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New Rec: Reader's Digest (RDA: $13.75) May 21, 2006

Position: Buy **Target: $18**

$ooo	Q306a	Q406e	2005	2006E	2007E	2008E
Revs	547,400	580,804	2,389,700	2,409,804	2,462,836	2,515,510
EPS	0.01	0.25	0.82	0.82	0.96	1.07
Y/Y	0%	14%	18%	0%	16%	12%
PE	n/a	n/a	16.5	16.5	14.2	12.7
PSR	n/a	n/a	0.8	0.8	0.8	0.8
Cons.	n/a	n/a	n/a	0.88	1.03	1.16
FCF/shr	n/a	n/a	1.19	0.85	1.32	1.46

Shares Out: 95.5M **Market Cap: $1.3B** **FYE: June**

Summary: Reader's Digest (RDA) is a global publishing and marketing company with a database of more than 100M customers. Its flagship magazine is one of the world's most widely read magazines with a circulation of 19M. It is published in 50 editions and 21 languages. The company was founded in 1922 and has been publicly traded since 1990.

RDA shares have been volatile over the past 5 years. The stock declined from a peak of $41 in 2001 to a low of $10 in 2003. In 2001, new regulations that limited U.S. sweepstakes promotions reduced much of RDA's profit from that form of marketing. Because RDA had relied heavily on sweepstakes to sell magazine subscriptions and related products, these changes required an overhaul of the core U.S. business model. Shortly thereafter, sales were hurt by 9/11, the anthrax scare and a global economic downturn. In 2002 management levered the balance sheet to acquire Reiman Publications, for which it appears to have overpaid. Thus, in just 2 years, RDA was transformed from a highly profitable, cash-rich enterprise into one with substantially lower profits and $850M in debt. Not surprisingly, investors bailed out in droves.

Despite all the bad news, however, we see an opportunity to purchase RDA shares at a very attractive valuation. Over the past 3 years, management has stabilized the customer base in most regions. It has also dramatically reduced costs and increased operating efficiency, which has resulted in higher profits. In fact, in the 2 years through FY05, operating profits increased by 50% and 30% at the North American and Foreign divisions, respectively. Moreover, management has used internal free cash and proceeds from strategic asset sales to reduce debt by $300M. Today net debt is $553M or about 2.5x EBITDA. RDA also has an over-funded pension plan ($60M) and about $50M in saleable art.

RDA's business model requires little recurring capital investment, about $16m annually. As a result, it generates ample free cash flow on a consistent basis, and achieves returns on equity in excess of 20%. Free cash flow has averaged $137M over the past 4 years. We expect it to decline to the $85M range this year due to increased spending on new initiatives and a decline in its U.S. display marketing business. In fiscal 2007, however, we forecast free cash flow to return to $124M or about $1.32 per share with a further increase to $1.46 in FY 2008. Moreover, a new CEO took over in October 2005, who seems inclined to return cash to shareholders. In fact, the board authorized a $100M share repurchase program and doubled the annual dividend to $0.40, providing a current yield of 3%. If management can maintain consistent free cash and deploy it toward share buybacks and new business initiatives, per share free cash flow could approach $2.00 within 3 years.

Management appears to be shifting from fixing and stabilizing the company to more of a growth mode. The latest initiatives include new magazine launches, geographic expansion and a new home party business, Taste of Home Entertaining. Its newest magazine, Everyday with Rachael Ray, has far exceeded initial expectations since its launch last October and has become a hot advertising property. Management expects circulation to exceed 1M by 2007. This magazine should add additional heft to RDA's growing $200M+ food franchise, which includes 8M in magazine circulation, 2.5M cookbooks sold, cooking schools, a leading online recipe presence, and a bevy of major food company advertisers. As evidence of the potential, its holiday recipe guide became the top selling publication of its kind at Wal-Mart and is being offered to other retailers. The company is also expanding overseas. It has entered 10 new countries in the past 2 years and plans to enter 2-3 new countries each year for the next 3-5 years. Nearly half of operating profits already come from outside North America.

RDA has a unique business model. In its publishing operations, most of the revenue is generated from paid circulation, with only about 20% coming from advertising. In fact, only about 6% of total company revenues come from advertising. RDA has become a smaller but more stable company. Following the changes in sweepstakes marketing, management reduced the rate base on its core RD Magazine from 15M to 10M, where it has stabilized for several years. It also eliminated selling agents and many unprofitable subscribers. Thus, whereas the U.S. magazine was formerly a loss leader used to sell other products, it is currently profitable, with 10% margins. It also has undergone a graphical and editorial makeover which has met with very strong acceptance. Ad revenue is growing and retention rates are strong. RDA also sells nearly $1B worth of books each year through multiple channels with diverse topics ranging from gardening to computers to natural wonders. It also sells DVDs, CDs and various gift items. Much of its content is proprietary and can be cost effectively redeployed in multiple languages and sold throughout the world. Many of its books such as "Extraordinary Uses for Ordinary Things" and "Curing Everyday Ailments the Natural Way" have become top sellers around the world. For example, "English in 20 Minutes a Day" sold 120,000 sets in Q106 alone.

RDA is not without problems. Its Books Are Fun (BAF) division has been a drag on profits for 2 consecutive years. BAF uses independent sales reps to sell premium quality books and gift items at discounted prices on-site at large corporations, hospitals and schools. In recent years, its corporate sales reps have been raided by a competitor that is owned by the original founder of BAF. (RDA is currently suing him). This has resulted in fewer corporate events, and lower sales per event (due to less productive reps). However, we think the worst is behind BAF. It is now being led by Tom Gardener who successfully turned around the international business several years back. Moreover, we are hearing that many former reps are seeking to return to BAF. In fact, after several damaging competitive incursions, BAF has not lost a single rep in 3 months, and has actually hired 20 new qualified reps. Although we don't foresee an easy turnaround at BAF, even a modest rebound could have a meaningful impact on RDA's future earnings.

RDA's value is in the sheer scale of its global reach and in its database of more than 100M customers. This audience is diverse in background, age and geographic location, and has desirable characteristics with regard to income, education and involvement. If management can continue to successfully harvest this audience, RDA should continue to generate ample free cash flow. Outside of BAF, much of the company's turnaround has been completed, and the overall cost structure has been reduced considerably. Management is now capitalizing on the opportunity to deploy free cash toward the creation of shareholder value. It has reduced debt by $300M, it has doubled the dividend, and it is now aggressively repurchasing its shares at attractive prices. As the share count is reduced, EPS and FCF should increase at a rate in excess of the 3-5% revenue growth that we forecast for the next 3-5 years.

