THE READER'S DIGEST ASSOCIATION, INC.

ANNUAL REPORT

For the fiscal year ended June 30, 2007

Note: The Reader's Digest Association, Inc. has prepared this annual report and posted the report on its website pursuant to Section 4.03(d) of the Indenture (the "Indenture") dated as of March 2, 2007 among The Reader's Digest Association, Inc., the Guarantors named therein and The Bank of New York, as trustee. This report will neither be filed with, nor furnished to, the Securities and Exchange Commission. Holders of The Reader's Digest Association, Inc.'s 9% senior subordinated notes due 2017 issued pursuant to the Indenture may request copies of this report from The Reader's Digest Association, Inc. at the following address and telephone number:

The Reader's Digest Association, Inc.
Pleasantville, New York 10570-7000
Attn: Global Communications
Telephone: (914) 244-7446

THE READER'S DIGEST ASSOCIATION, INC.

ANNUAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

INDEX

PART I

All references in this report to "Reader's Digest," "RDA," the "Company," "we," "us" and "our" mean, unless the context indicates otherwise, The Reader's Digest Association, Inc., and its subsidiaries on a consolidated basis.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Portions of the information in this annual report, including, but not limited to, those set forth under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations", and certain oral statements made from time to time by representatives of the Company may be considered "forward-looking statements." Forward-looking statements can be identified by the use of forward-looking terminology, including words such as "prospects," "outlook," "believes," "estimates," "intends," "may," "will," "should," "anticipates," "expects" or "plans," or the negative or other variation of these or similar words, or by discussion of trends and conditions, strategy or risks and uncertainties. These forward-looking statements include all matters that are not historical facts. They relate to, without limitation, our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, plans, objectives and the industry in which we operate.

Forward-looking statements are inherently subject to risks, trends and uncertainties, many of which are beyond our ability to control or predict with accuracy and some of which we might not even anticipate, because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this annual report. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions at the time made, we can give no assurance that our expectations will be achieved. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this annual report, those results or developments may not be indicative of results or developments in subsequent periods. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

Important factors that may cause actual results to differ materially from forward-looking statements include, but are not limited to, the risks and uncertainties set forth in this report in "Business", "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Any forward-looking statements that we make in this annual report speak only as of the dates of such statements. We assume no obligation to update or supplement any forward-looking statements that may become untrue because of subsequent events, whether because of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

BUSINESS

The Acquisition Transactions

On January 23, 2007, RDA Holding Co. (a Ripplewood Holdings L.L.C. ("Ripplewood") controlled entity), WRC Acquisition Co. (a subsidiary of RDA Holding Co.) and WRC Media Inc. ("WRC Media") entered into a merger agreement that provided for WRC Acquisition Co. to merge with and into WRC Media, with WRC Media being the surviving corporation (the "WRC Media Merger"). An investment fund affiliated with Ripplewood acquired its original interest in WRC Media in 1999 and had at the time of the WRC Media Merger approximately a 46% economic interest and a majority voting interest in WRC Media. The merger consideration of $100.7 million paid to WRC Media's existing stockholders to acquire all the common stock of WRC Media at the closing of the WRC Merger on March 2, 2007 included a combination of RDA Holding Co. common stock ($80.6 million), RDA Holding Co. junior pay-in-kind preferred stock ($20.0 million) and cash ($100,000).

On January 23, 2007, RDA Holding Co. entered into a stock acquisition agreement to acquire all the common stock of Direct Holdings U.S. Corp. ("Direct Holdings") in exchange for shares of common stock of RDA Holding Co. and net cash totaling $56.7 million (the "Direct Holdings Stock Acquisition"). An investment fund affiliated with Ripplewood acquired its original interest in Direct Holdings in December 2003 and had at the time of the Direct Holdings Stock Acquisition approximately a 84% voting and economic interest in Direct Holdings. The net consideration of $56.7 million paid at the closing of the Direct Holdings Stock Acquisition on March 2, 2007 included a combination of RDA Holding Co. common stock ($50.1 million) and net cash ($6.6 million).

