000 shares of the Company's common stock to Ronald Friedman for services rendered to the Company, the shares were issued with a restrictive legend and issued pursuant to Section 4(2) of the Securities Act of 1933 in a private transaction.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The Company's plan of operation for the coming year, as discussed above, is to identify and acquire favorable business opportunities as well as manage the acquired subsidiaries and operations in a manner similar to that previously used by Axia Group, Inc.

The Company does not plan to limit its options to any particular industry, but will evaluate each opportunity on its merits. The Company believes it can meet its cash needs for the foreseeable future from its current assets.

Consulting

Our business model is to provide an expanded scope of financial, business, and investment oriented consulting services to select start-up companies and existing public companies. Specifically, the Company helps client companies by creating a series of infrastructure-based partnerships that take advantage of the Company's expertise in: advising, uncovering private placement funding sources, strategic business planning, SEC registration documentation, transactional document preparation, restructuring capital information, "edgarizing" documents for filing with the Securities and Exchange Commission, clerical support for clients, and identifying merger and acquisition opportunities.

The Company's clients may choose to be acquired by the Company's reporting companies and create their own public shareholder base with a self underwritten offering or may choose to take advantage of the Company's shareholder base in a Securities and Exchange Commission ("SEC") registered spin-off or a dividend. The self- underwritten option requires a company to raise capital before obtaining a quote, whereas an SEC registered spin- off or dividend enables clients to obtain a quote prior to raising any new capital.

The Company employs several methods to locate prospective clients. We advertise directly through print media to attract both private and public corporations to engage our services, obtain referrals from previous clients and do our own research of various databases that profile public companies.

The Company charges clients monthly or predetermined fees which vary in both amount and form. Acceptable payments include cash, securities of the client corporation, other assets, or some combination of the three. This payment arrangement allows many organizations, especially start-up ventures and those experiencing financial difficulties, to obtain the Company's services without draining necessary cash funds. However, accepting stock as compensation occasionally impairs the Company's cash flow, and for this reason acceptable payments and the size of payments the Company charges for its services vary with the volatility of the clients' securities, the amount and nature of work involved, and the expenses related to the services being rendered.

Revenues from Hudson's financial consulting operations increased for the year ended December 31, 2003. Nexia recorded $276,565 in revenues for the year ended December 31, 2003, from its financial consulting operations as compared to $223,387 for the same period of 2002. This increase was due to a general turn around in consulting due to improved market conditions experienced in the latter part of the year. As the market continues to improve, Nexia anticipates a continuing increase in consulting activity.

Real Estate Operations

Nexia's objective with respect to its real estate operations is to acquire, through its subsidiaries, properties throughout the country which Nexia's management believes to be undervalued and which a subsidiary is able to acquire through the expenditure of limited amounts of cash. The subsidiaries attempt to acquire such properties by assuming existing favorable financing and paying the balance of the price with nominal cash payments or through the issuance of shares of either Nexia's or the subsidiary's common stock, or some combination of the two. Once such properties are acquired, the subsidiary leases them to primarily commercial tenants. Nexia's real-estate subsidiaries also make limited investments in improvements to the properties with the objective of increasing occupancy and improving cash flows. Nexia believes that with minor improvements and effective management by the subsidiaries, properties can be liquidated at a profit within a relatively short period of time. The Company has incurred losses during the past year from impairment write-downs of property.

Nexia recorded consolidated rental revenues of $511,020 for 2003 as compared to $610,556 for 2002. This decrease was largely attributable to the sale of Wichita Development Corporation and Salt Lake Development Corporation, both of these entities generated rental revenues for the entire 12 months ending December 31, 2002 versus 7 months of rental revenue recorded in the fiscal year ended December 31, 2003. During 2003, Nexia continued to take steps to decrease the overall vacancy rate of its consolidated real estate holdings including marketing its holdings to potential tenants through commissioned real estate agents and making cost-effective improvements to the holdings to increase occupancy.

Nexia continues its real estate operations despite the negative cash flow for two reasons. First, Nexia is attempting to eliminate the losses by increasing occupancy and rental income from those properties of the subsidiaries which have a high current vacancy rate. Second, Nexia's subsidiaries purchase real estate primarily for appreciation purposes. Thus, while Nexia seeks to minimize and reverse its real estate cash flow deficit, its goal is to offset such deficit with sufficient cash that will be generated upon property disposition.

Company Operations as a Whole

Revenues

Gross revenues for December 31, 2002 and 2003 were $833,943 and $787,585 respectively. The decrease in revenues is due in part to decrease in rental revenues as a result of the sales of Wichita Development Corporation and Salt Lake Development Corporation in July of 2003.

Losses

Nexia recorded an operating loss of $1,112,463 at December 31, 2003, as compared to an operating loss of $2,991,265 at December 31, 2002. Nexia recorded a net loss of $ 901,825 for December 31, 2003, compared to a net loss of $3,520,570 for December 31, 2002. Nexia's losses decreased as a result of reductions in the level of real estate operations, reduced amounts of losses from sales of securities, reductions in staff and related administrative expenses.

Nexia feels that it is positioned to take advantage of changing market conditions as a result of changes made in the last year. Nexia anticipates operating at a minimal loss through fiscal 2004. There can be no assurance that Nexia will attain profitability or that its can obtain any revenue growth in the future.

Expenses

General and administrative expenses for December 31, 2003 and 2002 were $ 710,304 and $1,461,603 respectively. The decrease in expenses is a direct result of the decreases in consulting fees, accounting and audit expenses, bad debt expense, and other general expenses.

Nexia expects expenses as a percent of revenues to remain constant or decrease through 2004 as Nexia steps up its effort to streamline operations and eliminate non-performing assets as well as acquire additional properties and grow its consulting businesses.

Capital Resources and Liquidity

At December 31, 2003, Nexia had current assets of $ 382,860 and total assets of $ 3,480,505. Nexia had a net working capital deficit of $ 1,304,435 at December 31, 2003. The main factors creating the working capital deficit is the amount of real estate obligations that are classified as current obligations and the substantial decrease in securities available for sale due to write downs resulting from downturns in the market.

Net stockholders' equity in Nexia was $ 44,705 as of December 31, 2003, compared to $420,316 as of December 31, 2002.

Cash flow used in operations was $ 152,474 for the year ended December 31, 2003, compared to cash flow used in operations of $849,030 for the year ended December 31, 2002. The decrease in cash flows used in operating activities for the year ended December 31, 2003, is primarily attributable to the reduction in costs of staff, real estate holdings and a decrease in impairment expense of $632,260 from the prior year.

Cash flow used by investing activities was $ 9,763 for the year ended December 31, 2003, compared to net cash provided by investing activities of $2,305,049 for the year ended December 31, 2002. The significant decrease in cash resulting from investing activities for the year ended December 31, 2003 as, compared with 2002 is primarily a result of not having any comparable real estate sales during the year 2003.

Cash flow provided by financing activities was $ 147,489 for the year ended December 31, 2003, compared to net cash used of $1,642,541 for the year ended December 31, 2002. Nexia had positive financing cash flow for the year ended December 31, 2003, as a result of issuing long term debt, including convertible debentures, and proceeds from the issuance of stock options.

Due to Nexia's acquisition of debt service on real estate holdings, willingness to acquire properties with negative cash flow shortages, and acceptance of non-cash assets for consulting services, Nexia experiences occasional cash flow shortages. To satisfy its cash requirements, including the debt service on its real estate holdings, Nexia must periodically raise funds from external sources. This often involves Nexia conducting exempt offerings of its equity securities.

During the year ended December 31, 2003, Nexia issued a total of 33,150,000 shares for services rendered and prepaid services by employees and consultants.

Debentures

On October 31, 2003 the Company issued two 18% Series A Senior Subordinated Convertible Redeemable Debentures, with a due date of November 1, 2004. Each of the debentures is in the face amount of $30,000 and is convertible into the common stock of the Company at a discount of 30% from the market price on the date of conversion. The holders of the debentures are Mr. Ronald Friedman and Mr. John E. Fry, Jr., Mr. Fry is a director of the Company. The funds received in exchange for the debentures were forwarded to Creative Marketing Group, Inc. to further a proposed agreement with the Company, that agreement failed to close and the receivable in the amount of $60,000 at 18% interest has been acknowledged by CMG.

Stock and Options To Employees

During the quarter ending September 30, 2003, Nexia's subsidiary, Hudson Consulting Group, Inc., temporarily discontinued cash payments to its employees.

Consequently, Nexia has relied upon the issuance of S-8 shares to pay certain employees and consultants. On July 21, 2003, Nexia issued 5,000,000 shares of S-8 common stock to Jared Gold for services rendered valued at $10,000, or $0.002 per share, the market price on the date of grant. In September, 2003 Nexia issued 17,550,000 shares of its common stock to employees under its S-8 Registration Statements for its Employee Benefit Plans. Michael Golightly, an attorney employed by the Company was issued 7,550,000 shares as compensation for past services to the Company and in partial settlement of obligations related to his employment. Shane Stone, serving as accounting manager for the Company was issued 10,000,000 shares as compensation for his services in working on financial and quarterly reports for the Company and in partial settlement of obligations related to his employment.

On November 17, 2003, the Company's board of directors approved the issuance of 2,000,000 shares of the Company's common stock to Francis A. Zumbrowski for bona fide services he provided to the Company.

On December 4, 2003, the Company's board of directors approved the delivery of options to purchase 1,600,000 shares of the Company's common stock to 8 employees of the Company for services rendered to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company. Each employee received 200,000 shares.

On December 8, 2003, the Company's board of directors approved the delivery of options to purchase 4,000,000 shares of the Company's common stock to 8 employees of the Company for services rendered to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company. Each employee received 500,000 shares.

Events Subsequent to End of Fiscal Year

On January 29, 2004, the Company's board of directors approved the delivery to each director of 10,000,000 restricted shares of the Company's common stock for services rendered to the Company as Directors. The directors receiving shares included, Richard Surber, Gerald Einhorn, Adrienne Bernstein, and John E. Fry, Jr. The shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as compensation for services rendered to the corporation as Directors by the named individuals.

On February 20, 2004, the Company's board of directors approved the issuance to Richard Surber, president and chief executive and financial officer of the Company, 5,100,000 shares of the Company's Series A Preferred Stock,

as an incentive to retaining Mr. Surber as an employee of the Company. As these preferred shares have voting rights which equate to 100 shares of common stock for every 1 Series A Preferred share and may be converted into $10 worth of common stock. this issuance of preferred stock has the effect of diluting the voting rights of holders of the common stock and potential dilution of the rights of common stockholders upon liquidation or in the event of conversion of the shares.

Stock Options and Grants to Employees and Contractors

On January 6, 2004, the Company's board of directors authorized the issuance of 2,400,000 shares of the Company's common stock to Barry Monk, a consultant to the Company who has provided services to the Company, the shares were issued pursuant to the S-8 Registration Statement of the Company.

On January 16, 2004, the Company's board of directors authorized the issuance of 9,100,000 shares of the Company's common stock to seven individual employees who had provided bona fide services to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company.

On February 13, 2004, the Company's board of directors authorized the issuance of 25,000,000 options for the Company's common stock to five individual employees who had provided bona fide services to the Company, the options for shares were authorized pursuant to the S-8 Registration Statement of the Company, each good for the purchase of shares at an option price of $0.002 per share.

On February 13, 2004, the Company's board of directors authorized the issuance of 5,000,000 options for the Company's common stock to Barry Monk, an individual who has provided bona fide services to the Company, the options for shares were authorized pursuant to the S-8 Registration Statement of the Company, each good for the purchase of shares at an option price of $0.002 per share.

On February 20, 2004, the Company's board of directors authorized the issuance of 5,000,000 options for the Company's common stock to Barry Monk, an individual who has provided bona fide services to the Company, the options for shares were authorized pursuant to the S-8 Registration Statement of the Company each good for the purchase of shares at an option price of $0.002 per shares.

On March 4, 2004, the Company's board of directors authorized the issuance of 6,000,000 options for the Company's common stock to Josh Vance, a real estate professional that has provided services related to the leasing of real property held by the Company's subsidiaries, the options for shares were authorized pursuant to the S-8 Registration Statement of the Company, each good for the purchase of shares at an option price of $0.002 per share.

On March 9, 2004, the Company's board of directors authorized the issuance of 13,333,334 shares of Company's common stock to Mark Low, an accountant that has provided services for the Company, pursuant to the S-8 Registration Statement of the Company.