We recommend that patient investors purchase RDA shares at their current valuation. The shares trade at just 10.4X our estimated FY07 FCF of $1.32. We view RDA as a cash flow annuity rather than a growth story. If management deploys the free cash flow in an intelligent and shareholder-friendly manner, RDA shares should trade significantly higher than the current valuation. We have established an initial target of $18, based on applying a 13.7 multiple to our FY 2007 estimated free cash flow of $1.32. Looking out one year, our target price would imply a multiple of 12.3x FY08 FCF. The achievement of our initial target price would provide a total return of 34% over the next year. From the current share price of $13.75, there also appears to be substantial downside protection due to the relatively moderate valuation, large authorized share repurchases, a 3% dividend yield and the potential attractiveness of RDA to a strategic or financial buyer.

Background:

The Reader's Digest Association was founded in 1922 by DeWitt and Lila Wallace. It went public in 1990 and has since traded on the NYSE. The company is best known for its flagship Reader's Digest Magazine which has a current worldwide circulation of 19M and is read by nearly 80M readers each month. The company also sells books, videos, DVDs and various gift items through a myriad of channels to its global database of more than 100M customers. Nearly half of RDA's operating profits are generated outside of North America.

In 1998, Thomas Ryder was recruited from American Express to become the CEO of RDA. In 1999, RDA acquired Books Are Fun, a display marketing company that sells books and gift items on-site at corporations, healthcare facilities and schools, for $380M. Then in 2002, RDA acquired Reiman Publications for $760M, its largest ever acquisition. Reiman is a publisher of magazines and books that address topics such as cooking, gardening and nostalgia. In December 2002, RDA repurchased all of the 4.6M super voting shares from the DeWitt Wallace Funds for $100M or $21.75 per share. This resulted in a single class of RDA shares with full voting rights. In October 2005, Thomas Ryder was replaced by Eric Schrier, the Global Editor in Chief and President of RD North America.

For many years, sweepstakes marketing was a highly effective and profitable means of generating responses to RDA's direct mail campaigns. In the late 1990s, however, a consumer backlash in the U.S. expanded to Senate hearings, class action lawsuits, and more restrictive government standards. RDA settled its case in April 2001 and agreed to new standards that increased disclosure on prizes and the odds of winning. This severely reduced response rates for magazine subscriptions and BHE direct mail promotions, which had a severe negative impact on RDA's profits. Through the shrinkage of the U.S. magazine and direct mail businesses and the acquisition and growth of new businesses, RDA has substantially reduced its dependence on sweepstakes marketing. In fact, sweepstakes-related revenue has declined from 95% of revenue in FY98 to 35% in FY05. Many non-U.S. markets continue to successfully use various forms of sweepstakes marketing.

Discussion:

1. RDA is divided into three business segments: RD North America (RDNA) includes the flagship Reader's Digest (RD) Magazine, Reiman Publications, RD Canada, and U.S. Books and Home Entertainment (BHE). RD International (RDI) publishes the RD Magazine in numerous editions and languages, and markets BHE products outside of the U.S. and Canada. Consumer Business Services is comprised of Books Are Fun (display marketing) and QSP (a school fundraising business).

The flagship RD Magazine is a monthly general interest magazine that is published in 50 different editions in 21 languages. In the U.S. the magazine has faced an uphill battle as the industry has lost advertising share to other media and as the general interest category lost share to niche publications. Furthermore, by the mid 1990s, the content of the magazine had become somewhat outdated leading to a decline in paid circulation. Then in 2001, direct mail sweepstakes, RDA's primary marketing tool, was essentially rendered unprofitable in the U.S. by various legislative changes. Without an equally effective subscriber acquisition tool, circulation shrunk dramatically. Since 70% of the magazine's revenue was

driven by circulation (with just 30% from advertising), profits also declined. In response to these changes, management implemented a number of steps to stabilize the magazine. First, it began a series of major editorial and graphic enhancements, which appear to have been successful. Management also reduced the rate base (amount of paid circulation guaranteed to advertisers) several times to a current base of 10M which it intends to hold steady through 2009. That compares with a rate base of 12.5M in 1999 and 16M in 1993. The current lower rate base has had a negative affect on both circulation and advertising revenue. However, subscriber acquisition costs have also declined, as non-sweepstakes marketing is far less costly. RDA has also reduced unprofitable (discounted) subscribers and eliminated selling agents. It has also aggressively cut costs in its publishing operations and developed a larger, more dedicated advertising group. After more than 2 years at the new rate base, the subscriber count appears to have stabilized for the first time in many years. Also, retention rates have strengthened, and ad revenues are increasing. Thus, at the new "right-sized" rate base, Reader's Digest Magazine is a profitable business on its own, with margins in the 10% range. It possesses tremendous brand equity, and is still the leading magazine in the U.S.
RDA should be able to increase profits through stable circulation, a more intense ad sales effort, and by gradually increasing ad rates, assuming it does not overly discount future subscriptions. Although we don't foresee much growth at the U.S. magazine, we think it should continue to be a valuable cash generator.

RDA has also successfully introduced niche offshoot publications of its flagship magazine: RD Selecciones, a Spanish language version sold in the U.S., and RD Large Print have both enjoyed increased circulation. In 2003, RDA introduced RD Specials, which are mostly health and cooking-related magazines sold at supermarket checkout racks. Lastly, RD Canada has experienced a growing customer base due largely to the success of Our Canada, a bi-monthly magazine which was launched in early 2004.

2. In May 2002, RDA acquired Reiman Publications, a publisher of "country-oriented" magazines such as Taste of Home (circulation 4M) and Quick Cooking (circ. 3M). The Reiman acquisition was poorly received by shareholders due to its hefty price tag ($760M, or about 10.9X EBITDA) and the heavy debt burden it placed on RDA. While we agree that RDA appears to have overpaid for Reiman, we think it was a good strategic purchase. Its magazines and related book products have content and customer profiles that complement RDA's other businesses with little overlap. It also spurred the creation of several new magazines such as Our Canada and Backyard Living. Moreover, since the acquisition was classified as an asset purchase, it enables RDA to expense goodwill for tax purposes over 15 years, adding about $20M annually to free cash flow.

Reiman publishes 13 bi-monthly magazines in the U.S. and Canada that focus on the positive aspects of people and their lifestyles. Interestingly, Reiman magazines contain no advertising and readers supply most (85%) of the content for free. It does however allow coupon packs to be inserted in the magazine packaging before it is mailed to subscribers. Moreover, the combination of ad-free pages and reader-contributed content has resulted in a loyal reader base that generates 70% subscription renewal rates. Reiman has also demonstrated that it can leverage its content into annual book programs and new magazines. Its annual book programs repackage magazine content from prior-year issues into a theme-oriented book which is sold on a continuity basis (subscribers must opt out of a subscription). Most of Reiman's revenue comes from subscriptions and book sales.