On March 2, 2007, RDA Holding Co. acquired us pursuant to a Merger Agreement dated November 16, 2006 among us, RDA Holding Co. and Doctor Acquisition Co. (a wholly owned subsidiary of RDA Holding Co.) (the "RDA Merger Agreement"). Pursuant to the RDA Merger Agreement, Doctor Acquisition Co. was merged with and into us, with The Reader's Digest Association, Inc. being the surviving corporation (the "Acquisition Transaction"). In the Acquisition Transaction, each outstanding share of our common stock (except those held in treasury) was converted into the right to receive $17.00 in cash and each outstanding share of Doctor Acquisition Co. was converted into one share of our common stock, as the surviving corporation. Upon the closing of the Acquisition Transaction, RDA Holding Co. became the owner of all of our issued and outstanding common stock.

Prior to the consummation of the Acquisition Transaction, we were a publicly traded company listed on the New York Stock Exchange. As a result of the Acquisition Transaction, our shares ceased to be listed on the New York Stock Exchange, and we operate as a privately held company.

Concurrently with the closing of Acquisition Transaction on March 2, 2007, RDA Holding Co. contributed all of the outstanding shares of WRC Media and Direct Holdings to us.

For a description of the accounting methods used to account for the Acquisition Transaction, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Basis of Presentation."

We report on a fiscal year that begins July 1. The year ended June 30, 2007 is our fiscal 2007. WRC Media and Direct Holdings previously reported on a fiscal year that ended on December 31 and on a fiscal year that ended on the last Saturday in June, respectively. Subsequent to March 2, 2007, both WRC Media and Direct Holdings changed their respective fiscal year ends to June 30.

Overview

We are a diverse multimedia publisher and a leading provider of information, entertainment, and education through our published magazines, books, educational products, recorded music collections and home video products. We also sell products through QSP, Inc. ("QSP"), our schools and youth fundraising company, Books Are Fun, Ltd. ("Books Are Fun"), our display marketing business. Our business is organized and reports across three primary business segments: Reader's Digest North America, Reader's Digest International and School & Educational Services (formerly known as Consumer Business Services), as discussed in more detail below under "Our Business Segments."

We believe that our principal publications enjoy strong brand awareness. According to the 2006 Young & Rubicam Brand Asset Valuator study, Reader's Digest is one of the strongest publishing brands in the United States. Additionally, we have a customer database of over 100 million names worldwide to which we market our products.

As of June 30, 2007, the end of our fiscal year, we published 90 magazines consisting of 50 distinct editions of our flagship *Reader's Digest* magazine and 40 other specialty magazines worldwide, including *Every Day with Rachael Ray, Taste of Home, The Family Handyman*, *Birds and Blooms, Our Canada* and *Weekly Reader*. *Reader's Digest* magazine is sold in approximately 70 countries and published in 50 editions and 21 languages. As of June 30, 2007, total global circulation for our magazines was approximately 41 million with estimated global readership of over 100 million.

Our diverse line of books and home entertainment products, both in North America and internationally, include *Reader's Digest Select Editions* (formerly known as Condensed Books), general books, series books, recorded music collections and series, and home video products. Bestselling non-series books include *Taste of Home Cookbook* (approximately 835,000 copies sold in fiscal 2007), *Extraordinary Uses for Ordinary Things* (approximately 397,000 copies sold in fiscal 2007), *Atlas of the World* (approximately 391,000 copies sold in fiscal 2007), *Discovering the Wonders of the World* (approximately 232,000 copies sold in fiscal 2007), and *30 Minutes a Day to a Healthy Heart* (approximately 216,000 copies sold in fiscal 2007). Our books and home entertainment products are primarily marketed and sold through direct mail, as well as through the Internet, direct response television ("DRTV"), telemarketing, package inserts, freestanding inserts, catalogs and Books Are Fun. For the fiscal year ended June 30, 2007, we sold more than 68 million books, music products and video products worldwide. We have a music collection of more than 11,000 original titles that are packaged and sold in 43 countries, and our video products are marketed in 34 countries. Our Direct Holdings subsidiary is a direct marketing business that sells recorded music compilations and video products primarily through DRTV under the Time Life brand, which Direct Holdings licenses from Time Warner.