On March 9, 2004, the Company's board of directors authorized the issuance of 250,000 shares of the Company's common stock, pursuant to the S-8 Registration Statement of the Company. and 2,000,000 options for the Company's common stock to Donald Decker, a computer specialist and web site designer, pursuant to the S-8 Registration Statement of the Company, each good for the purchase of shares at an option price of $0.002 per share, a lower option price of $0.001 per share was later approved by the Board and

On March 9, 2004, the Company's board of directors authorized the issuance of 6,000,000 shares and the issuance of 12,000,000 options to Ernie Burch, an employee of the Company and for services provided with regard to improvements and maintenance to be performed on real estate held by Wasatch Capital Corporation, a subsidiary of the Company, the shares and the options were authorized pursuant to the S-8 Registration Statement of the Company, each option is good for the purchase of shares at an option price of $0.002 per share, a lower option price of $0.001 per shares was later approved by the Board.

On April 8, 2004, the Company's board of directors authorized the issuance of 33,000,000 shares of the Company's common stock to 4 employees (Frank Adams, Michael Golightly, Sandra Jorgensen and Brittany Stevens) of the

Company for services rendered to the Company, the shares were authorized pursuant to the S-8 Registration Statement of the Company.

On April 8, 2004, the Company's board of directors authorized the issuance of 5,000,000 shares of the Company's common stock to Ronald Friedman for services rendered to the Company and as additional compensation for assisting with financing for the Company, the shares have not yet been issued but will be issued with a restrictive legend and issued pursuant to Section 4(2) of the Securities Act of 1933 in a private transaction.

Ability to Continue as a Going Concern

Nexia's ability to continue as a going concern is in doubt as a result of Nexia having incurred a loss from its operations during the fiscal year ended December 31, 2003 and has had losses in prior years as well. Nexia will need to substantially decrease its operating expenses, increase its operating income, and raise significant additional capital, as to which there is no assurance that the objective will be accomplished. In the event that these events do not take place Nexia will in all probability not be able to continue as a going concern in calendar year 2004.

Capital Expenditures

Nexia had capital expenditures of $32,544 during the year ended 2003.

Income Tax Expense (Benefit)

Nexia has an income tax benefit resulting from net operating losses to offset future operating profit of approximately $6,652,023. This is not shown on the balance sheet as a deferred tax asset due to past history of loss years in conjunction with profit years during the previous 10 year period as well as specifics in the GAAP regulations regarding surety of future earnings.

Impact of Inflation

Nexia believes that inflation has had a negligible effect on operations over the past three years. Nexia believes that it can offset inflationary increases in the cost of labor by increasing sales and improving operating efficiencies.

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Known Trends, Events, or Uncertainties

General Real Estate Investment Risks

Nexia's investments are subject to varying degrees of risk generally incident to the ownership of real property. Real estate values and income from Nexia's current properties may be adversely affected by changes in national or local economic conditions and neighborhood characteristics, changes in interest rates and in the availability, cost and terms of mortgage funds, occupancy rates of Nexia's properties, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, changes in governmental rules and fiscal policies, civil unrest, acts of God, including earthquakes and other natural disasters which may result in uninsured losses, acts of war, adverse changes in zoning laws, and other factors which are beyond the control of Nexia.

Value and Illiquidity of Real Estate

Real estate investments are relatively illiquid. The ability of Nexia to vary its ownership of real estate property in response to changes in economic and other conditions is limited. If Nexia must sell an investment, there can be no assurance that Nexia will be able to dispose of it in the time period it desires or that the sales price of any investment will recoup the amount of Nexia's investment.

Property Taxes

Nexia's real property is subject to real property taxes. The real property taxes on this property may increase or decrease as property tax rates change and as the property is assessed or reassessed by taxing authorities. If property taxes increase, Nexia's operations could be adversely affected.

ITEM 7. FINANCIAL STATEMENTS

The Company's financial statements for the fiscal year ended December 31, 2003, are attached hereto as pages F-1 through F-36.

NEXIA HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

C O N T E N T S

HJ & Associates, LLC
50 South Main Street
Suite 1450
Salt Lake City, UT 84144

INDEPENDENT AUDITORS' REPORT

Board of Directors
Nexia Holdings, Inc. and Subsidiaries
Salt Lake City, Utah

We have audited the accompanying consolidated balance sheet of Nexia Holdings, Inc. and Subsidiaries as of December 31, 2003 and the related consolidated statements of operations and other comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nexia Holdings, Inc. and Subsidiaries as of December 31, 2003 and the consolidated results of their operations and other comprehensive income, and their cash flows for the years ended December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has generated significant losses from operations, has an accumulated deficit of $10,224,467 and has a working capital deficit of $1,304,435 at December 31, 2003, which together raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/

HJ & Associates, LLC
Salt Lake City, Utah
May 10, 2004

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NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheet

ASSETS

	December 31, 2003
CURRENT ASSETS	
Cash	$ 94,073
Accounts receivable - trade	33,387
Related party accounts receivable	12,952
Notes receivable, net of allowance of $315,000 (Note 4)	36,949
Prepaid expenses	99
Marketable securities (Note 6)	205,400
Total Current Assets	382,860
FIXED ASSETS (Note 5)	
Property and equipment, net	2,570,691
Land	488,895
Total Fixed Assets	3,059,586
OTHER ASSETS	
Loan costs, net	38,059
Total Other Assets	38,059
TOTAL ASSETS	$ 3,480,505

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

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NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheet (Continued)

LIABILTIES AND STOCKHOLDERS' EQUITY

	December 31, 2003
CURRENT LIABILITIES	
Accounts payable	$ 188,188
Accrued liabilities	130,524
Current portion of WVDEP liability(Note 11)	20,000
Unearned rent (Note 1)	28,455
Deferred revenue (Note 1)	8,958
Deferred gain on sale of subsidiary (Note 12)	21,770
Refundable deposit	15,541
Convertible debentures (Note 15)	60,000
Current portion long-term debt (Note 9)	1,213,859
Total Current Liabilities	1,687,295
LONG-TERM LIABILITIES	
Long-term debt (Note 9)	1,548,740
Total Long-Term Liabilities	1,548,740
Total Liabilities	3,236,035
MINORITY INTEREST	199,765
COMMITMENTS AND CONTINGENCIES (NOTE 11)	
STOCKHOLDERS' EQUITY:	
Preferred stock, $.001 par value, 50,000,000 shares authorized, no shares issued or outstanding	-
Common stock, $.001 par value, 1,000,000,000 shares authorized, 348,502,760 shares issued and outstanding	348,503
Additional paid-in capital	10,063,482
Treasury stock, 20,038,340 shares at cost (Note 10)	(100,618)
Expenses prepaid with common stock	(13,333)
Stock subscription receivable (Note 14)	(28,000)
Other comprehensive loss (Note 6)	(862)
Accumulated deficit	(10,224,467)
Total Stockholders' Equity	44,705
TOTAL LIABILTIES AND STOCKHOLDERS' EQUITY	$ 3,480,505

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

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Other Comprehensive Income (Loss)

	For the Years Ended December 31, 2003	2002
REVENUE		
Consulting revenue	$ 226,565	$ 223,387
Consulting revenue - related party	50,000	-
Rental revenue	511,020	610,556
Total Revenue	787,585	833,943
COST OF REVENUE		
Cost associated with consulting revenue	287,209	631,004
Cost associated with rental revenue	358,229	999,706
Interest expense associated with rental revenue	280,734	257,657
Total Cost of Revenue	926,172	1,888,367
GROSS (DEFICIT)	(138,587)	(1,054,424)
EXPENSES (INCOME)		
Impairment of long-lived assets	182,974	258,788
Impairment of marketable securities	75,177	256,494
(Gain) loss on sale of marketable securities	5,421	(40,044)
Selling, general and administrative expense	710,304	1,461,603
Total Expenses (Income)	973,876	1,936,841
LOSS FROM OPERATIONS	(1,112,463)	(2,991,265)
OTHER INCOME (EXPENSE)		
Interest income	182	474
Interest expense	(15,596)	-
Other (expense) income	44,841	56,531
Gain (loss) on disposal of assets	(29,559)	4,159
Gain on sale of subsidiaries (Note 12)	229,268	-
Total Other Income (Expense)	229,136	61,164
LOSS BEFORE MINORITY INTEREST	$ (883,327)	$(2,930,101)

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

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and
Other Comprehensive Income (Loss) (Continued)

	For the Years Ended December 31, 2003	2002
LOSS BEFORE MINORITY INTEREST	$ (883,327)	$ (2,930,101)
MINORITY INTEREST IN LOSS	(65,113)	(100,049)
NET LOSS BEFORE DISCONTINUED OPERATIONS	(818,214)	(2,830,052)
DISCONTINUED OPERATIONS		
Loss on discontinued operations (Note 16)	(83,611)	(690,518)
NET LOSS	(901,825)	(3,520,570)
OTHER COMPREHENSIVE INCOME (LOSS)		
Change in marketable securities	(1,735)	434,092
TOTAL COMPREHENSIVE LOSS	$ (903,560)	$ (3,086,478)
BASIC AND DILUTED LOSS PER WEIGHTED AVERAGE COMMON SHARE:		
Loss per common share before minority interest	$ (0.00)	$ (0.01)
Minority interest in loss per common share	0.00	0.00
Net loss per common share before discontinued operations	(0.00)	(0.01)
Loss per common share on discontinued operations	(0.00)	(0.00)
Net loss per common share, basic and diluted	$ (0.00)	$ (0.01)
Weighted average common shares outstanding, basic and diluted	322,734,541	278,022,545

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

NEXIA HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Stock Subscription Receivable	Expenses Prepaid with Common Stock	Ot Compre Income
Balance, December 31, 2001	255,100,000	$ 255,101	$ 8,402,692	$ -	$ -	$ -	$ (43
Recapital-ization	54,869,427	54,869	1,116,664	(91,792)	-	-	
Purchase of treasury stock	-	-	-	(15,949)	-	-	
Common stock issued for services	383,333	383	20,117	-	-	-	
Sale of common stock by Subsidiary	-	-	107,800	-	(107,800)	-	
Adjustment for marketable securities	-	-	-	-	-	-	4
Net loss for the year ended December 31, 2002	-	-	-	-	-	-	
Balance, December 31, 2002	310,352,760	310,353	9,647,273	(107,741)	(107,800)	-	
Common stock issued for loan fee	5,000,000	5,000	45,000	-	-	-	
Disposition of treasury stock and stock subscription due to sale of subsidiary	-	-	-	7,123	107,800	-	
Common stock issued for Services	8,000,000	8,000	11,000	-	-	-	
Common stock issued for Bonus	17,550,000	17,550	210,600	-	-	-	
Common stock issued for services and prepaid services	2,000,000	2,000	38,000	-	-	(13,333)	

Common stock issued for stock option exercise to employees	5,600,000	5,600	50,400	-	(28,000)	-	
Balance Forward	348,502,760	$ 348,503	$ 10,002,273	$(100,618)	$ (28,000)	$ (13,333)	$

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Stock Subscription Receivable	Expenses Prepaid with Common Stock	Oth Compreh Income
Balance Forward	348,502,760	$ 348,503	$10,002,273	$(100,618)	$ (28,000)	$ (13,333)	$
Intrinsic value of stock options issued to employees	-	-	49,600	-	-	-	
Beneficial conversion feature on convertible debentures	-	-	11,609	-	-	-	
Adjustment for marketable Securities	-	-	-	-	-	-	(
Net loss for the year ended December 31, 2003	-	-	-	-	-	-	
Balance, December 31, 2003	348,502,760	$ 348,503	$10,063,482	$(100,618)	$ (28,000)	$ (13,333)	$