Since the acquisition, RDA has used the Reiman editorial formula to successfully launch 5 new magazines with modest investment, which, combined, generated more than $30M in revenue in FY05. These include Our Canada, Backyard Living, and Cooking for 2. In fact, Circulation for Our Canada has surpassed 250,000 in just over 2 years. Based on that success, RDA is planning country-specific magazines in Finland and Germany. Lastly, Reiman's content could be used to create new products for RDA; and RDA's products could be marketed to Reiman's database of 40M households and vice versa. In fact, Reiman's titles could expand their reach at relatively low cost through each of RDA's distribution channels. Reiman continues to grow its revenues (now at $300M+) and generates very high margins.

3. One of RDA's objectives has been to develop deep relationships with its customers around select affinities such as food, health, home/DIY, and young families. Perhaps its most successful niche has been its large and growing food franchise. RDA's food assets include Taste of Home, the world's largest food magazine, other Reiman food magazines, numerous cookbooks, 30,000 recipes and the recently acquired allrecipes.com. Its latest initiative is Everyday with Rachael Ray, a magazine based on the popular host of several top TV shows on the Food Network. Launched in October 2005, the magazine has far exceeded all initial forecasts and has proven to be one of the most successful launches in recent history. RDA has already announced two rate base increases which will take the circulation to 750,000 by the fall of 2006 and an estimated 1M in 2007. Retailers have actually called RDA to assure that they can be guaranteed a large enough allotment of magazines. Moreover, the internet has proved to be the strongest source of new subscribers, followed closely by RDA's QSP division and insert cards from copies sold at newsstands. Advertising for the magazine has been very strong, and, in fact, the magazine is beginning to attract a lifestyle mix of ad categories beyond food: beauty, auto and household goods. We estimate RDA will spend about $5M on the launch of Rachael Ray. As the entire investment will be

expensed upfront, RDA won't see much benefit until mid FY07. However, it should be cash flow positive within the first year of launch.

RDA is, in fact, the largest food publisher in the world. Its presence includes: 8M magazine subscriptions; 7M newsstand buyers; 20M magazine readers; 270,000 cooking school participants; and 2.3M cookbooks sold, including the 2005 hit "Contest Winning Annual Recipes". RDA also publishes food and diet editorial content and runs a diet program called Change-One. It sells advertising to 35 food companies covering 110 brands. And it sells food-related RD Specials (sold at grocery checkouts) and "bookazines" such as the holiday recipe guide that became the #1 seller of its kind at Wal-Mart. Lastly, RDA recently acquired allrecipes.com, which has nearly 2M registered users and a list of blue chip advertisers.

4. RDA's Books and Home Entertainment (BHE) division uses direct mail to sell books and various other products. BHE creates content and product in-house (some of it repurposed from other RDA units) and also licenses third-party brands. The product line consists of the following: Select Editions – a continuing series of condensed versions of current popular fiction books that are published in 14 languages in 27 countries; health and home reading products, such as diet books, cookbooks, health books, DIY and reference books; music products, such as compilations of genre-oriented music (best of the 80s); Reiman books; and children's interactive books and videos. BHE's U.S. and Canadian operations are included in the RDNA segment, while its foreign operations are included in RDI.

Following the elimination of most U.S. sweepstakes promotions, many of the key products sold through BHE could not stand on their own, as response rates plummeted. While losses mounted, management continued to deliver unprofitable mailings, as it had not grasped the gravity of the situation. This was immediately followed by the events of 9/11 and the subsequent economic downturn. After somewhat of a delayed reaction, management finally realized the extent of the problems in the U.S. business, and began eliminating unprofitable products such as videos, catalogues, and general books. It also reduced the number of mailings, which represented the largest variable cost. From the peak, BHE revenue has declined by more than 50%, and at its worst point in FY02, BHE lost approximately $40M. Today, we estimate the current U.S. BHE business to be profitable, with margins in the low single digits. In Canada and overseas where sweepstakes are still widely used, BHE operations remain very profitable and are growing. Management has had ongoing discussions with key foreign governing bodies and thinks that no material changes in sweepstakes promotions are likely.

Operating profit in the RD North America segment (RD magazine, Reiman, BHE) has rebounded significantly over the past two years, as we detail in Table 1.

While we expect profits to increase by another 10% in FY06, it should be noted that this includes the elimination of the amortization of intangibles in the amount of $20M, offset to a large degree by increased start up investments in new magazines (Rachael Ray) and a new business (Taste of Home Entertaining). Thus, on an apples to apples basis, adjusting for the decline in amortization expense and the upfront investments in new initiatives, the true y/y change in EBIT in FY06 would be more like a 3-5% decline.

Table 1: RD North America

$mil	FY02	FY03	FY04	FY05	FY06e	FY07e
Revenue	719.0	931.8	919.5	917.3	936.0	954.7
EBIT	0.0	61.1	76.0	90.8	98.5	102.5
% margin	0.0%	6.6%	8.3%	9.9%	10.5%	10.7%

5. One of the most attractive attributes of RDA is its extensive global presence. In fact, more than 40% of company profits are generated outside of the U.S. In our view, this is important for several reasons. First, most of the countries in which RDA operates are expected to have long-term economic growth rates that exceed that of the U.S. Geographic diversification should also lower the risk of weakness in any particular region. Lastly, RDA's foreign operations could provide a natural hedge against the U.S. Dollar.

The main components of the international business (RDI) are the country-specific editions of RD magazine and the BHE direct marketing business. There are also several smaller specialty magazines, such as Family Handyman in Australia, and several in the Czech Republic. There are also international divisions of BAF, Reiman and QSP which are small but have very high growth potential. Most editions of RD Magazine have their own in-country staffs and are truly distinct magazines, yet enjoy the advantages of a global editorial network. Moreover, the magazine and the BHE direct marketing unit are fully integrated. They coexist to generate database information used to cross-market direct mail campaigns and magazine subscription renewals. Sweepstakes marketing is still widely used in foreign markets, where it has not come under regulatory attack as it did in the U.S. It remains a strong profit generator. Similar to the U.S. operations, circulation comprises the largest component of revenue.