We publish education materials for the pre-K through grade 12 market in the United States through *Weekly Reader* magazines, books, *World Almanac*, and CompassLearning, businesses that were combined with RDA following the March 2, 2007 transaction. We also sell products through multiple channels including QSP, our schools and youth fundraising company, and Books Are Fun, our display marketing business. Our Internet food websites, Allrecipes.com, Tasteofhome.com and rachelraymag.com have approximately 90,000 combined recipes. Allrecipes.com, a food lifestyle community is an online cooking community where home cooks from around the world come to share, rate and download recipes and meal ideas with approximately eight million unique visitors per month.

We are a Delaware corporation, originally incorporated in New York in 1926, then reincorporated in Delaware in 1951. Our corporate headquarters are located at Reader's Digest Road, Pleasantville, New York 10570 and our telephone number is (914) 244-1000.

Our Strengths

Leading global brand and unparalleled footprint. *Reader's Digest* magazine is one of the worlds most widely subscribed and read magazine franchises, with a circulation of over 18 million worldwide and almost 70 million readers. According to the 2006 Young & Rubicam Brand Asset Valuator study, Reader's Digest is one of the strongest publishing brands in the United States. The magazine is published in 50 editions and in 21 languages. We have developed a diversified product portfolio that includes 90 magazines, series and single-sales books and a music collection with more than 11,000 titles. We sell books and magazines in over 70 countries around the world and have a global database of more than 100 million households. We sell music products in 43 countries and video products in 34 countries.

Extensive channels of distribution and diversified customer base. We have multiple channels of distribution through which we serve our highly diversified customer base. We market and sell our products through direct mail (including catalogs), the Internet, DRTV, telemarketing, package inserts, freestanding inserts, display marketing and direct selling. Furthermore, our QSP division is a leading schools and youth fundraising support organization in the

United States, while our Books Are Fun division is one of the largest display marketers in the United States. Our extensive customer database provides us with the ability to cross-sell by marketing our full portfolio of products to existing customers. We believe that our diversified revenue streams reduce the risk of product, marketing channel, customer and geographic revenue concentration.

Strong operating performance in our core businesses. During the past three years, excluding costs and amortization related to the Acquisition Transaction, our core businesses reported in our North America and International segments have experienced strong operating profit growth and margin expansion. For the three-year period ended June 30, 2007, the operating margins in our Reader's Digest North America segment have improved by 2.9%, with operating profit growing 13.1% on a compounded annual basis. Over the same period, Reader's Digest International's operating margins have expanded 0.4%, with operating profits increasing 6.9% on a compounded annual basis.

Well-developed product portfolio targeting high-interest consumer and advertising affinities. Our content and products target four high-interest consumer and advertising affinities: Food & Entertaining, Home & Garden, Health & Wellness, and RD Inspiration. We believe these affinities have high consumer engagement and are, therefore, attractive to advertisers. We have the leading market share in the popular food affinity magazine publishing market through our *Taste of Home* and *Every Day with Rachael Ray* titles. Our Internet food site Allrecipes.com is among the top three food lifestyle websites, and the leading social networking food site on the Internet.

Experienced and committed leadership team. Our current senior management team provides us with a combination of both deep-rooted and recent experience at our company, and averages over 20 years of experience in the publishing industry. Our leadership team is led by Harvey Golub, the Chairman of our Board of Directors, and Mary Berner, our President and Chief Executive Officer. Mr. Golub and Ms. Berner are among the most accomplished executives in their respective industries.