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

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (901,825)	$(3,520,570)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of subsidiaries	(229,268)	-
Loss (gain) from sale of investments	5,421	(40,044)
Loss (gain) from sale of land and real property for sale	9,008	(4,159)
Loss on disposition of property, plant and equipment	29,559	-
Impairment of marketable securities	75,177	707,437
Impairment of long-lived assets	173,966	258,788
Change in minority interest	(65,113)	(100,049)
Depreciation and amortization	137,607	187,424
Intrinsic value of stock options issued	49,600	-
Amortization of beneficial conversion feature	11,609	-
Issued common stock for services	323,817	20,500
Bad debt expense	319,219	200,895
Changes in operating assets and liabilities:		
Accounts and notes receivable	(21,820)	106,794
Prepaid expenses	23,401	(22,530)
Other assets	7,144	371,616
Accounts payable	(10,415)	173,113
Accrued liabilities	39,468	(83,213)
Deferred revenue	(138,070)	(357,806)
Refundable deposit	9,041	17,650
Related party payable - Axia	-	1,235,124
Net Cash Used In Operating Activities	(152,474)	(849,030)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash relinquished in sale of subsidiaries	(15,351)	-
Issuance of notes receivable	(60,000)	-
Proceeds from notes receivable	26,100	98,526
Proceeds from sale of marketable securities	23,032	88,772
Purchase of marketable securities	-	(5,003)
Proceeds on sale of real property	49,000	2,332,000
Proceeds on sale of subsidiaries	-	100,000
Purchase of property, plant and equipment	(32,544)	(309,246)
Net Cash Provided (Used) By Investing Activities	(9,763)	2,305,049

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

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NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)

	For the Years Ended December 31, 2003	For the Years Ended December 31, 2002
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	$ (134,928)	$ (2,012,430)
Proceeds from issuance of long-term debt	194,417	385,838
Proceeds from issuance of convertible debentures	60,000	-
Purchase of treasury stock	-	(15,949)
Proceeds from stock option exercise	28,000	-
Net Cash Provided By (Used In) Financing Activities	147,489	(1,642,541)
Net Increase (Decrease) In Cash	(14,748)	(186,522)
CASH, BEGINNING OF YEAR	108,821	295,343
CASH, END OF YEAR	$ 94,073	$ 108,821
SUPPLEMENTAL DISCLOSURE OF INFORMATION		
Cash paid during the year for interest	$ 331,488	$ 395,435
Cash paid during the year for income taxes	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued for services	$ 323,817	$ 20,500
Assets acquired through capital lease	$ 19,815	$ 46,880
Common stock sold by subsidiary	$ -	$ 107,800

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

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NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES

a. Organization

Nexia Holdings, Inc. (Nexia or The Company) was incorporated under the laws of the State of Colorado on April 20, 1987 as Metropolitan Acquisition Corporation. The name of the Company has changed several times, most recently, to Kelly's Coffee Group, Inc. (Kelly's) on April 22, 1994, and finally to Nexia Holdings, Inc. on March 15, 2002. Nexia became a development stage company on March 1, 1998.

On October 5, 2000, Nexia merged with a Nevada corporation with the same name, effectively changing its state of domicile from Colorado to Nevada and its authorized common stock from 100,000,000 shares with $.001 par value to 1,000,000,000 shares with $.001 par value.

On February 15, 2002, the Company entered into a Stock Purchase Agreement (Agreement) with Axia Group, Inc. (Axia), a related party, pursuant to which the Company issued to Axia 255,100,000 restricted shares of the Company's common stock in exchange for essentially all of the assets and liabilities of Axia. Axia's assets included a portfolio of securities, real estate holdings and publicly reporting shell-companies. The shares issued to Axia equaled approximately 82% of the issued and outstanding shares of the Company after the close of the transaction. Immediately prior to the Agreement, the Company had 55,252,760 shares of common stock issued and outstanding. The acquisition was accounted for as a recapitalization. Such subsidiaries consist of Diversified Holdings I, Inc., Wichita Development Corporation, Golden Opportunity Development Corporation, Downtown Development Corporation, Wasatch Capital Corporation, Hudson Consulting Group, Inc., Oasis International Hotel and Casino, Inc., Canton Industrial Corporation of Salt Lake City Inc., Canton's Wild Horse Ranch II, Inc., West Jordan Real Estate Holdings, Inc., Salt Lake Development, Inc., Kearns Development Corporation and Canton Tire Recycling of West Virginia, Inc. (together "The Accounting Acquirer"). The subsidiaries of Axia which were transferred to the Company have been treated as the acquiring entities for accounting purposes and the Company is the surviving entity for legal purposes. The transaction is deemed to be an exchange of assets between entities under common control. The President of the Company is also the President of Axia and is also a significant shareholder in many of the subsidiaries which were transferred to the Company. As noted by Interpretation 39, the transfer of net assets or an exchange of shares between entities under common control is excluded from Opinion 16 and should be accounted for at historical cost. There was no adjustment to the carrying value of the assets or liabilities of the transferred subsidiaries, nor was there any adjustment to the carrying value of the net assets or liabilities of the Company. The combined statements of operations and other comprehensive income and cash flows for the year ended December 31, 2001 include only the activity of the accounting acquirer and through February 5, 2002 (date of agreement) after which the statement of operations reflect the operations of the accounting acquirer and Nexia. The statement of stockholders equity for the year ended December 31, 2001 has been presented to give proportionate effect to the number of shares issued by the Company as applied to the equity transactions of the accounting acquirer.

On June 19, 2003, in an inter-company tax free transaction, Wichita Development Corporation exchanged its shareholdings in Kearns Development Corporation for the

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES (Continued)

a. Organization (Continued)

Diversified Holdings 1, Inc. shareholdings in Salt Lake Development Corporation. At the time of the exchange all parties were subsidiaries of Nexia.

On June 20, 2003, the Company sold it's interest in Wichita Development Corporation, and consequently, it's interest in Salt Lake Development Corporation and Wichita Properties, Inc., to Diversified Financial Resources Corporation (DFRC)(See Note 12).

b. Basis of Consolidation

Diversified Holdings I, Inc. (DHI), a Nevada corporation and 99% owned subsidiary of the Company, was formed on March 22, 1996. DHI is a holding company which has majority ownership of the following subsidiaries:

Hudson Consulting Group, Inc. (Hudson) was incorporated in Nevada on April 16, 1996, as Diversified Holdings XIII, Inc. for the purpose of providing business consulting services. On March 5, 1997, its name was changed to Hudson Consulting Group, Inc. Hudson is 100% owned by DHI.

Oasis International Hotel & Casino, Inc. (OIHC), a Nevada corporation, was formed on November 20, 1995 for the purpose of acquiring, owning and managing specific property in Elko County, Nevada. OIHC is 91% owned by DHI and currently has no real estate holdings.

Canton Industrial Corporation of Salt Lake City (CICSLC), a Utah corporation, was incorporated on September 29, 1993 for the purpose of acquiring, owning and managing a specific property. CICSLC sold the property in December 1998, and currently holds a promissory note from the purchaser, secured by a deed of trust on the property, in the amount of $255,000, bearing interest at 8%, principal and interest due August 10, 2002. CICSLC is 80% owned by DHI and 10% owned by Nexia.

Golden Opportunity Development Corporation (GODC), was incorporated in Louisiana on May 7, 1997 and redomiciled to Nevada during 2000. GODC owned and operated The General Lafayette Inn located in the downtown area of Baton Rouge, Louisiana, and is owned 83% by DHI. The General Lafayette Hotel was sold in January 2002.

Canton's Wild Horse Ranch II, Inc. (CWHRII), was incorporated in Arizona on February 3, 1994, for the purpose of acquiring, owning and managing certain unimproved raw land. The land was sold in 1999 and currently CWHRII has minimal assets and is owned 91% by DHI.

West Jordan Real Estate Holdings, Inc. (WJREH), was formed on June 7, 1994 in Utah for the purpose of acquiring, owning and managing a specific property. WJREH currently owns a commercially rented retail shopping plaza in Salt Lake City, Utah. WJREH is owned 89% by DHI.

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES (Continued)

b. Basis for Consolidation (Continued)

Kearns Development Corporation (Kearns), a Nevada corporation, was incorporated February 16, 1996 as Cyber Studio, Inc. On April 4, 2001, it's name was changed to Kearns Development Corporation. During 2000, Kearns purchased a commercially rented building in Kearns, Utah. Prior to October 17, 2001, Kearns was owned 86% by DHI and on June 19, 2003 was sold back to DH1 by WHDV.

Wasatch Capital Corporation (WCC), a Utah corporation, was incorporated on June 10, 1991. WCC owns a commercially rented building in downtown Salt Lake City and is owned 77% by DH1.

Canton Tire Recycling of West Virginia, Inc. (CTRWV), was incorporated by the Company on February 25, 1993, in West Virginia, for the purpose of acquiring, owning and managing a specific property. CTRWV held certain real property in West Virginia until 2003, and is 100% owned by DH1.

Downtown Development Corporation (Downtown), was incorporated by the Company on November 30, 1999 in Utah as A-Z South State Corporation. On August 22, 2001, it's name was changed to Downtown Development Corporation. Downtown owns a commercially rented building in Salt Lake City, Utah, and is 100% owned DH1.

In addition to DHI, the Company has majority ownership in the following subsidiaries:

At December 31, 2003, the Company had full or majority ownership in 14 other companies including CyberCosmetics, Inc., CyberBoy, Inc., CyberEye, Inc., CyberFishing, Inc., CyberLead, Inc., CyberLife, Inc., CyberOil, Inc., CyberSkiing, Inc., CyberSoccer, Inc., CyberTennis, Inc.,CyberTyme, Inc., CyberWholesale, Inc., CSI Holdings, Inc. (formerly CyberWrestling, Inc.), CyberWrite, Inc. Each of these companies is inactive with little or no assets, liabilities or operating activities.

c. Accounting Method

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business.

d. Compensating Cash Balances

The Company's subsidiary, West Jordan Real Estate Holdings, Inc. has signed a note payable. As part of the note, WJREH has agreed to deposit $3,750 monthly into a bank account to be used for capital improvements, tenant improvements and leasing commissions. The account balance was $33,608 at December 31, 2003.

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2003 and 2002

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT POLICIES (Continued)

e. Provision for Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of December 31, 2003 and 2002:

	2003	2002
Deferred tax assets		
NOL Carryover	$ 2,594,290	$ 2,648,445
Capital loss	661,050	661,050
Other	33,700	2,000
Deferred tax liabilities:	-	-
Valuation allowance	(3,289,040)	(3,311,495)
Net deferred tax asset	$ -	$ -

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2003 and 2002 due to the following:

	2003	2002
Book loss	$ (351,710)	$ (1,394,472)
Bad debt	124,495	120,370
Asset impairments	97,165	100,927
Other	2,345	(2,371)
Stock for services/option expense	150,160	8,000
Valuation allowance	(22,455)	1,167,546
	$ -	$ -

At December 31, 2003, the Company had net operating loss carryforwards of approximately $6,652,023 that may be offset against future taxable income from the year 2003 through 2023. No tax benefit has been reported in the December 31, 2003 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

NEXIA HOLDINGS, INC. AND SUBSIDIARIES
Notes to Consolidated Financial STD>

$
(1,527
)

$
(102,159
)

Comprehensive income:

Net income

12,007

12,007

Other comprehensive loss

Unrealized losses on cash flow hedges, net

(366
)

(366
)

Total comprehensive income

11,641

Non-cash charges for stock-based compensation

2,065

2,065

Issuances of common stock, net of shares withheld for employee taxes and other

63,700

1

(60
)

(59
)

Cash dividends declared on common stock ($0.21 per share)

(9,281
)

(9,281
)

Balance at September 30, 2010

45,857,397

$
458

$
2,375,689

$
(2,395,743
)

$
(76,304
)

$
(1,893
)

$
(97,793
)

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

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

PRIMEDIA INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows (Unaudited)

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

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

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

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PRIMEDIA INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

PRIMEDIA Inc., together with its subsidiaries, is herein referred to as either PRIMEDIA or the Company unless the context implies otherwise. In the opinion of the Company s management, the condensed consolidated financial statements present fairly the consolidated financial position of the Company as of September 30, 2010 and December 31, 2009, the results of consolidated operations of the Company for the three and nine months ended September 30, 2010 and 2009, consolidated changes in stockholders deficiency of the Company for the nine months ended September 30, 2010, and consolidated cash flows of the Company for the nine months ended September 30, 2010 and 2009. The adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. All intercompany accounts and transactions have been eliminated in consolidation. These statements should be read in conjunction with the Company s annual consolidated financial statements and related notes for the year ended December 31, 2009, which are included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for a full year.