RDA's most significant international markets are the UK, Germany, France and Central Europe. It also operates in India through a licensing agreement (RDA receives a % of the revenue) with Living Media India, the largest magazine publisher in that country. RD India has a circulation of more than 600k and is only published in English, although plans are in place to expand the number of languages. RD does not publish its magazine in China, nor do we expect it to in the near future. Several years back, there was a bootleg version of the magazine in China over which RDA sued. According to management, however, discussions are always "ongoing" with the Chinese and some progress has been made.

RDI has experienced substantial volatility over the past 5 years. EBIT declined from $139M in FY01 to a low of $49M in FY03. Much of the decline can be attributed to the weak global economy following 9/11 and leading up to the Iraq conflict. However, the inefficient structure of RDI's numerous operations was also a culprit. In response to the dire performance, management announced a plan to reduce costs at RDI by $40M and to scale back or eliminate unprofitable/low profit mailings, products and regions. Much of the cost reduction was aimed at back-office consolidation and headcount reduction, as well as at more targeted product promotions. Moreover, its focus shifted from revenue growth to sustainable free cash flow. Although it led to reduced revenues in the near-term, the plan to right-size the international operations has resulted in higher profits. As detailed in Table 2, EBIT at RDI increased to $57M and $76M in FY04 and FY05 respectively.

Table 2: RD International

$mil	FY02	FY03	FY04	FY05	FY06e	FY07e
Revenue	1,077.0	1,007.0	969.5	1,012.0	1,035.1	1,063.1
EBIT	106.3	49.1	57.0	76.1	77.5	85.0
% margin	9.9%	4.9%	5.9%	7.5%	7.5%	8.0%

One of RDA's growth initiatives is an ambitious international expansion. In fact, in the last 2 years, it has launched operations in 10 new countries. RDA uses a number of different strategies to enter a new country. Most often, it will turn to its global content repository and launch an existing book or other product (via BHE direct mail) as an initial step. For example, it might repurpose and introduce one of its best selling books such as "Discovering the Wonders of the World". It could also launch a Reiman-style magazine such as Our Canada. Or, it could begin with its English language learning products. In 2004, after a decade with no new country launches, RDA launched a new book business in Romania. The response was fantastic, and Romania quickly became profitable. This led to the launch of the Romanian edition of RD magazine in the fall of 2005. Management identified similar opportunities throughout Central Europe, where people in relatively new democracies are fascinated by things from the West, and where there is a high literacy rate. Thus, it quickly followed with initial launches in Croatia, Slovenia and Ukraine, and then in Serbia, Bosnia and Lithuania. Just recently, RDA announced entry into Bulgaria, Kazakhstan and the United Arab Emirates. It expects to test at least 3 more countries in FY06 and several more in FY07. What's important to note is that many of these countries are reaching profitability within the first year. Moreover, as RDA typically starts by selling just one product in a new country, there is tremendous future upside from the sale of additional products. One example is RDA's language learning product, "English in 20 Minutes a Day" which has sold 250,000 units to date for revenue of $20M.

6. RDA's third segment, Consumer Business Services (CBS), is comprised of two businesses which operate primarily in the U.S. and Canada. Quality School Products (QSP) was founded by RDA in 1964 and has grown to be the dominant player in the highly fragmented school fundraising industry. QSP prepares catalogues and sales materials for a variety of products – magazines, chocolates, music and video products, and gifts such as candles – which are sold by schools and other third party organizations (scouts, leagues) to end consumers. Magazines represent more than 75% of QSP sales and are a high margin sale. It sells both RDA and Reiman magazines as well as magazines from hundreds of other publishers. QSP works directly with the schools/groups on fundraising campaigns in which participants sell the products. Sales are generally split evenly between QSP and the partner organization that sold the products. On the cost side, most of QSP's costs are variable (85%) with just a small percentage of costs being fixed (overhead, check processing). QSP has modest working capital requirements and virtually no capex, making it a generator of substantial free cash flow.

The industry is highly fragmented and is populated by small niche players that focus on a single product or a specific region. QSP is able to differentiate itself and create a high entry barrier through its massive buying power and its access to product breadth. It has exclusive licensing deals for music and chocolate products. QSP has relationships with 40,000 schools, and is looking to increase that through an expanded sales force. It currently has 440 sales reps that contact schools and other organizations to inform them about its fundraising programs. The products are sold mostly by students who market the catalog to a target audience that includes parents, relatives, and neighbors. This effort is supplemented by efundraising.com, which enables emails to be sent on behalf of students to their target customers, who are then directed to a website where they can make a purchase. QSP also provides prepared sales pitches to help improve cold calls and take rates. Sales incentives are typically offered to those with the highest gross sales. Completed order forms are returned to QSP, which relays them to a manufacturer/distributor, who delivers the product directly to the consumer. QSP collects payment and reimburses the organization for its share of the profits. With an established network of vendors and schools/organizations, the final product sale is relatively easy, as it is made by a child seeking support from neighbors and family for his organization, school or charity.

After years of consistent growth, QSP sales declined 9% in FY04 and 8% in FY05. Magazine and gift sales declined, while food and music sales increased.

QSP also experienced a competitive encroachment on its sales force which led to increased turnover. However, rep defections have abated and sales are growing again. In fact, in the first 9 months of FY06, revenues and profits increased at QSP, and we estimate they will increase in Q406 and FY07. Moreover, RDA has cut costs and increased efficiencies throughout QSP which has helped margins. Risks to the business in any given year include weather (snow, hurricanes), competition, sales force turnover, and seasonality (most sales are skewed toward holiday and back-to-school periods). We expect QSP to continue growing through additional school penetration. More importantly, it should continue to generate strong free cash for RDA.

7. RDA acquired Books Are Fun (BAF) in 1999 for $380M. BAF uses its size and scale to purchase books, CDs, toys, and other gift items at steep discounts from manufacturers. It then sells the merchandise at large discounts from retail prices through two channels: 1-3 day corporate fairs (in common areas of large buildings) and small display stands at schools and related venues. The business is evenly split between the two channels, with about 75% of total sales coming from books. BAF leases access to corporations and schools in return for donating a portion of sales to either a charity of choice or by donating books to the school library. It markets its corporate service as being beneficial to building tenants/employees. In the U.S., more than 800 independent sales reps host events at 15,000 large corporations, 45,000 small businesses, 14,000 day care centers and 70,000 schools. BAF also operates in Mexico, Spain and France, and is testing in Italy and Germany.