Leading financial sponsor with publishing and direct mail experience. Ripplewood Holdings L.L.C. ("Ripplewood") is a leading private equity firm that specializes in sponsoring companies and providing operational oversight. Ripplewood was founded in 1995 and has invested over $10 billion in a number of industries, including publishing, direct marketing, consumer products, chemicals, financial services, telecommunications and technology. Prior transactions in the direct marketing and publishing sectors include the acquisitions of Direct Holdings, WRC Media and Shaklee.

Our Business Strategy

We are focused on expanding our position as a leading provider of information, entertainment, and education through our magazines, books, recorded music collections, home video products and educational materials. Our business strategy concentrates on three key areas:

1) Financial flexibility;
2) Growth engines and value creation; and
3) People and culture.

Financial Flexibility

We are engaged in a Company-wide effort to deliver cost savings. We believe that this initiative is critical to both our short- and long-term health, as it will drive improved margins, reduce costs to strengthen the financial health of the Company, and create financial flexibility by saving funds that can be directed into other corporate needs. The goals of our expense reduction are:

- To improve the way we do business;
- To reduce the costs of purchased products and service; and
- To thereby improve our return on capital.

We currently have a high standalone cost structure. Our selling, general and administrative expense (defined as promotion, marketing and administrative expense) was approximately 53% of sales in fiscal 2007, which we believe is higher than that of many other publishers. We have identified annual cost savings from our becoming a private company, implementing headcount reductions and the absence of certain other expenses. We also believe there are significant cost and revenue synergies among our product affinities, including infrastructure and distribution channel synergies. Additionally, we have been working with a leading supply chain consulting firm to analyze our infrastructure in order to identify additional cost reduction opportunities within our supply chain and maintenance, repair and operations functions. On October 17, 2007, we entered into a seven year contract with Williams Lea, a global corporate information solutions provider, that is expected to reduce our print procurement cash expenditures by an aggregate of approximately $130 million over the first three years. See "BUSINESS – Production and Fulfillment" for more information.

Growth Engines and Value Creation

We aim to increase our value by organizing our Company to leverage our leading businesses and brands into opportunities for growth by creating product affinities, continuing to expand internationally, and developing our channels and digital products. We anticipate that these efforts will strengthen our portfolio of companies and improve our business performance.

In March 2007, we began to shift to an affinity-based focus in the United States, which allows us to market our portfolio of content assets around business divisions based on consumer affinity interests. By organizing around the following four affinities, we believe that we will be able to more effectively leverage our platform to both customers and advertisers in the United States:

- *Food & Entertaining*—We are the largest food publisher in the United States, based on magazine circulation of more than 7 million as of June 30, 2007, with several popular food magazines, cookbooks, websites and cooking events that engage consumers across a variety of media. Our key products within this affinity are the award-winning magazine *Every Day with Rachael Ray*; *Taste of Home,* the largest-circulation U.S. food magazine; related *Taste of Home* food magazines, cookbooks and cooking schools; Taste of Home Entertaining, our home party plan business; and Allrecipes.com.

- *Home & Garden*—We have several leading magazines in the Home and Garden space with total circulation of approximately 7.5 million as of June 30, 2007. Our key magazines in this affinity include *The Family Handyman,* the largest U.S. do-it-yourself publication with a circulation of approximately 1.1 million, *Birds & Blooms*, with a circulation of approximately 1.7 million, and *Backyard Living,* with a circulation of approximately 0.9 million. This affinity also sells home and garden-related books and merchandise.

- *Health & Wellness*—We are a publisher of health content, and our key products within this affinity are global health-related books such as *Magic Foods for Better Blood Sugar*. In addition, we have an extensive ailment database to which we periodically promote products and services.

- *RD Inspiration*—We publish products that inspire by celebrating the power of the individual, including our flagship title, *Reader's Digest* and its brand extensions, *Selecciones* and *Reader's Digest Large Print for Easier Reading*, plus trade publishing, reading series (including *Select Editions*) and music. Total circulation in this affinity is approximately 11 million as of June 30, 2007.