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

Recent Accounting Pronouncements

Enhanced Disclosures of Fair Value Measurements

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

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

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

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

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

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

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

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

Multiple-Deliverable Revenue Arrangements

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

vendor-specific objective evidence if available;

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

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

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

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

Note 2. Discontinued Operations

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

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

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

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

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

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

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Note 3. Intangible Assets

Intangible assets subject to amortization consist of the following:

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

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

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

Note 4. Property and Equipment, Net

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

Note 5. Cost-Method Investments

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

Note 6. Fair Value

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

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

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

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

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

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

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

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

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

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

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

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

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

Although the Company has determined that many of the inputs used to value its derivative financial instruments fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivative financial instruments utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. However, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative financial instrument positions and has determined that the credit valuation adjustments, which amount to less than $0.1 million in the aggregate for all periods, are not significant to the overall valuation. As a result, the Company has classified its derivative financial instrument valuations, in their entirety, in Level 2 of the fair value hierarchy.

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

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

Accrued expenses and other current liabilities consisted of the following:

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

Other non-current liabilities consisted of the following:

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

Note 8. Borrowings

Long-term debt consisted of the following:

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

Bank Credit Facilities

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

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

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

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

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

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

Term Loan B Facility Repurchases

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

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

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

Revolving Facility

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

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

Covenant Compliance

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

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

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

Note 9. Income Taxes

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

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

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

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

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

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

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

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

Note 10. Stockholders Equity

Stock Repurchase Plan

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

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

Note 11. Stock-Based Compensation

Stock Options

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

Restricted Stock

Performance Share Plan

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

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

Service Plan

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

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

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

Vested and surrendered (1)	(17,127)	3.75
Forfeited		
Outstanding at end of period	885,404	3.51

(1) Shares of common stock were surrendered to the Company by certain employees to satisfy the employees tax withholding obligations upon the vesting of the restricted stock.

All restricted stock granted to the Company s Chief Executive Officer includes tandem dividend rights, and he will receive the dividends if he is employed with the Company on the dates the underlying shares vest.

All stock-based compensation is expensed over the vesting period, and the expense for all awards amounted to $0.7 million and $2.1 million for the three and nine months ended September 30, 2010, respectively, and $0.3 million and $1.2 million for the three and nine months ended September 30, 2009, respectively. Stock-based compensation is included within costs of goods sold, marketing and selling, distribution and circulation, and general and administrative expenses in the condensed consolidated statement of operations.

Note 12. Provision for Restructuring

Over the past several years, the Company has implemented a number of plans to streamline its expense structure. 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 the Company s retail display allowances (RDAs), which are intended to reduce the Company s distribution costs; and charges to terminate other contracts.

As part of its distribution function, the Company has entered into contracts with various retail chains, including grocery, drug, convenience, video, fitness and mass merchandise retailers for exclusive rights for distribution related to the Company s and third-party free directories, which the Company refers to as RDAs. The Company has taken action to reduce its ongoing distribution costs arising from RDAs that are underperforming through:

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.

All of these actions result in charges included in restructuring expense; however, in the last two cases, the timing and amount of the Company s future cash obligations are not impacted.

2010 Plan

The Company s 2010 restructuring plan included charges arising from actions taken on underperforming RDAs, which continue through 2011; charges associated with vacating certain leased properties, which continue through 2014; and charges related to the elimination of certain jobs, which are expected to be paid during 2010.

2009 Plan

The Company s 2009 restructuring plan included charges arising from actions taken on underperforming RDAs, which continue through 2011; charges associated with vacating certain leased properties, which continue through 2015; and charges related to the elimination of certain jobs, which were paid during 2009.

2008 Plan

The Company s 2008 restructuring plan included charges related to the elimination of certain jobs, which were paid through 2009; charges associated with vacating certain leased properties, which continue through 2015; and charges related to the termination of certain other contracts, which were paid in 2008.

Total expected cost of each plan and costs incurred through September 30, 2010 are as follows:

	2010 Plan	2009 Plan	2008 Plan

	(Dollars in thousands)		
Total expected costs	$ 6,500-7,500	$ 21,000-21,500	$ 8,000-8,100
Costs incurred through September 30, 2010	6,626	21,388	8,013

The 2008 and 2009 restructuring plans are substantially complete; however, further changes in the Company s recorded liability and restructuring charge could result if it becomes necessary to change the Company s assumptions about future sublease income, which is further discussed below, or if the Company is able to modify the terms of previously restructured RDA contracts.

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Other Plans

In addition to the plans implemented in 2010, 2009 and 2008, the Company also has remaining liabilities associated with vacating certain leased properties under restructuring plans initiated in 2006 and prior, which are expected to be paid through 2015.

To reduce the lease-related costs under all of its restructuring plans, the Company has pursued subleases of its available properties. These leases have been recorded at their net present value amounts and are net of anticipated sublease income. Until such time as they are terminated or expire, the Company expects to incur further expense on all of its vacated leased properties from imputed interest related to the rental payments and changes in the amounts and timing of estimated cash flows, primarily anticipated sublease income.

Primarily as a result of changes in timing and payments of sublease income, the Company recorded income of $0.1 million and $0.4 million during the three and nine months ended September 30, 2010, which is included in the provision for restructuring costs in the condensed consolidated statement of operations.

Details of all restructuring plans that have been implemented and the related payments during the nine months ended September 30, 2010 and 2009 are as follows:

	Liabilities as of December 31, 2009	Net Provision for the Nine Months Ended September 30, 2010	Payments During the Nine Months Ended September 30, 2010 (1)	Liabilities as of September 30, 2010
		(Dollars in thousands)		
Employee-related termination costs	$ 2	$ 1,039	$ (740)	$ 301
Termination or modification of existing RDA contracts	9,810	4,786	(13,657)	939
Termination of leases related to office closures and other	20,545	(348)	(2,219)	17,978
Total	$ 30,357	$ 5,477	$ (16,616)	$ 19,218

	Liabilities as of December 31, 2008	Net Provision for the Nine Months Ended September 30, 2009	Payments During the Nine Months Ended September 30, 2009 (2)	Liabilities as of September 30, 2009
		(Dollars in thousands)		
Employee-related termination costs	$ 490	$ 282	$ (725)	$ 47
Termination or modification of existing RDA contracts		20,752	(10,084)	10,668
Termination of leases related to office closures and other	21,163	4,609	(4,202)	21,570
Total	$ 21,653	$ 25,643	$ (15,011)	$ 32,285

(1) Termination or modification of existing RDA contracts includes the write-off of $3.7 million of prepaid assets, most of which were paid during 2010 prior to the implementation of the 2010 plan.

(2) Termination or modification of existing RDA contracts includes the write-off of $5.7 million of prepaid assets, most of which were paid during 2009 prior to the implementation of the 2009 plan.

Details about the Company s recorded restructuring expense for the three and nine months ended September 30, 2010 and 2009 by expense type and restructuring plan are as follows:

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	2010 Plan	2009 Plan	2008 Plan	2006 and Prior Plans	Total
			(Dollars in thousands)		
Three Months Ended September 30, 2010					
Employee-related termination costs	$ 420	$	$	$	$ 420
Termination or modification of existing RDA contracts	(13)	(5)			(18)
Termination of leases related to office closures and other	2	2	(16)	(59)	(71)
Total	$ 409	$ (3)	$ (16)	$ (59)	$ 331

	2009 Plan	2008 Plan	2006 and Prior Plans	Total
			(Dollars in thousands)	
Three Months Ended September 30, 2009				
Employee-related termination costs	$ 12	$	$	$ 12
Termination or modification of existing RDA contracts	(1,349)			(1,349)
Termination of leases related to office closures and other		581	600	1,181
Total	$ (1,337)	$ 581	$ 600	$ (156)

	2010 Plan	2009 Plan	2008 Plan	2006 and Prior Plans	Total
			(Dollars in thousands)		
Nine Months Ended September 30, 2010					
Employee-related termination costs	$ 1,039	$	$	$	$ 1,039
Termination or modification of existing RDA contracts	5,405	(619)			4,786
Termination of leases related to office closures and other	182	(23)	(132)	(375)	(348)
Total	$ 6,626	$ (642)	$ (132)	$ (375)	$ 5,477

	2009 Plan	2008 Plan	2006 and Prior Plans	Total
			(Dollars in thousands)	
Nine Months Ended September 30, 2009				
Employee-related termination costs	$ 282	$	$	$ 282
Termination or modification of existing RDA contracts	20,752			20,752
Termination of leases related to office closures and other	1,080	2,718	811	4,609
Total	$ 22,114	$ 2,718	$ 811	$ 25,643

The following table details the restructuring liabilities by plan:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
2010 plan	$ 788	$
2009 plan	1,021	10,690
2008 plan	1,368	2,585
2006 plan and prior plans	16,041	17,082

	$ 19,218	$ 30,357

The Company has included imputed interest associated with restructuring liabilities in interest expense in the condensed consolidated statement of operations as follows:

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	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)			
Interest expense	$ 582	$ 478	$ 1,808	$ 1,487

Note 13. Income (Loss) per Common Share

Income (loss) per common share for the three and nine months ended September 30, 2010 and 2009 has been determined based on income (loss) applicable to common stockholders, divided by the weighted-average number of common shares outstanding for all periods presented.

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands, except per share data)			
Income (loss) from continuing operations	$ 6,563	$ 5,696	$ 13,599	$ (2,933)
Discontinued operations, net of tax	338	(1,957)	(1,592)	(4,730)
Net income (loss)	$ 6,901	$ 3,739	$ 12,007	$ (7,663)
Shares of common stock and common stock equivalents				
Weighted-average shares used in basic computation	44,210,659	44,146,959	44,189,662	44,117,064
Dilutive effect of:				
Restricted stock	176,658	20,716	146,718	
Stock options	1,172		1,658	
Weighted-average shares used in diluted computation	44,388,489	44,167,675	44,338,038	44,117,064
Basic and diluted earnings (loss) per common share:				
Continuing operations	$ 0.15	$ 0.13	$ 0.31	$ (0.07)
Discontinued operations	0.01	(0.05)	(0.04)	(0.10)
Net income (loss)	$ 0.16	$ 0.08	$ 0.27	$ (0.17)

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

	September 30, 2010	2009
Warrants	1,645,000	1,645,000
Stock options	1,786,811	2,697,584
Shares of restricted stock	885,404	513,768

For the three and nine months ended September 30, 2010 and 2009, 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:

	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Warrants	1,645,000 (1)	1,645,000 (1)	1,645,000 (1)	1,645,000 (3)

Stock options	1,785,639 (1)	2,697,584 (1)	1,798,975 (1)	2,701,818 (3)
Shares of restricted stock	708,746 (2)	493,052 (2)	743,893 (2)	619,094 (3)

(1) 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.
(2) 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.
(3) Excluded because the effect of inclusion would be anti-dilutive due to the Company s loss from continuing operations.

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Note 14. Other Comprehensive Income (Loss)

Other comprehensive income (loss) (OCI) was represented by unrealized gains and losses on cash flow hedges as follows:

	Before-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)		
Three Months Ended September 30, 2010			
Net unrealized losses on cash flow hedges	$ (391)	$ 224	$ (167)
Other comprehensive loss, net of tax	$ (391)	$ 224	$ (167)

	Before-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)		
Three Months Ended September 30, 2009			
Net unrealized gains on cash flow hedges	$ 406	$ 1,118	$ 1,524
Other comprehensive gain, net of tax	$ 406	$ 1,118	$ 1,524

	Before-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)		
Nine Months Ended September 30, 2010			
Net unrealized losses on cash flow hedges	$ (982)	$ 616	$ (366)
Other comprehensive loss, net of tax	$ (982)	$ 616	$ (366)

	Before-Tax Amount	Tax Benefit	Net of Tax Amount
	(Dollars in thousands)		
Nine Months Ended September 30, 2009			
Net unrealized gains on cash flow hedges	$ 2,552	$ 302	$ 2,854
Other comprehensive gain, net of tax	$ 2,552	$ 302	$ 2,854

Note 15. Derivative Financial Instruments

Risk Management Objective of Using Derivative Financial Instruments

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company s derivative financial instruments are used to manage differences in the amount, timing and duration of the Company s known or expected cash payments related to its borrowings. The Company does not use derivative financial instruments for speculative purposes.

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

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Cash Flow Hedges of Interest Rate Risk

The effective portion of changes in the fair value of derivative financial instruments that are designated in qualifying cash flow hedging relationships is recorded in accumulated other comprehensive income (AOCI) in the condensed consolidated balance sheet and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. During the nine months ending September 30, 2010 and 2009, these derivative financial instruments were used to hedge the variability in cash flows arising from changes in the benchmark interest rate on the Company s Term Loan B Facility. The ineffective portion of the change in fair value of the derivative financial instruments is recognized directly in earnings through interest expense. During the three and nine months ended September 30, 2009, the Company recorded less than $0.1 million of hedge ineffectiveness in earnings attributable to off-market terms present in two of the Company s interest rate swaps. There were no off-market terms present in any of the Company s interest rate swaps during the three and nine months ended September 30, 2010 and no hedge ineffectiveness.