In the corporate channel, each event typically lasts 1-3 days. The BAF rep sets up a temporary display of merchandise using floor space in common areas of large office buildings. All merchandise is owned by RDA. We recently attended several of these events and found them to be well attended and efficiently operated by the independent sales reps that hosted each event. However, it seems to us that there is a huge untapped opportunity to sell additional products at these events, given the access that BAF has established to these facilities. Moreover, it is estimated that only about 25% of the potential corporate space is being accessed by the display marketing industry. Thus, we think BAF could grow the business by expanding to new sites, which would require additional sales reps and in-house marketers. Barriers to entry appear to be quite high given the need for purchasing power, product sourcing and inventory management.

In the school channel, independent agents use book drops – typically 25-30 books are periodically displayed in a faculty lounge or media center and target teachers and other staff. This channel is currently dominated by Scholastic. However, there appears to be a major opportunity for BAF to operate book fairs (similar to the corporate model) within schools. To a much lesser extent, BAF operates drops and fairs at hospitals, art fairs, daycare centers and churches.

After increasing at an annual rate of 10% from 1998-2003, BAF's sales began to decline. In fact BAF has been RDA's worst performing business for the past 18 months. Revenue declined 6% and 8% in FY04 and FY05 respectively and should decline another 4-5% in FY06. Sales rep defections have resulted in fewer events held as well as lower sales per event, mostly in the corporate channel. Moreover, we estimate that profits at BAF declined at a much higher rate than sales. (RDA does not break out BAF and QSP figures). The main drag on profits has been what management refers to as an organized "raid" on its corporate sales force by BAF's original founder (Earl Kaplan) via his new company Imagine Nation Books. RDA is suing Mr. Kaplan to enforce a non-compete and non-solicitation agreement. The claim is that he actually began his endeavor under another name prior to the expiration of the non-compete. Mr. Kaplan's stepson, Stephen Rosebrough, was formerly a leading BAF rep who left to start his own competing company, Reader's Choice. Documents show that Mr. Kaplan financed and agreed to work with Mr. Rosebrough more than a year before the expiration (10/1/04) of his non-compete agreement. Attempts by Kaplan to keep these documents confidential were recently denied by a judge. RDA also contends that Kaplan and Rosebrough conspired to steal BAF reps and use RDA trade secrets to benefit their new company, even while Rosebrough was working for BAF.

In our view, the best possible outcome for RDA would be to collect damages from Mr. Kaplan and to potentially prevent Imagine Nation from operating for a limited period of time, perhaps a year. However, we assume Imagine Nation will continue to compete with BAF over the long term, and that BAF profits are unlikely to match their former peak level. The initial raids by Imagine Nation were apparently successful and led to significant turnover of reps at BAF. (Mr. Kaplan was allegedly offering large cash bonuses to defectors). This had several negative effects on BAF: it led to fewer events held and lower sales per event, since newer reps were initially less productive. This led to a rise in inventory. RDA was also required to invest heavily in salesforce retention. Adding to the pressure has been higher fuel, freight and warehouse costs as well as several disruptive hurricanes that occurred during a busy part of last year. Not surprisingly, BAF profits and cash flow have declined sharply.

While it's still a tenuous situation, the worst appears to be behind BAF. In fact, RDA wrote off the entire amount of goodwill of BAF, which amounted to $188M. In January, it also appointed Tom Gardner, who has led RDI for the past several years, to take the leading role at BAF. Mr. Gardner has engineered successful turnarounds at both RDI and the U.S. BHE unit. While BAF should prove to be a challenging turnaround, we think it could happen fairly quickly. The plan includes the following steps: a substantial reduction in operating costs to match the current size of the business; exiting smaller or unprofitable product lines (such as jewelry) that have little growth potential and poor logistics; increasing the corporate sales force to full capacity; rationalizing inventory levels; and upgrading the BAF senior management team and relocating it from Fairfield, Iowa to a more accessible facility in Chicago.

The loss of corporate sales reps appears to be over. Through aggressive retention programs, BAF has been able to retain far more reps than it lost. According to management, the competition's most recent recruiting blitz in early April was a complete failure, as BAF did not lose a single rep. In fact, former reps are starting to return to BAF. Meanwhile, it has also hired 75 new reps across the entire CBS segment in the past 2 months, including more than 20 new BAF corporate reps. The competition is also under pressure, and BAF will look to capitalize on that in addition to pursuing its legal claims. BAF is still the industry leader by a wide margin with revenue in excess of $200M, a large sales force, a strong and experienced buying group, and access to extensive RDA product. In fact, even a moderate turnaround in FY07 and FY08 would enable RDA to meet our forecasts. As detailed in table 3, we have modeled in a moderate rebound in CBS EBIT for FY07. Our forecast assumes that profits return only to the still-depressed levels of FY05. Thus, we believe there is considerable upside should the turnaround at BAF prove to be more successful.

Table 3: Consumer Business Services

$mil	FY02	FY03	FY04	FY05	FY06e	FY07e
Revenue	598.0	563.4	525.1	485.1	466.4	471.1
EBIT	88.0	90.1	59.0	29.4	19.4	30.0
% margin	14.7%	16.0%	11.2%	6.1%	4.2%	6.4%

8. Following 2-3 years of intense focus on fixing RDA's various businesses, management appears to be transitioning into more of a growth phase. BAF obviously remains a troubled business that will require significant time and effort to improve its profits. Aside from BAF, however, all of the other businesses appear to be doing well. RDA has survived the U.S. sweepstakes debacle. Extensive cost cuts have been implemented at the magazines, at QSP, and at BHE, and its businesses have been strategically reduced to a profitable steady state. RDA has reduced debt by $300M and restructured its remaining debt at more favorable terms and maturities. The company is now embarking on a 3-year growth plan with the following objectives: launch at least 6 new magazines (including Rachael Ray); enter at least 12 new countries – mostly smaller ones with high growth potential; and introduce 2 completely new businesses. RDA has successfully launched 6 new magazines in N.A. over the past three years and has profitably entered many new countries. We think this bodes well for the company's new endeavors.

RDA has already created one new business: Taste of Home Entertaining was launched on May 1, 2006. This is a party planning business that is predominately female and is driven by part-time consultants. Taste of Home Entertaining, which took its name from the popular Reiman magazine, was developed along the lines of the Pampered Chef business that was recently sold to Berkshire Hathaway for $800M. It will sell high demand items such as kitchen tools (think Crate & Barrel/ Williams Sonoma) and anything associated with entertaining in the home or backyard. Taste of Home will be a major undertaking that we estimate will take 2-3 years before reaching breakeven. It will also require an upfront investment in systems and overhead of perhaps $4M. However, the business is extremely scalable with little recurring investment once it gains traction. At the time of launch, it had 3,600 sales consultants on board, making it one of the largest rollouts of a party plan business in the history of direct selling. This is nearly double the number RDA initially projected. Although Taste of Home was launched in the U.S., we think there is a much greater long-term potential overseas. At this time, we are assigning no value to this new endeavor, and judging from RDA's share price, neither are investors. However, if successful, Taste of Home Entertaining could eventually become RDA's most profitable business. Thus, investors appear to be receiving a free call option on the new business.