We believe that our shift to a focus based upon consumer interest affinities within the United States allows our customers to more effectively engage with our content and products, enabling us to offer cross-platform content and advertising packages to both consumers and advertisers, to promote advertising growth across our flagship *Reader's Digest* magazine and special interest titles including *Every Day with Rachael Ray* and *Taste of Home,* and to build and grow our digital assets. While we believe many publishers generate more than 50% of magazine revenue from advertising, advertising represented a significantly smaller percentage of our total magazine revenue in fiscal 2007.

Please see "Circulation and Advertising" below.

In the past two years, we launched or acquired three new business concepts: *Every Day with Rachael Ray* magazine, Taste of Home Entertaining and Allrecipes.com. *Every Day with Rachael Ray* was named *Advertising Age*'s 2006 "Launch of the Year" and, as of June 30, 2007, had increased its rate base from an initial 350,000 to approximately 1.3 million. Taste of Home Entertaining, a home party plan business, leverages the Taste of Home brand and has approximately 8,400 consultants who have held approximately 38,000 parties and sold approximately 1.0 million products in fiscal 2007. Allrecipes.com currently has 2.4 million registered members who post recipes and reviews to the website, which has approximately eight million monthly unique visitors. Allrecipes.com generates revenue from advertising sponsorship and business-to-business software licensing. In addition, in March 2007, we added Direct Holdings and WRC Media to our family of businesses.

We anticipate investing in global expansion within our International segment by entering new countries, launching new editions of *Reader's Digest* magazine, and rolling out new products. After launching businesses in ten new markets in the past four fiscal years, we expect to expand into additional markets such as Turkey, Saudi Arabia and The People's Republic of China in fiscal 2008. There is a rigorous selection process to identify potential new markets that includes selecting areas for expansion that have a high literacy rate, a reliable postal system, a favorable regulatory environment and strong market test results. For the fiscal year ended June 30, 2007, the ten new markets generated approximately $47 million in revenue and $12 million in operating profit. We believe there is a significant opportunity to expand further globally.

Our School & Educational Services segment brings together QSP, Books Are Fun, Weekly Reader Publishing Group, which publishes *Weekly Reader*, a learning-based classroom periodical with approximately 5.3 million U.S. subscribers throughout the United States, and CompassLearning, provider of a leading computer-based school curriculum that allows students to develop their math and English skills. We expect to expand this segment by leveraging our relationships with teachers, school administrators, parents and students. We believe that revenue synergies can be achieved by integrating product sales with fundraising; databases and direct marketing with field sales forces; and product-rich entities with distribution.

We expect to expand our marketing channels worldwide, particularly expanding our digital efforts. Our digital strategy is to build online brands to amass large audiences, leveraging our brand equity and content to profitably sell advertising and magazine subscriptions and to aggressively acquire and retain customers online along all points of contact to sell more products, and do so more cost-effectively. We also expect to leverage other non-direct mail channels such as retail, display marketing and DRTV.

People and Culture

We seek to transform our Company to create more consistent and sustainable performance that will enhance profitability and cash flow while positioning the Company for sustained long-term growth. We are committed to fostering a rapid and innovative environment, and evolving our corporate culture into a high-performance organization. To this end, we have launched a globally consistent platform to drive accountability and to enhance our performance-based culture. This platform was designed with the following objectives in mind:

- Drive accountability to all employees;
- Raise the bar on performance;
- Ensure expectations are communicated; and
- Increase the probability of our success.

We also have a significant effort underway to upgrade talent across our entire company.

Our Business Segments

Our business is organized and reports across three business segments: Reader's Digest North America, Reader's Digest International and School & Educational Services. However, for fiscal 2007 we had not yet fully integrated the March 2007 additions of WRC Media and Direct Holdings into our three business segments. Therefore, these companies were operated and monitored separately for fiscal 2007. We expect to have the operations of these companies fully integrated into our historic segment structure in fiscal 2008. In addition, historically our Canadian operations were reported in our North American segment, but are expected to be reported in our International segment for fiscal 2008.