Amounts reported in AOCI related to derivative financial instruments in designated hedging relationships will be reclassified to interest expense as interest payments are made on the Company s Term Loan B Facility. During the twelve months ending September 30, 2011, the Company estimates that $2.6 million, excluding deferred taxes, will be reclassified from AOCI into earnings as an increase to interest expense.

As of September 30, 2010 and December 31, 2009, the Company had the following outstanding derivative financial instruments that were designated as cash flow hedges of interest rate risk:

Interest Rate Derivatives	Notional Amount at September 30, 2010	Notional Amount at December 31, 2009
	(Dollars in thousands)	
Interest rate swaps	$ 200,000 (1)	$ 200,000
Interest rate swap (forward starting December 31, 2010; matures December 30, 2011)	50,000	

(1) One interest rate swap with a notional amount of $50.0 million matures on December 31, 2010; one interest rate swap with a notional amount of $50.0 million matures on September 30, 2011; and one interest rate swap with a notional amount of $100.0 million matures on December 30, 2011.

Tabular Disclosure of Fair Values of Derivative Financial Instruments in the Condensed Consolidated Balance Sheet

The following table presents the fair value of the Company s derivative financial instruments as well as their classification in the condensed consolidated balance sheet as of September 30, 2010:

	Derivative Assets Balance Sheet Location	Derivative Assets Fair Value	Derivative Liabilities Balance Sheet Location	Derivative Liabilities Fair Value
		(Dollars in thousands)		
Derivative financial instruments designated in hedging relationships				
Interest rate swaps	Prepaid expenses and other	$	Accrued expenses and other	$ 264
Interest rate swaps	Other non-current assets		Other non-current liabilities	2,647
Total derivative financial instruments designated in hedging relationships		$		$ 2,911

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The following table presents the fair value of the Company s derivative financial instruments as well as their classification in the condensed consolidated balance sheet as of December 31, 2009:

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivative financial instruments designated in hedging relationships				
Interest rate swaps	Prepaid expenses and other	$	Accrued expenses and other	$ 880
Interest rate swaps	Other non-current assets		Other non-current liabilities	1,049
Total derivative financial instruments designated in hedging relationships		$		$ 1,929

Tabular Disclosure of the Effect of Derivative Financial Instruments in the Condensed Consolidated Statement of Operations

The following table presents the effect of the Company s derivative financial instruments in the condensed consolidated statement of operations for the three months ended September 30, 2010 (dollars in thousands):

Derivative Financial Instruments in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative Financial Instruments (Effective Portion), Net of Tax	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	$(167)	Interest expense	$675	Interest expense	$

The following table presents the effect of the Company s derivative financial instruments in the condensed consolidated statement of operations for the three months ended September 30, 2009 (dollars in thousands):

Derivative Financial Instruments in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative Financial Instruments (Effective Portion), Net of Tax	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	$1,524	Interest expense	$1,523	Interest expense	$(22)

The following table presents the effect of the Company s derivative financial instruments in the condensed consolidated statement of operations for the nine months ended September 30, 2010 (dollars in thousands):

Derivative Financial Instruments in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative Financial Instruments (Effective Portion), Net of Tax	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	$(366)	Interest expense	$2,263	Interest expense	$

The following table presents the effect of the Company s derivative financial instruments in the condensed consolidated statement of operations for the nine months ended September 30, 2009 (dollars in thousands):

Derivative Financial Instruments in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative Financial Instruments (Effective Portion), Net of Tax	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative Financial Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Interest rate swaps	$2,854	Interest expense	$4,320	Interest expense	$(70)

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Credit-risk-related Contingent Features

The Company has agreements with each of its derivative financial instrument counterparties that contain a provision by which the Company could be declared in default on its derivative financial instrument obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company s default on the indebtedness.

The termination value of derivative financial instruments in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $3.0 million and $2.0 million as of September 30, 2010 and December 31, 2009, respectively. The Company has not posted any collateral related to these agreements. If the Company breached any of these provisions, it would be required to settle its obligations under the agreements at their termination value of $3.0 million and $2.0 million as of September 30, 2010 and December 31, 2009, respectively.

Note 16. Commitments and Contingencies

Litigation-Related Matters

The Company is involved in lawsuits and claims, both actual and potential, including some that it has asserted against others, in which substantial monetary damages are sought. These lawsuits and claims generally relate to contract, patent and other matters arising out of the conduct of the Company s current and past business activities. Although the result of any future litigation of such lawsuits and claims is inherently unpredictable, the Company believes that, in the aggregate, the outcome of all such lawsuits and claims will not have a material effect on its long-term consolidated financial position or liquidity; however, any such outcome could be material to the results of operations or cash flows of any particular period in which costs, if any, are recognized or amounts in resolution, if any, are paid.

During 2008, the Company recorded a charge of $4.5 million related to settlement of litigation involving the divestiture of the Company s Crafts Group and $0.5 million related to the settlement of an unrelated case. The Company paid the total settlements of $5.0 million in March 2009. Prior to 2010, the Company had recorded a charge of $5.75 million related to the settlement of litigation involving a former subsidiary of the Company, About.com. The Company paid $5.75 million to escrow related to About.com in September 2010.

Derivative Litigation

The Company is named as a nominal defendant in a consolidated stockholder derivative action pending in the Court of Chancery of the State of Delaware (Chancery Court) under the caption In re PRIMEDIA Inc. Derivative Litigation, Consolidated C.A. No. 1808-N. Kohlberg Kravis Roberts & Co. L.P. (KKR), and certain present and former members of the Company s Board of Directors are also named as defendants. Plaintiffs allege that KKR and the Company s Board of Directors breached their fiduciary duties to the Company in connection with PRIMEDIA s redemption of certain shares of its preferred stock in 2004 and 2005. On November 15, 2006, the Chancery Court denied separate motions to dismiss filed by the director defendants and KKR, and, on January 18, 2007, all defendants answered the then operative complaint. On May 23, 2007, the Company s Board of Directors formed a Special Litigation Committee (SLC) of independent, non-defendant directors with full and sole authority to investigate, review and take action with respect to the plaintiffs claims in the derivative litigation. On September 7, 2007, plaintiffs filed a Second Amended and Consolidated Derivative Complaint (SAC), which, in addition to the allegations discussed above, further alleged that KKR usurped a corporate opportunity of the Company in 2002 by purchasing shares of PRIMEDIA preferred stock at discounts on the open market, while causing the Company to refrain from doing the same. On February 28, 2008, the SLC filed a motion to dismiss the SAC and, in support of the motion, its report (filed under seal) concluding that the pursuit of the claims asserted by plaintiffs does not make legal, practical or business sense. On March 16, 2010, plaintiffs filed a Third Amended and Consolidated Derivative Complaint (TAC), including additional allegations concerning KKR s purchases of PRIMEDIA preferred stock in 2002. On June 16, 2010, the Chancery Court granted the SLC s motion and dismissed the TAC with prejudice. On August 30, 2010, plaintiffs filed an appeal in the Supreme Court of the State of Delaware. On September 29, 2010, the SLC filed its answering brief in opposition, and on October 14, 2010, plaintiffs filed their reply. The Delaware Supreme Court has not yet ruled on plaintiffs appeal.

About.com

Plaintiffs commenced this action in 2002 on behalf of a putative class of current and former guides for About.com, a former subsidiary of the Company. The plaintiffs asserted a variety of claims, primarily that guides were employees who were misclassified as independent contractors (and therefore were entitled to be paid minimum wage and overtime under federal and state wage laws), and that the guides were underpaid according to the terms of their contracts. In November 2005, the Company moved for summary judgment on the breach of contract claim and certain others. The basis of the motion was that About.com compensated the guides properly (i.e., it paid them the contractually required percentage of net advertising revenues generated by the About.com website, and in some years paid them more).

In August 2007, the Court denied the Company s motion as to the contract claim, finding disputed issues of fact about the amounts, if any, owed to the guides. The Court granted the Company s motion as to certain procedural issues. The Court also granted summary

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judgment to the plaintiffs on one issue, holding that all page-views must be counted equally for purposes of calculating any individual guide s relative share of the guide revenue pool. In January 2008, plaintiffs moved for class certification with respect to the breach of contract claim. The Court granted that motion in April 2009, but it also indicated a willingness to reconsider its earlier grant of partial summary judgment on the page-view issue. In July 2009, plaintiffs moved for partial summary judgment with respect to the amount of damages allegedly owed under the contracts with respect to calendar year 2000. The Company opposed the motion.

In December 2009, the parties reached an agreement in principle to settle the case in its entirety for $5.75 million. Counsel for the parties subsequently entered into a settlement agreement. On or about March 12, 2010, a motion was made for preliminary approval of the settlement, which the judge in the case granted on or about April 19, 2010. A fairness hearing was held on October 7, 2010, and the Court issued a final order certifying the settlement class and approving the settlement in full. The Company had previously paid the settlement amount of $5.75 million into escrow in September 2010.

Patent Litigation

The Company was sued by Smarter Agent LLC on March 26, 2010, along with nine other defendants, in the United States District Court for the District of Delaware. The complaint asserts that Smarter Agent owns three U.S. patents 6,385,541; 6,496,776; and 7,072,665 that have been infringed by the Company because of its distribution of applications that work on mobile devices and provide real estate-related information. The complaint seeks injunctive relief and unspecified damages. The Company believes that it is not infringing any valid claims of the patents and has provided prior art to Smarter Agent that was not considered by the United States Patent & Trademark Office. The Company formally responded to the complaint on September 13, 2010, as well as alleging counterclaims for a declaratory judgment of patent invalidity and non-infringement. The Company has also filed a petition to have the patents reexamined in light of the previously-unconsidered prior art.

Indemnifications and Other Contingencies

The Company is a party to contracts in which it is common for it to agree to indemnify third parties for certain liabilities that arise out of or relate to the subject matter of the contract. In some cases, this indemnity extends to related liabilities arising from the negligence of the indemnified parties but usually excludes any liabilities caused by gross negligence or willful misconduct. The Company cannot estimate the potential amount of future payments under these indemnities until events arise that would trigger a liability under the indemnities.

Additionally, in connection with the sale of assets and the divestiture of businesses, the Company may agree to indemnify the buyer and related parties for certain losses or liabilities incurred by the buyer with respect to: (i) the representations and warranties made by the Company to the buyer in connection with the sale and (ii) liabilities related to the pre-closing operations of the assets sold. Indemnities related to pre-closing operations generally include tax liabilities and other liabilities not assumed by the buyer in the transaction.

Indemnities related to the pre-closing operations of sold assets normally do not represent additional liabilities to the Company but simply serve to protect the buyer from potential liability associated with the Company s obligations existing at the time of the sale. As with any liability, the Company has previously accrued for those pre-closing obligations that are considered probable and reasonably estimable. Should circumstances change, increasing the likelihood of payments related to a specific indemnity, the Company will accrue a liability when future payment is probable and the amount is reasonably estimable.

The Company also has other contingent tax-related liabilities arising from positions taken with the filing of certain tax returns. The Company has recorded reserves, included in accrued expenses and other in the condensed consolidated balance sheet, of $3.3 million and $5.1 million at September 30, 2010 and December 31, 2009, respectively, for all of its tax-related contingencies. During the three and nine months ended September 30, 2010 and 2009, the Company recorded expense, included in other income, net in the condensed consolidated statement of operations, for changes in its estimated liability for tax-related contingencies attributable to continuing and discontinued operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(Dollars in thousands)		(Dollars in thousands)	
Continuing operations	$ 3	$ (450)	$ 9	$ (47)
Discontinued operations	(1,340)	(18)	(1,298)	(681)
Total	$ (1,337)	$ (468)	$ (1,289)	$ (728)

As a result of the conclusion of the bankruptcy proceedings of an acquirer of one of the Company s former subsidiaries, the Company was able to eliminate $1.3 million of its tax-related contingencies. The Company reported the change in discontinued operations, net of tax in its results of operations.

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Note 17. Subsequent Event

Cash Dividend Declared

On October 26, 2010, the Company s Board of Directors declared a cash dividend of $0.07 per share of the Company s common stock, payable on or about November 17, 2010, to stockholders of record on November 8, 2010.