9. RDA's businesses utilize a relatively small amount of hard assets and require little recurring capital investment. In fact, we estimate annual capex to be about $16M. Working capital requirements are also modest. Over the past 4 years, net working capital adjustments have actually been positive. As a result, RDA generates substantial free cash flow on a relatively consistent basis. In our view, this is the key part of the investment case for RDA. More importantly, it appears that management now recognizes that managing free cash flow for maximum shareholder value is the most logical strategy. Despite its growth objectives, RDA is not a growth company nor do we think it will be anytime soon. However, its ample free cash and low valuation should enable management to create significant shareholder value through share buybacks, debt reduction, small accretive acquisitions, and dividend payouts. RDA also has a new CEO, Eric Schrier, who appears willing to execute on these shareholder building strategies. In fact, the board has approved a $100M share repurchase program and to date RDA has repurchased 3.2M shares for $51M or $15.90 per share. With RDA shares at $13.75, we expect the purchases to continue and perhaps accelerate.

The balance sheet has also improved consistently over the past three years. Net debt is currently $553M, down from a peak of $840M in FY03. This is roughly 2.5x EBITDA, well below RDA's 3.5x leverage covenant (RDA also has $28M of preferred stock). Management has used internal free cash, the sale of various assets, and the sale/leaseback of its headquarters to reduce debt. On the most recent conference call, it stated that it is comfortable with the company's business prospects as well as the current level of debt, and therefore, will focus more aggressively on the buyback versus debt reduction. While we agree that this would create the most value given the current share price, we would not be opposed to further debt reductions, especially given the company's recent volatile history. RDA also has some hidden assets. It has an over funded pension plan in the amount of about $60M; it has an estimated $50M in art and property which could be sold in the near future; it has an NOL of $140M; and it should soon receive another $10M from the prior sale of its headquarters. Lastly, RDA has 13.3M options outstanding with an average exercise price of $22.59. As we don't envision these options being exercised anytime soon, RDA is unlikely to experience share-related dilution.

10. An investment in RDA shares is certainly not without risk. In our view, the primary risk is that of a declining global economy which could reduce response rates to promotional mailings and demand for RDA's magazines and products. Another risk is the pronounced seasonality of earnings. The vast majority of RDA's earnings occur in the back-to-school and holiday period, most of which falls into the fiscal second quarter (December Q). Therefore, if RDA experiences a weak holiday period, it would be unlikely to meet earnings estimates for that particular fiscal year. RDA has also been a persistent user of one-time charges in recent years, and that has perhaps burdened the shares with a meaningful discount. Given that all of the businesses have been through some form of restructuring, we anticipate that future reported earnings will be more consistently "clean". Lastly, there is a risk that the BAF business could continue to deteriorate if management cannot stabilize and then improve operations. Our FY07 estimates incorporate a moderate turnaround at BAF.

11. Given the unusually high level of seasonality, using the year to date FY06 period seems to be the most meaningful way to analyze RDA's recent results. For the 9 months ended March 31, 2006, total revenues were $1.83B, +1% y/y ex currency changes. Revenues for RDNA were flat, as increased circulation and ad revenues were offset by lower revenue at U.S. BHE. Circulation and ad revenues were boosted by several new magazine titles. BHE revenue was impacted by lower sales of RD Select Edition memberships and fewer sales of annual book products. YTD reported EBIT for RDNA increased 8% to $68M. However, this was driven largely by the elimination of $17M of amortization expense related to finite intangible assets (from the Reiman acquisition) that reached the end of their useful lives. Cost-reduction efforts from earlier periods also added to profits. Offsetting the amortization benefit to a large extent were upfront investments in the Rachael Ray magazine, new products, and the Taste of Home Entertaining business. We estimate that net of these items, RDNA profits would have decreased by 3-5%.

Revenues for RDI increased 2% to $772M and +4% ex currency. Revenues were driven by growth in the 10 new markets that RDA has entered since 2004. Increased mail quantities and response rates in Brazil, Russia, Australia and Germany also contributed to revenue growth. These were offset by lower revenue in the U.K. due to tough comps and the absence of Moneywise magazine which was sold in the prior year. YTD EBIT for RDI declined 9% (4% ex currency) to $45M. This was driven by increased investment in new products and customer acquisition efforts as well as lower response rates to promotional mailings in several markets. The timing of certain mailings was also delayed and is expected to occur in Q4 and that should result in higher earnings in Q4.

In the CBS segment, ytd revenue declined 5% to $385M. As previously discussed, revenue at BAF declined an estimated 5% because of fewer events and lower sales per event. This was caused by increased competition and sales rep turnover. At QSP, revenue declined slightly due to lower renewal rates for magazines. This was offset by higher food and gift sales. Same-school sales also increased. CBS EBIT declined 29% in the first 9 months of FY06 to $28M. The entire decline was attributable to BAF due to lower revenue combined with lower productivity and higher retention, freight and warehouse costs. Profits at QSP increased y/y due to lower promotion costs and the effect of prior year cost reduction efforts.

Excluding the one-time write-offs of goodwill and deferred magazine promotion costs, and after subtracting corporate unallocated expenses, operating profit for the first 9 months of FY06 was $112M compared to $120M in the prior year period. Net interest expense declined to $28.7M from $30.7M due to lower debt balances. After subtracting income taxes (35% rate) and a minimal amount of preferred dividends, EPS was $0.55 compared to $0.59 in the prior year.

12. Financial assumptions

For Q406 (ended June 30), we estimate total revenues increase 4.3% to $581M. This should be driven by increases of 6% and 4.3% at RDNA and RDI, respectively. We estimate CBS revenue will be flat compared to the prior year. Total operating profit should increase 21.9% to $47.8M, driven mostly by a 20% increase in profits at RDI and an 8% increase at RDNA, which should continue to benefit from lower y/y amortization expense. We estimate profit at CBS will decline 11% from Q405 as RDA increases spending on sale rep retention and additional management depth at BAF, offset somewhat by higher profits at QSP. Net interest expense and other should increase 20% due to higher rates on variable debt as well as lower other income. Using a 35% tax rate and subtracting preferred dividends, we arrive at net income of $24.3M. On a share count of 96.1M (-4%

y/y), we arrive at an estimated EPS of $0.25, compared to an adjusted $0.21 in Q405.