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

In this Form 10-Q, which we refer to as this Report, the words PRIMEDIA, Company, we, us and our mean PRIMEDIA Inc., including it subsidiaries, unless the context otherwise 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, estimates, anticipates, intends, plans, believes, seeks or will. Forward-looking statements by their nature address matters that are, to different degrees, uncertain. Fo particular uncertainties which could adversely or positively affect our future results include, among others: general economic trends and conditions and, in particular, related adverse trends and conditions in the apartment leasing and new home sales sectors of the residential real estate industry; changes in technology and competition; the implementation and results of our ongoing strategic and cost-cutting initiatives; the demand by customers for our products and services; expenses of or adverse results from litigation; and numerous other matters of national, regional and local market scale, including those of a political, economic, business, competitive and regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements.

The following discussion and analysis summarizes our financial condition and operating performance as of and for the three and nine months ended September 30, 2010 and 2009 and should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto, included elsewhere in this Report.

Executive Summary

Our Business

We are a targeted media company that provides consumers with tools and information 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 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.

2010 Third Quarter Results

Financial highlights for the third quarter include the following:

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands, except per share data)			
Total revenue, net	$ 58,437	$ 63,014	$ (4,577)	(7.3)%
Income from continuing operations	6,563	5,696	867	15.2

Diluted earnings per common share from continuing operations	0.15	0.13	0.02	
Net income	6,901	3,739	3,162	84.6
Diluted earnings per common share from net income	0.16	0.08	0.08	

Total revenue decreased due to a $2.9 million decrease in Apartments advertising revenue, a $0.6 million decrease in New Homes advertising revenue and a $1.1 million decrease in distribution revenue. The change in income from continuing operations was primarily due to a $6.8 million net reduction in total costs and expenses, partially offset by lower revenue of $4.6 million and an increase in provision for income taxes of $1.4 million. Net income increased due to the factors above and a $2.3 million increase in discontinued operations, net of tax.

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2010 Business Trends and Outlook

As measured by leads, over 75% of the value we now deliver to our advertiser clients on a national basis has shifted to our digital products and services, and we expect our clients to increasingly favor digital products and services in their advertising budgets. In addition, we are aggressively pursuing enhancements to our product portfolio to provide more flexibility to our clients, based on specific markets and market segments, to purchase more customized mixes of products, product features and services on a stand-alone and package basis. These enhancements are intended to maximize clients advertising return on investment and ultimately provide an opportunity for us to grow revenue as we continue to grow client count.

We anticipate negative economic conditions, including relatively high unemployment rates, and adverse market conditions, including occupancy levels outside of a 90% - 95% range and relatively lower effective rent levels, will continue to pressure pricing. In light of these and other competitive conditions, we expect continuing declines in revenue per community served for the remainder of 2010, as we continue to grow client count. For Apartments, we currently expect to see a 5.5% - 6.5% year-over-year decline for full year 2010 revenue. We also expect year-over-year declines for full year 2010 revenue of approximately $5.0 million for New Homes and $8.0 million for Distribution.

Results of Operations

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Consolidated Results

Revenue, Net

Revenue Component	Three Months Ended September 30, 2010	2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands)			
Apartments	$ 48,816	$ 51,674	$ (2,858)	(5.5)%
New Homes	3,471	4,100	(629)	(15.3)
Total advertising revenue	52,287	55,774	(3,487)	(6.3)
Distribution	6,150	7,240	(1,090)	(15.1)
Total revenue, net	$ 58,437	$ 63,014	$ (4,577)	(7.3)

Apartments

Apartment Guide, ApartmentGuide.com, Rentals.com and RentalHouses.com, representing approximately 93.4% of advertising revenue during the three months ended September 30, 2010, experienced a decrease in revenue of 5.5% compared to the same period in 2009, primarily due to a 10.9% decrease in revenue per community served by Apartment Guide, which was partially offset by a 4.8% increase in apartment 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, in part, as a result of pricing pressure caused by negative economic conditions, including high unemployment rates, and adverse market conditions, including relatively higher occupancy levels and lower 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.

During the third quarter of 2010, occupancy rates in our Apartment Guide markets ranged from 87% to 99%, with an average of 93.7%, compared to 92.1% in the third quarter of 2009, with the majority of markets experiencing occupancy levels between 90% and 97%. In Apartment Guide markets, effective rents were up 3.5% compared to the same period in 2009. The combination of these average occupancy rates and an increase in effective rents is a welcome signal of future stability in the industry and our markets as a whole. However, over the past two years, effective rent levels have declined over 3%, and lower effective rent levels continue to put pressure on our clients advertising budgets and, correspondingly, on our revenue.

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Rentals.com revenue declined by 1.6% during the third quarter of 2010 compared to the same period in 2009. The decline was primarily due to a decrease in revenue per listing, partially offset by an increase in the number of listings derived from property managers.

New Homes

New Home Guide, NewHomeGuide.com and AmericanHomeGuides.com, representing approximately 6.6% of advertising revenue during the three months ended September 30, 2010, decreased 15.3% compared to the same period in 2009. The decrease in revenue was primarily due to a 20.4% decrease in revenue per community served, partially offset by a 6.5% increase in new home communities served. This decrease in revenue resulted from declines in standard and premium advertising spend by many new home builders, driven by continued weakness in the new home sales sector.

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, and as of September 30, 2010, we published New Home Guides in 19 markets. We may suspend additional New Home Guide print directories. We continue to focus on Internet offerings across all markets.

Distribution Revenue

Distribution revenue decreased by 15.1% during the three months ended September 30, 2010 compared to the same period in 2009. We realized a 12.8% decrease in the number of pockets sold in our display racks during the period and a 2.6% decrease in the average revenue per pocket due to softness in demand, as well as a reduction in the number of retail locations serviced due to restructuring activities further discussed in Note 12 to the condensed consolidated financial statements included elsewhere in this Report. Our distribution revenue 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.

Costs and Expenses

Costs and Expenses Component	**Three Months Ended September 30, 2010**	**2009**	**$ Change (Favorable)/ Unfavorable**	**% Change (Favorable)/ Unfavorable**
	(Dollars in thousands)			
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	$ 3,277	$ 5,645	$ (2,368)	(41.9)%
Marketing and selling	19,698	18,832	866	4.6
Distribution and circulation	9,640	12,971	(3,331)	(25.7)
General and administrative expenses	9,386	8,873	513	5.8
Depreciation and amortization of property and equipment	3,249	3,130	119	3.8
Amortization of intangible assets	898	617	281	45.5
Provision for restructuring costs	331	(156)	487	312.2
Interest expense	2,737	3,897	(1,160)	(29.8)
Amortization of deferred financing costs	215	233	(18)	(7.7)
Other (income) expense, net	(1,012)	1,173	(2,185)	(186.3)
Total cost and expenses	$ 48,419	$ 55,215	$ (6,796)	(12.3)

The decrease in cost of goods sold was due to the reformatting of our printed guides, including reductions in paper size, as well as distribution optimization.

Our distribution and circulation costs decreased as a result of ongoing action with certain of our retail display allowance contracts, or RDAs, since the third quarter of 2008. As is more fully discussed in Note 12 to the condensed consolidated financial statements, other of our RDAs are part of restructuring charges we incurred during 2009 and 2010 related to actions we took to reduce our ongoing distribution costs.

Interest expense decreased primarily due to lower average debt levels, as during the fourth quarter of 2009, we repurchased and retired $6.3 million in principal of our Term Loan B Facility, during the second quarter of 2010 we repurchased and retired approximately $7.5 million in principal, and during the third quarter of 2010 we repurchased and retired approximately $6.9 million in principal. The decrease is also attributable to a lower weighted-average interest rate during 2010.

The change in other income, net is primarily due to an other-than-temporary impairment charge of $1.5 million in the third quarter of 2009 related to a cost-method investment and a gain of $0.7 million on the repurchase of debt during the third quarter of 2010.

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Income Taxes

Our effective tax rate on income from continuing operations for the three months ended September 30, 2010 was 34.5%, compared to 27.0% for the three months ended September 30, 2009.

The total tax expense from continuing operations for the three months ended September 30, 2010 was $3.5 million, which was comprised of approximately $4.0 million of provision on pre-tax income, adjusted for permanent differences, partially offset by $0.3 million due to a decrease in recorded reserves related to uncertain tax positions and a $0.2 million benefit due to differences between income tax returns that were filed and estimates that were made at the time the tax provision was recorded.

The total tax expense from continuing operations for the three months ended September 30, 2009 was $2.1 million, which was comprised of approximately $2.8 million of provision on pre-tax income, adjusted for permanent differences, partially offset by $0.7 million related to reserves for uncertain tax positions.

Discontinued Operations

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

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

	Three Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Total revenue, net	$	$
Provision for litigation reserves and settlements	$ 43	$ (1,500)
Professional fees	(122)	(387)
Adjustments to accrued operating lease liabilities	(788)	(193)
Insurance-related expenses	(10)	28
Tax-related contingencies	1,340	18
Write-off of receivables and other assets		
Other	19	(243)
Income (loss) from discontinued operations before (provision) benefit for income taxes	482	(2,277)
(Provision) benefit for income taxes	(144)	320
Discontinued operations, net of tax	$ 338	$ (1,957)

The components of the (provision) benefit for income taxes included in discontinued operations for the three months ended September 30, 2010 and 2009 are as follows:

	Three Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Benefit for tax expense on pre-tax income (loss), adjusted for permanent differences	$ 55	$ 134
Change in liability for uncertain tax positions	(200)	120
Changes in estimates included in prior year tax provision	1	66

Total (provision) benefit for income taxes	$	(144)	$	320

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Consolidated Results

Revenue, Net

Revenue Component	Nine Months Ended September 30, 2010	2009	$ Change Favorable/ (Unfavorable)	% Change Favorable/ (Unfavorable)
	(Dollars in thousands)			
Apartments	$ 146,790	$ 155,609	$ (8,819)	(5.7)%
New Homes	10,635	14,764	(4,129)	(28.0)
Total advertising revenue	157,425	170,373	(12,948)	(7.6)
Distribution	18,959	26,305	(7,346)	(27.9)
Total revenue, net	$ 176,384	$ 196,678	$ (20,294)	(10.3)

Apartments

Apartment Guide, ApartmentGuide.com, Rentals.com and RentalHouses.com, representing approximately 93.2% of advertising revenue during the nine months ended September 30, 2010, experienced a decrease in revenue of 5.7% compared to the same period in 2009, primarily due to a 12.1% decrease in revenue per community served by Apartment Guide, which was partially offset by a 6.2% increase in apartment 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, in part, as a result of pricing pressure caused by negative economic conditions, including high unemployment rates, and adverse market conditions, including relatively higher occupancy levels and lower 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.

During the first nine months of 2010, occupancy rates in Apartment Guide markets ranged from 86% to 97%, with an average of 93.1%, compared to 92.0% in 2009, with the majority of markets experiencing occupancy levels between 90% and 96%. In Apartment Guide markets, effective rents were up 0.9% compared to the same period in 2009. The combination of these average occupancy rates and a slight increase in effective rents is a welcome signal of future stability in the industry and our markets as a whole. However, over the past two years, effective rent levels have declined over 3%, and lower effective rent levels continue to put pressure on our clients advertising budgets and, correspondingly, on our revenue.

Rentals.com revenue declined by 2.0% during the first nine months of 2010 compared to the same period in 2009. The decline was primarily due to a decrease in revenue per listing and a decrease in the number of paid listings through the self-provisioning feature of the Rentals.com websites, partially offset by an increase in the number of listings derived from property managers.

New Homes

New Home Guide, NewHomeGuide.com and AmericanHomeGuides.com, representing approximately 6.8% of advertising revenue during the nine months ended September 30, 2010, decreased 28.0% compared to the same period in 2009. The decrease in revenue was primarily due to a 31.0% decrease in revenue per community served, partially offset by a 4.7% increase in new home communities served. This decrease in revenue resulted from declines in standard and premium advertising spend by many new home builders, driven by continued weakness in the new home sales sector.

The difficult conditions for new home builders persisted in the first nine months of 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, and as of September 30, 2010, we published New Home Guides in 19 markets. We may suspend additional New Home Guide print directories. We continue to focus on Internet offerings across all markets.

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Distribution Revenue

Distribution revenue decreased by 27.9% during the nine months ended September 30, 2010 compared to the same period in 2009. We realized a 17.4% decrease in the number of pockets sold in our display racks during the period and a 12.8% decrease in the average revenue per pocket due to softness in demand, as well as a reduction in the number of retail locations serviced due to restructuring activities further discussed in Note 12 to the condensed consolidated financial statements included elsewhere in this Report. Our distribution revenue 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.

Costs and Expenses

Costs and Expenses Component	Nine Months Ended September 30, 2010	2009	% Change (Favorable)/ Unfavorable	$ Change (Favorable)/ Unfavorable
	(Dollars in thousands)			
Cost of goods sold (exclusive of depreciation and amortization of property and equipment)	$ 12,073	$ 18,128	$ (6,055)	(33.4)%
Marketing and selling	58,006	59,344	(1,338)	(2.3)
Distribution and circulation	31,056	48,031	(16,975)	(35.3)
General and administrative expenses	27,800	30,306	(2,506)	(8.3)
Depreciation and amortization of property and equipment	9,550	9,998	(448)	(4.5)
Amortization of intangible assets	3,238	1,853	1,385	74.7
Provision for restructuring costs	5,477	25,643	(20,166)	(78.6)
Interest expense	8,554	12,353	(3,799)	(30.8)
Amortization of deferred financing costs	669	682	(13)	(1.9)
Other income, net	(2,545)	(5,289)	2,744	51.9
Total cost and expenses	$ 153,878	$ 201,049	$ (47,171)	(23.5)

The decrease in cost of goods sold was due to the reformatting of our printed guides, including reductions in paper size, as well as distribution optimization.

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

Our distribution and circulation costs decreased as a result of ongoing action with certain of our RDA contracts since the third quarter of 2008. As is more fully discussed in Note 12 to the condensed consolidated financial statements, other of our RDAs are part of restructuring charges we incurred during 2009 and 2010 related to actions we took to reduce our ongoing distribution costs.

General and administrative expenses declined, primarily due to a decrease of $2.7 million in bad debt expense.

The increase in amortization of intangible assets is primarily due to a change in estimate for two of our customer lists, which is more fully discussed in Note 3 to the condensed consolidated financial statements.

The provision for restructuring costs decreased primarily due to a decline of $16.0 million of costs associated with certain underperforming RDAs and a decline of $5.0 million of costs associated with the termination of leases related to office closures, partially offset by an increased severance of $0.8 million, which are more fully described in Note 12 to the condensed consolidated financial statements.

Interest expense decreased 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, during the fourth quarter of 2009, we repurchased and retired $6.3 million in principal, during the second quarter of 2010 we repurchased and retired approximately $7.5 million in principal, and during the third quarter of 2010 we repurchased and retired approximately $6.9 million in principal. The decrease is also attributable to a lower weighted-average interest rate during 2010.

The change in other income, net is primarily due to a $3.6 million gain on the repurchase of debt during the nine months ended September 30, 2009, compared to a $1.4 million gain on the repurchase of debt during the nine months ended September 30, 2010. In addition, we recognized a gain on the sale of cost-method investments of $2.3 million in the first nine months of 2009, partially offset by an other-than-temporary impairment charge of $1.5 million in the third quarter of 2009 related to a cost-method investment.

Income Taxes

Our effective tax rate on income from continuing operations for the nine months ended September 30, 2010 was 39.6%, compared to (32.9)% for the nine months ended September 30, 2009.

The total tax expense from continuing operations for the nine months ended September 30, 2010 was $8.9 million, which was comprised of approximately $9.2 million of provision on pre-tax income, adjusted for permanent differences, partially offset by a benefit of $0.2 million due to a decrease in recorded reserves related to uncertain tax positions and a $0.1 million benefit due to differences between income tax returns that were filed and estimates that were made at the time the tax provision was recorded.

The total tax benefit from continuing operations for the nine months ended September 30, 2009 was $1.4 million, which was comprised of approximately $1.6 million of benefit on pre-tax loss, adjusted for permanent differences, and $0.4 million related to reserves for uncertain tax positions, partially offset by $0.4 million related to the reversal of deferred tax assets for stock-based compensation that was distributed to the award recipients and $0.2 million due to differences between income tax returns that were filed and estimates that were made at the time the tax provision was recorded.

Discontinued Operations

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

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

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	
Total revenue, net	$	$
Provision for litigation reserves and settlements	$	$ (1,500)
Professional fees	(472)	(1,067)
Adjustments to accrued operating lease liabilities	(1,815)	(2,595)
Insurance-related expenses	63	(203)
Tax-related contingencies	1,298	681
Write-off of receivables and other assets		(259)
Other	(167)	(347)
Loss from discontinued operations before (provision) benefit for income taxes	(1,093)	(5,290)
(Provision) benefit for income taxes	(499)	560
Discontinued operations, net of tax	$ (1,592)	$ (4,730)

The components of the (provision) benefit for income taxes included in discontinued operations for the nine months ended September 30, 2010 and 2009 are as follows:

	Nine Months Ended September 30, 2010	2009
	(Dollars in thousands)	

(Provision) benefit for tax expense on pre-tax loss, adjusted for permanent differences	$ (81)	$ 271
Change in liability for uncertain tax positions	(439)	(13)
Changes in estimates included in prior year tax provision	21	302
Total (provision) benefit for income taxes	$ (499)	$ 560

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Liquidity, Capital and Other Resources

Highlights of our liquidity position are as follows:

	As of and for the Nine Months Ended September 30, 2010	As of and for the Nine Months Ended September 30, 2009
	(Dollars in thousands)	
Cash and cash equivalents	$ 4,729	$ 7,955
Current assets	41,386	48,177
Current liabilities	47,154	62,539
Working capital	(5,768)	(14,362)
Current debt (current maturities of long-term debt and revolving credit facility)	11,418	2,964
Long-term debt	205,917	229,362
Net debt (current debt and long-term debt less cash and cash equivalents)	212,606	224,371
Cash flows from operating activities	20,590	17,893
Cash flows from investing activities	(9,701)	(5,407)
Cash flows from financing activities	(15,632)	(36,001)
Additions to property and equipment	9,704	7,667
Capital lease payments	333	477
Free cash flow (net cash from operating activities adjusted for additions to property, equipment and other, net, exclusive of acquisitions, and capital lease payments)	10,553	9,749
Cash dividends paid	9,281	9,257
Repayments under credit agreements, net	(5,041)	6,955
Unused bank commitments	77,232	85,174
Leverage ratio (as defined in bank credit facility)	2.7	3.0

Overview

Management believes that our cash flows from operating activities will generally be sufficient to support our business operations and service our debt. Our cash flows from operating activities are somewhat seasonal in nature, primarily due to the timing of payments made under the terms of our RDAs, which generally occur in the first half of the year. To the extent that our cash flows from operating activities are not sufficient to meet our liquidity needs, including funds for our capital expenditures, our payment of dividends to stockholders, our contractual obligations and costs related to litigation, we may, from time to time, utilize amounts available under our $88.0 million revolving credit facility (the Revolving Facility), which is discussed in further detail under *Financing Arrangements* below.

Outlook

For the remainder of 2010, our primary uses of cash are expected to represent expenditures related to:

the ongoing operations of our business;

capital expenditures of $3.3 million to $7.3 million;

required principal payments of our outstanding debt, including capital leases, of $0.7 million;

interest on our outstanding debt;

obligations arising from RDA restructuring activities of $0.4 million;

obligations arising from other restructuring activities, including real estate leases of $2.5 million;

the payment of dividends to our stockholders;

the opportunistic repurchase of outstanding shares of our common stock, if any;

the opportunistic repurchase of debt outstanding under our Term Loan B Facility, if any; and

repayments of amounts outstanding under our Revolving Facility, if any.

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Working Capital

The increase in working capital as of September 30, 2010 compared to September 30, 2009 was primarily due to the reduction in the number of locations serviced under our RDAs due to restructuring activities further discussed in Note 12 to the condensed consolidated financial statements included elsewhere in this Report.

Net Debt

Since September 30, 2009, we decreased our net debt by $11.8 million, primarily by the scheduled repayments of $2.5 million in principal, the repurchase of approximately $20.7 million in principal under our Term Loan B Facility and payments of $0.5 million on our capital leases, partially offset by net borrowings of $8.7 million on the Revolving Facility and a decrease of $3.2 million in cash and cash equivalents.

Cash Flows from Operating Activities

Our cash flows from operating activities are summarized as follows:

	Nine Months Ended September 30,		
	2010	**2009**	**$ Change From 2009**
	(Dollars in thousands)		
Net income (loss)	$12,007	$(7,663)	$19,670
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,457	12,533	924
Impairment of cost-method investments		1,500	(1,500)
Gain on sale of cost-method investments		(2,260)	2,260
Gain on repurchase of debt	(1,408)	(3,635)	2,227
Stock-based compensation	2,065	1,231	834
Deferred income taxes	9,386	(1,632)	11,018
Bad debt expense	864	3,589	(2,725)
(Increase) decrease in:			
Accounts receivable, net	(2,815)	(2,029)	(786)
Inventories	(29)	282	(311)
Prepaid expenses and other	8,141	16,011	(7,870)
(Decrease) increase in:			
Accounts payable	(5,750)	(4,971)	(779)
Accrued expenses and other	(11,274)	6,194	(17,468)
Deferred revenue	(439)	(1,275)	836
Other non-current liabilities	(3,616)	3	(3,619)
Other, net	1	15	(14)
Net cash provided by operating activities	$ 20,590	$ 17,893	$ 2,697

Cash flows from operating activities increased during the nine months ended September 30, 2010 from September 30, 2009. The items having the most significant impact on the change include an increase in net income, the receipt of a $10.5 million tax refund and a reduction of our liabilities related to restructuring activities and the settlement of litigation.

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Cash Flows from Investing Activities

Our cash flows from investing activities are summarized as follows:

	Nine Months Ended September 30, 2010	2009	$ Change From 2009
	(Dollars in thousands)		
Proceeds from sale of cost-method investments	$	$ 2,260	$ (2,260)
Additions to property and equipment	(9,704)	(7,667)	(2,037)
Other, net	3		3
Net cash used in investing activities	$ (9,701)	$ (5,407)	$ (4,294)

The decrease in cash flows from investing activities during the nine months ended September 30, 2010 from September 30, 2009 was primarily due to the cash proceeds received from the sale of cost-method investments during the nine months ended September 30, 2009 and an increase in cash paid for property and equipment during the nine months ended September 30, 2010.

Cash Flows from Financing Activities

Our cash flows from financing activities are summarized as follows:

	Nine Months Ended September 30, 2010	2009	$ Change From 2009
	(Dollars in thousands)		
Payment of dividends on common stock	$ (9,281)	$ (9,257)	$ (24)
Borrowings under revolving credit facility	19,700	5,000	14,700
Repayments under revolving credit facility	(11,000)	(18,200)	7,200
Payments for deferred and other financing fees		(512)	512
Payments for repurchase of debt	(12,784)	(10,080)	(2,704)
Repayments of borrowings under credit agreements	(1,875)	(1,875)	
Capital lease payments	(333)	(477)	144
Payments related to issuances of common stock, net of value of shares withheld for employee taxes	(59)	(173)	114
Repurchases of common stock		(427)	427
Net cash used in financing activities	$ (15,632)	$ (36,001)	$ 20,369

The increase in cash flows from financing activities was primarily attributable to net borrowings of $8.7 million during the nine months ended September 30, 2010 as compared to net repayments under our revolving credit facility of $13.2 million during the nine months ended September 30, 2009. Also, during the nine months ended September 30, 2009, we made a payment of $0.5 million in deferred and other financing fees and a payment of $0.4 million for repurchases of common stock. This was partially offset by a $2.7 million increase in cash used for the repurchase and redemption of long-term debt during the nine months ended September 30, 2010.

Free Cash Flow

We believe that the use of free cash flow enables our chief operating decision maker, our President and Chief Executive Officer, to make decisions based on our cash resources. We also believe that free cash flow provides useful information to investors as it is considered to be an indicator of our liquidity, including our ability to reduce debt and make strategic investments.

Free cash flow is defined as net cash provided by operating activities adjusted for additions to property, equipment and other, net, exclusive of acquisitions, and capital lease payments.

Free cash flow is not intended to represent cash flows from operating activities as determined in conformity with accounting principles generally accepted in the United States. Free cash flow, as presented, may not be comparable to similarly titled measures reported by other companies since not all companies necessarily calculate free cash flow in an identical manner, and therefore, it is not necessarily an accurate measure of comparison between companies.