For FY2007, we estimate total revenue at $2.46B, +2.2% from FY06. This is comprised of RDNA revenue of $954M, +2.0%; RDI revenue of $1.06B, +2.7%; and CBS revenue of $471M, +1.0%. We assume RDA can gain some leverage on its product, distribution and editorial expenses as efficiency in the international operations continues to increase based on cost cutting initiatives implemented over the past several years. Next we estimate promotion & marketing expense will remain relatively flat as a % of revenue, given the new magazine launches, the increased spending at BAF and market ramps in Central Europe. This should be offset somewhat by a slight ($5M) decrease in amortization expense due to the expiration of some Reiman finite intangible assets. Our total operating profit forecast is $178.8M for FY07, an increase of 12% over FY06. By segment, we estimate profit at RDNA to increase 4% to $102.5M; profit at RDI to increase 9.7% to $85M; and CBS profit to rebound 54% from an all-time low of $19.4M to $30M or about the same as it earned in FY05. This is still far below the $88M earned at CBS in FY03.

Interest expense should increase to $41M in FY07 due to slightly higher debt resulting from the acquisition of allrecipes.com as well as higher estimated rates on variable debt. Other income should also decline by $1-2M, while the tax rate and preferred dividends will remain unchanged. This results in net income of $89.9M, +13% over the prior year. With an estimated 2.3% fewer average shares outstanding, we arrive at FY07 EPS of $0.96, +16% compared to FY06. Our free cash flow estimate is $124M or $1.32 per share, which represents a 55% increase over FY06. This should be driven mainly by higher overall net income and lower inventories at BAF.

For FY08, we estimate total revenue of $2.5B, +2.1%, with the increases spread quite evenly across the 3 divisions. We estimate operating profit will increase just 4.3% to $186.5M; interest expense should decline by 6%; and average shares should decline by 4.3% as we expect RDA to continue using its free cash flow to repurchase shares and to reduce debt. Our FY08 EPS forecast is $1.07, +12% vs. FY07. Lastly, we estimate FY08 FCF to be $1.46, +12.6%.

13. In our view, RDA shares are patently undervalued relative to its ability to generate substantial free cash flow on a consistent basis. The company also possesses formidable brand equity and has an extensive worldwide presence. The main problem with RDA has been that one of its businesses always seems to be faltering, while the others are doing well. In fact, it has been many years since all three of its divisions have simultaneously performed well. Thus, it has been unable to establish a consistent pattern of earnings. With one business always faltering,

RDA has been involved in a seemingly endless array of restructurings, which has led to persistent one-time charges against earnings. After several starts and stops, investors appear to have lost faith in management's ability to permanently right the ship. The latest debacle at BAF has forced management to once again lower its full year guidance. The shares have declined from a peak of $18 last summer to the current price of $13.75. Moreover, RDA shares have declined 67% from their peak of $41 reached in 2001, before the changes in sweepstakes promotions occurred.

Despite all of the recent turmoil, however, RDA has managed to generate ample free cash flow in each of the past 5 years (including FY06). In fact, in the 4 years through FY05, RDA generated $550M in free cash flow, which averages to $137M per year or $1.45 per share base on the latest share count. In FY06, which ends next month, free cash flow should decline to $80-85M due to higher inventory and lower profits at BAF, and lower cash flow at RDNA resulting from substantial investments in new growth initiatives. Importantly, however, RDA will still generate a meaningful amount of free cash. Moreover, we expect free cash to rebound in FY07 to $124M, below management's guidance of $140M but still a considerable $1.32 per share, based on a somewhat lower share count.

We see considerable value in the level and consistency of RDA's free cash flow, especially given the new CEO (who we think represents a big improvement over the former CEO) and management's newfound penchant for aggressively returning cash to shareholders through buybacks and dividends. Furthermore, internal free cash flow combined with some intelligent asset sales has been used to reduce debt by nearly $300M in the past 3 years. Thus, RDA is now in a much improved financial position. RDA is not a growth story, but more a cash flow annuity. With all but the BAF business in solid operating condition, management should be able to deploy its free cash toward repurchasing its undervalued shares, as it has been doing for the past several quarters. As the share base shrinks, FCF per share should grow assuming its businesses remain relatively stable. Over time, we think investors will recognize the value of RDA's cash flow and reward the shares with a higher multiple. If the share price does not respond, however, we think another entity could decide to buy the entire company. Looking out 1-2 years, we estimate RDA's private market value to be in the $20-$23 range.

We are recommending investors purchase RDA shares at the current price of $13.75. We have established an initial price target of $18 which we arrive at by applying a 13.7 multiple to our estimated FY07 FCF of $1.32. Investors should have solid downside protection based on the share repurchase program, the consistent free cash flow, the moderate current valuation, and the value of RDA's global brands. If RDA shares reach our initial target in one year, it would provide a total return of 34%.

14. Financial Models $000

a. annual projections

FYE June 30	2003	2004	2005	2006e	2007e	2008e
RDNA	931,800	919,500	917,300	935,968	954,687	969,008
RDI	1,007,800	969,500	1,012,100	1,035,136	1,063,085	1,089,662
CBS	563,400	525,100	485,100	466,400	471,064	482,841
Intercompany eliminations	(28,100)	(25,600)	(24,800)	(27,700)	(26,000)	(26,000)
Revenues	2,474,900	2,388,500	2,389,700	2,409,804	2,462,836	2,515,510
Product, dist. & editorial	1,002,200	972,900	970,900	990,000	999,000	1,015,000
Promotion, mkt. & admin	1,293,800	1,267,300	1,260,300	1,260,600	1,285,000	1,314,000
Operating Profit	178,900	148,300	158,500	159,204	178,836	186,510
Net interest expense	41,400	42,500	38,660	39,300	41,000	38,700
Other income	2,200	3,600	5,700	4,000	2,500	2,500
Pretax income	139,700	109,400	125,540	123,904	140,336	150,310
Income taxes	48,895	38,290	43,939	43,366	49,118	52,609
Preferred div	1,260	1,260	1,260	1,260	1,260	1,260
Net income	89,545	69,850	80,341	79,278	89,958	96,442
EPS	$0.90	$0.70	$0.82	$0.82	$0.96	$1.07
FD Avg shares	99,230	99,200	97,400	96,200	94,000	90,000
% of rev						
RDNA	37.7%	38.5%	38.4%	38.8%	38.8%	38.5%
RDI	40.7%	40.6%	42.4%	43.0%	43.2%	43.3%
CBS	22.8%	22.0%	20.3%	19.4%	19.1%	19.2%
Intercompany eliminations	-1.1%	-1.1%	-1.0%	-1.1%	-1.1%	-1.0%
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product, dist. & editorial	40.5%	40.7%	40.6%	41.1%	40.6%	40.3%
Promotion, mkt. & admin	52.3%	53.1%	52.7%	52.3%	52.2%	52.2%
Operating Profit	7.2%	6.2%	6.6%	6.6%	7.3%	7.4%
EBITDA	9.8%	8.9%	9.0%	8.2%	8.7%	8.8%
Net interest expense	1.7%	1.8%	1.6%	1.6%	1.7%	1.5%
Other income	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%
Pretax income	5.6%	4.6%	5.3%	5.1%	5.7%	6.0%
Income taxes	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Preferred div	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Net income	3.6%	2.9%	3.4%	3.3%	3.7%	3.8%