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The following table presents our free cash flow:

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009	$ Change From 2009
	(Dollars in thousands)		
Net cash provided by operating activities	$ 20,590	$ 17,893	$ 2,697
Additions to property and equipment	(9,704)	(7,667)	(2,037)
Capital lease payments	(333)	(477)	144
Free cash flow	$ 10,553	$ 9,749	$ 804

Our free cash flow increased during the nine months ended September 30, 2010, primarily due to an increase in net income and other less significant changes, substantially offset by payments of $12.9 million for restructuring liabilities, $5.8 million in settlement of legacy litigation, $1.4 million in legacy real estate charges and increased payments for property and equipment of $2.0 million.

Financing Arrangements

Bank Credit Facilities

Our bank credit facility provides for two loan facilities: (1) a revolving credit facility with aggregate commitments of $88.0 million, which matures on August 1, 2013, and (2) a Term Loan B credit facility (the Term Loan B Facility), which matures on August 1, 2014 (the Term Loan B Maturity Date).

Amounts borrowed under the Revolving Facility bear interest, at our option, at an annual rate of either the base rate plus an applicable margin ranging from 0.625% to 1.00% or the eurodollar rate plus an applicable margin ranging from 1.625% to 2.00%. The interest rate on the Revolving Facility at September 30, 2010 was 4.00%. The Term Loan B Facility bears interest, at our option, at an annual rate of either the base rate plus an applicable margin ranging from 1.00% to 1.25% or the eurodollar rate plus an applicable margin ranging from 2.00% to 2.25%. Approximately $200.0 million of the outstanding balance of the Term Loan B Facility is based on the three-month eurodollar rate plus the applicable margin. The remaining $16.0 million outstanding balance is based on the one-month eurodollar rate plus the applicable margin. The weighted-average interest rate on the Term Loan B Facility at September 30, 2010 was 2.29%. Pursuant to the provisions of the Term Loan B Facility and as a result of having a leverage ratio below 2.75 to 1 at September 30, 2010, the applicable margin over the eurodollar borrowing rate will be 200 basis points for the fourth quarter of 2010. As a result of this and our interest rate swaps, we expect the weighted-average cost of our Term Loan B Facility to be approximately 3.8% during the three months ended December 31, 2010.

On June 30, 2009, our bank credit facility was amended (the Amendment). Among other things, the Amendment gives us the right, subject to the conditions set forth therein, to prepay or otherwise acquire with or for cash, on either a pro rata or non-pro rata basis, principal outstanding under the Term Loan B Facility and held by lenders who consent to such prepayment or acquisition, at a discount to the par value of such principal at any time and from time to time on and after June 30, 2009 and on or prior to the second anniversary of such date; provided that the aggregate amounts we expend in connection with all such prepayments or acquisitions do not exceed $35 million. All such principal prepaid or acquired will be retired and extinguished and deemed paid effective upon such prepayment or acquisition.

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

There are no scheduled commitment reductions under the Revolving Facility. The loan under the Term Loan B Facility is subject to scheduled repayment in quarterly installments of $0.6 million payable on March 31, June 30, September 30 and December 31 of each year. The final quarterly installment is scheduled to be paid on June 30, 2014, followed by a final repayment of $199.0 million on the Term Loan B Maturity Date. Additionally, through August 1, 2009, we were required to manage our interest rate risk arising from the Term Loan B Facility through the utilization of derivative financial instruments in a notional amount equal to at least 35% of the Term Loan B Facility principal outstanding.

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

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

The weighted-average of our commitment fees under the bank credit facilities during the nine months ended September 30, 2010 was 0.30%.

The bank credit facilities agreement, among other things, limits our ability to change the nature of our businesses, incur indebtedness, create liens, sell assets, engage in mergers, consolidations or transactions with affiliates, make investments in or loans to certain subsidiaries, issue guarantees and make certain restricted payments, including dividend payments on or repurchases of our common stock.

Term Loan B Facility Repurchases

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

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

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

Revolving Facility Borrowings

Selected activity under our Revolving Facility is summarized as follows:

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

Interest Rate Swaps

As of September 30, 2010, we were party to four interest rates swaps with an aggregate notional amount of $250.0 million. All of the interest rate swaps were in designated hedging relationships to hedge the variability of future cash flows due to changes in the benchmark interest rate associated with our Term Loan B Facility. The following is a summary of our outstanding interest rate swaps at September 30, 2010 (dollars in thousands):

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Maturity Date	Notional Amount
December 31, 2010	$ 50,000
September 30, 2011	50,000
December 30, 2011	100,000
December 30, 2011 (forward starting December 31, 2010)	50,000

Contractual Obligations

Our contractual obligations as of September 30, 2010 are as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
			(Dollars in thousands)		
Long-term debt obligations, including current portion (1)	$ 208,397	$ 2,500	$ 5,000	$ 200,897	$
Capital lease obligations, including current portion	238	218	20		
Interest on capital lease obligations	18	18			
Operating lease obligations (2)	102,079	21,338	39,654	32,052	9,035
Retail display allowances (3)	9,214	9,214			
Total	$ 319,946	$ 33,288	$ 44,674	$ 232,949	$ 9,035

(1) Interest related to our long-term debt obligations is variable in nature, and interest payments have been excluded from this table. The interest rate on these obligations resets quarterly and had a weighted-average rate of 2.29% at September 30, 2010. See the discussion above under Bank Credit Facilities. Liabilities for interest rate swaps designated in cash flow hedging relationships against changes in the benchmark interest rate of our long-term debt have also been excluded from this table because the quarterly fixed-rate payments due to the counterparty are settled net of the variable-rate payments due to us by the counterparty.

(2) Future rental commitments for operating leases have not been reduced by minimum noncancelable sublease income aggregating $50.9 million as of September 30, 2010. Operating lease obligations include restructuring liabilities.

(3) Retail display allowances include restructuring liabilities.

The contractual obligations table above does not reflect any of our $79.9 million in unrecognized tax benefits at September 30, 2010, which resulted in a recorded liability of $23.3 million that has been accrued in accordance with GAAP related to accounting for uncertainty in income taxes, because we are unable to determine when, or if, payment of these amounts will be made.

The bank credit facilities rank senior in right of payment to all subordinated obligations which PRIMEDIA Inc. (a holding company) may incur.

We have $8.7 million outstanding at September 30, 2010 under our Revolving Facility, and we have other commitments in the form of letters of credit of $2.1 million aggregate face value, which expire on or before July 31, 2011.

A change in the rating of our debt instruments by outside rating agencies does not negatively impact our ability to use our available lines of credit or the borrowing rate under our bank credit facilities. As of March 2010, our senior debt ratings from Moody s and Standard and Poor s were B1 and B, respectively.

We announced on October 28, 2010 that our Board of Directors had authorized a cash dividend of $0.07 per share of common stock, payable on or about November 17, 2010, to stockholders of record on November 8, 2010. We expect to pay this dividend out of our existing cash balance. Additionally, we currently expect that we will continue to pay a regular quarterly dividend for the foreseeable future, at the discretion of our Board of Directors, dependent on factors, including but not limited to, available cash, anticipated cash needs, overall financial and market conditions, future prospects for cash flow and such other factors as are deemed relevant by our Board of Directors.

Off Balance Sheet Arrangements

We have no variable interest entities or off balance sheet debt other than as related to operating leases in the ordinary course of business.

Covenant Compliance

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

At September 30, 2010, we were in compliance with all of our debt covenants.

Contingencies and Other

As is more fully discussed in Note 16, Commitments and Contingencies, under Part I, Item 1 of this Form 10-Q, we are involved in lawsuits and claims, both actual and potential, including some that we have asserted against others, in which substantial monetary damages are sought. These lawsuits and claims generally relate to contract, patent and other matters arising out of the conduct of our current and past business activities. Although the result of any future litigation of such lawsuits and claims is inherently unpredictable, management believes that, in the aggregate, the outcome of all such lawsuits and claims will not have a material effect on our long-term consolidated financial position or liquidity; however, any such outcome could be material to the results of operations or cash flows of any particular period in which costs, if any, are recognized or amounts in resolution, if any, are paid.

Critical Accounting Policies and Estimates

There have been no changes in our Critical Accounting Polices and Estimates since December 31, 2009.

Goodwill Impairment Testing

We perform our annual goodwill impairment test as of October 31. We must also test goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of our reporting unit below its carrying amount.

Our 2009 annual impairment test indicated the fair value of our reporting unit exceeded its carrying value. Although our business continues to be adversely impacted by the weakened national economy, our consideration of events and circumstances potentially affecting the fair value of our reporting unit indicated that it was not more likely than not that the fair value of the reporting unit has fallen below its carrying value. Accordingly, we have not performed an interim goodwill impairment test subsequent to the 2009 annual impairment test.

Recent Accounting Developments

See Note 1, Summary of Significant Accounting Policies *Recent Accounting Pronouncements*, to the condensed consolidated financial statements, included elsewhere in this Report.

Seasonality

Our operations are minimally seasonal in nature.

The majority of our advertising and distribution revenue is comprised of contracts with a duration of 12 months or longer.

We experience modest seasonality in Rentals.com as that business declines in the winter months. This business represents a relatively small part of the total business.

Our cash flows from operating activities are somewhat seasonal in nature, primarily due to the timing of payments made under the terms of our RDAs, which generally occur in the first half of the year.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to the impact of changes in interest rates, primarily through our Term Loan B Facility, which is variable-rate debt that had an outstanding balance of $208.4 million as of September 30, 2010. As part of our management of interest rate risk, we have designated derivative financial instruments in hedging relationships against the variability in cash flows due to changes in the benchmark interest rate on our Term Loan B Facility. The table below shows the change in interest expense we estimate would occur over the next 12 months from 50 and 100 basis point increases and decreases in interest rates based upon our current Term Loan B Facility balance and derivative financial instrument positions as of September 30, 2010. Such potential increases or decreases are based on certain simplifying assumptions, including a constant level of debt and an immediate, across-the-board increase or decrease in the level of interest rates with no other subsequent changes for one year.

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Interest Rate Change (in Basis Points)	Change in Interest Expense (Dollars in thousands)
+100	$ 75
+50	37
-50	(37)
-100	(75)

Credit Risk

Our hedging transactions using derivative financial instruments also involve certain additional risks, such as counterparty credit risk. The counterparties to our derivative financial instruments are major financial institutions and securities dealers, which we believe are well capitalized with investment grade credit ratings and with which we may have other financial relationships. While we do not anticipate nonperformance by any counterparty, we are exposed to potential credit losses in the event the counterparty fails to perform. Our exposure to credit risk in the event of default by a counterparty is the difference between the value of the contract and the current market price at the time of the default. There can be no assurance that we will be able to adequately protect against the foregoing risks and will ultimately realize an economic benefit that exceeds the related expenses incurred in connection with engaging in such hedging strategies.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure. We have established a Disclosure Committee, consisting of certain members of management, to assist in this evaluation. The Disclosure Committee meets on a regular quarterly basis and as needed.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act) as of September 30, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2010, our disclosure controls and procedures were effective.

There was no change in internal control over financial reporting during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes to the Company s risk factors during the nine months ended September 30, 2010.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Our Board of Directors has authorized a program (the Repurchase Program) to repurchase up to $5.0 million of our common stock through December 31, 2010. Under the terms of the Repurchase Program, we may repurchase shares in open market purchases or through privately negotiated transactions. We have used cash on hand to fund repurchases of our common stock, and we expect to use cash on hand to fund any additional stock repurchases under the Repurchase Program. 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 the nine months ended September 30, 2010. The reacquired shares have been designated as treasury shares. As of September 30, 2010, we had $4.6 million available under the Repurchase Program for further share repurchases, which we may make.

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Item 6. **EXHIBITS**
(a)

Exhibit Number	Description
31.1	Certification by Charles J. Stubbs Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
31.2	Certification by Kim R. Payne Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(*)
32.1	Certification by Charles J. Stubbs Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)
32.2	Certification by Kim R. Payne Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(*)

(*) Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PRIMEDIA Inc. (Registrant)
Date: October 29, 2010	/s/ CHARLES J. STUBBS (Charles J. Stubbs) *President and Chief Executive Officer* *(Principal Executive Officer)*
Date: October 29, 2010	/s/ KIM R. PAYNE (Kim R. Payne) *Senior Vice President and Chief Financial Officer* *(Principal Financial Officer)*

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