FYE June 30	2003	2004	2005	2006e	2007e	2008e
Net Income	89,545	69,850	80,341	79,278	89,958	96,442
D&A	64,700	63,200	56,900	37,500	35,000	32,000
Amort. of debt issuance	4,300	12,100	10,300	4,100	3,000	3,000
stock-based compensation	6,200	10,200	11,200	14,000	10,500	10,000
Receivables	55,000	34,100	3,600	(7,500)	0	6,000
Inventories	6,400	6,400	(7,700)	(15,800)	5,000	0
Payables	(20,100)	(6,800)	(7,100)	(4,800)	(3,000)	0
Other	(44,000)	(14,600)	(8,200)	(7,900)	0	0
Operating cash flow	162,045	174,450	139,341	98,878	140,458	147,442
Capital expenditures	15,700	16,100	23,500	17,100	16,500	16,000
Free cash flow	146,345	158,350	115,841	81,778	123,958	131,442
FCF/share	$1.47	$1.60	$1.19	$0.85	$1.32	$1.46
Net debt	814,700	671,300	521,500	606,400	589,676	529,176
EBITDA	243,600	211,500	215,400	196,704	213,836	218,510
Net debt/EBITDA	3.3	3.2	2.4	3.1	2.8	2.4
y/y % change						
RDNA		-1.3%	-0.2%	2.0%	2.0%	1.5%
RDI		-3.8%	4.4%	2.3%	2.7%	2.5%
CBS		-6.8%	-7.6%	-3.9%	1.0%	2.5%
Total Revenues		-3.5%	0.1%	0.8%	2.2%	2.1%
Product, dist. & editorial		-2.9%	-0.2%	2.0%	0.9%	1.6%
Promotion, mkt. & admin		-2.0%	-0.6%	0.0%	1.9%	2.3%
Operating Profit		-17.1%	6.9%	0.4%	12.3%	4.3%
Net interest expense		2.7%	-9.0%	1.7%	4.3%	-5.6%
Other income		63.6%	58.3%	-29.8%	-37.5%	0.0%
Pretax income		-21.7%	14.8%	-1.3%	13.3%	7.1%
Income taxes		-21.7%	14.8%	-1.3%	13.3%	7.1%
Preferred div		0.0%	0.0%	0.0%	0.0%	0.0%
Net income		-22.0%	15.0%	-1.3%	13.5%	7.2%
EPS		-22.0%	17.1%	-0.1%	16.1%	12.0%
Avg shares		0.0%	-1.8%	-1.2%	-2.3%	-4.3%
FCF/Share		8.2%	-25.5%	-28.5%	55.1%	10.7%

b. quarterly projections

FYE June 30	Q106	Q206	Q306	Q406e	Q107e	Q207e	Q307e	Q407e
RDNA	227,700	247,000	219,800	241,468	232,254	251,940	224,196	246,297
RDI	235,000	300,800	236,500	262,836	241,369	309,523	242,886	269,308
CBS	59,800	228,700	96,900	81,000	60,398	230,987	97,869	81,810
Intercompany eliminations	(6,100)	(11,300)	(5,800)	(4,500)	(6,000)	(10,200)	(5,500)	(4,300)
Revenues	516,400	765,200	547,400	580,804	528,021	782,250	559,451	593,115
Product, dist. & editorial	221,000	301,300	236,700	231,000	221,769	305,860	238,885	232,501
Promotion, mkt. & admin	304,800	353,100	300,700	302,000	311,004	359,835	306,019	308,420
Operating Profit	(9,400)	110,800	10,000	47,804	(4,752)	116,555	14,546	52,194
Net interest expense	9,100	10,400	9,800	10,000	10,000	10,600	10,200	10,200
Other income	2,400	800	800	0	1,000	0	500	1,000
Pretax income	(16,100)	101,200	1,000	37,804	(13,752)	105,955	4,846	42,994
Income taxes	(5,635)	35,420	350	13,231	(4,813)	37,084	1,696	15,048
Preferred div	315	315	315	315	315	315	315	315
Net income	(10,780)	65,465	335	24,258	(9,254)	68,556	2,835	27,631
EPS	($0.11)	$0.68	$0.00	$0.25	($0.10)	$0.73	$0.03	$0.30
FD Avg shares	97,400	96,600	96,700	96,100	95,300	94,300	93,800	93,200

RDNA	44.1%	32.3%	40.2%	41.6%	44.0%	32.2%	40.1%	41.5%
RDI	45.5%	39.3%	43.2%	45.3%	45.7%	39.6%	43.4%	45.4%
CBS	11.6%	29.9%	17.7%	13.9%	11.4%	29.5%	17.5%	13.8%
Intercompany eliminations	-1.2%	-1.5%	-1.1%	-0.8%	-1.1%	-1.3%	-1.0%	-0.7%
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Product, dist. & editorial	42.8%	39.4%	43.2%	39.8%	42.0%	39.1%	42.7%	39.2%
Promotion, mkt. & admin	59.0%	46.1%	54.9%	52.0%	58.9%	46.0%	54.7%	52.0%
Operating Profit	-1.8%	14.5%	1.8%	8.2%	-0.9%	14.9%	2.6%	8.8%
Net interest expense	1.8%	1.4%	1.8%	1.7%	1.9%	1.4%	1.8%	1.7%
Other income	0.5%	0.1%	0.1%	0.0%	0.2%	0.0%	0.1%	0.2%
Pretax income	-3.1%	13.2%	0.2%	6.5%	-2.6%	13.5%	0.9%	7.2%
Income taxes	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Preferred div	0.1%	0.0%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%
Net income	-2.1%	8.6%	0.1%	4.2%	-1.8%	8.8%	0.5%	4.7%