Information regarding each segment's revenue, income or loss before taxes for each of the last three fiscal years and total assets as of the end of each of the last two fiscal years is included in "Note 15—Segments" in our combined consolidated financial statements included in this Annual Report, which is incorporated by reference herein.

Reader's Digest North America

During fiscal 2007, our North American segment comprised our operations in the United States and Canada that primarily publish and market magazines, books and home entertainment products, including

- *U.S. Magazines* — Three editions of *Reader's Digest* magazine and special interest magazines such as *The Family Handyman* and *Every Day with Rachael Ray*.

- *Reiman Books and Magazines* — Books and 13 special interest magazines, such as *Taste of Home*, *Country* and *Birds & Blooms*, focusing on food, home and garden and other lifestyle topics, as well as cooking schools, catalogs and travel tours.

- *U.S. Books and Home Entertainment* — Select Editions books, Young Families products, series and general books, children's and trade publishing, and music and video products.

- *Canada* — Canadian editions of *Reader's Digest* magazine, BHE products and *Our Canada* magazine.

- *Other* — Taste of Home Entertaining, a home party plan business, and Allrecipes.com, an online recipe and cooking business.

For the fiscal year ended June 30, 2007, Reader's Digest North America contributed $985 million and $110 million to our revenue and operating profit, respectively.

The performance of *Reader's Digest* magazine and special interest magazines is driven primarily by circulation revenue and advertising sales. Reader's Digest North America uses various direct marketing techniques to acquire new customers in a cost-efficient manner. Many of our publications possess an innovative editorial model that makes extensive use of reader-generated content. Historically, these reader-generated magazines have not included significant advertising, and, accordingly, circulation has been the principal driver of performance in this business. However, we expect to promote advertising in these magazines in the future. The results of the U.S. and Canadian books and home entertainment businesses are driven by their new customer acquisition programs, response rates to their promotional mailings, customer payment rates and membership in their continuity series businesses. The performance of our Taste of Home Entertaining business is driven by the number of consultants, number of parties and average sales per party. The performance of our Allrecipes.com site is driven by monthly visitors, advertising, and licensing.

U.S. Magazines

Reader's Digest Magazine. *Reader's Digest* is a reader-driven, general interest family magazine with an editorial mission to inform, entertain and inspire. The articles, book section and features included in *Reader's Digest* cover a broad range of contemporary issues and reflect a focus on the power of the individual to make a difference in their own lives and the lives of others. Commencing with its January 2008 issue, the look of *Reader's Digest* will be redesigned to give it a more contemporary feel and to introduce the magazine's "Life Well Shared" tagline. In addition to original articles, the United States English-language edition of *Reader's Digest* also contains reader-generated monthly humor columns, such as "Laugh! It's the Best Medicine" "Life in These United States" and "@Work - All In A Day's Work," and other regular features, including "Quotes," "Word Power," "Only in America," "Heroes," "Outrageous!" and "Guide."

Reader's Digest is published in several editions in the United States, including the flagship English-language edition, a Spanish-language edition titled *Selecciones,* and *Reader's Digest Large Print for Easier Reading,* as well as Braille and recorded editions.

Selecciones. *Selecciones* is the Spanish-language edition of *Reader's Digest* that is published in the United States. It is the world's most popular magazine in a Spanish-language edition, with a circulation of approximately 375,000 as of June 30, 2007. In every issue there is a broad range of topics including useful advice, entertainment, inspiration, ways to cope with stress, the latest medical discoveries, and tips to manage time and investments.

The Family Handyman. We publish *The Family Handyman,* which provides inspiration, instructions and guidance for do-it-yourself home improvement projects. *The Family Handyman* has a circulation of approximately 1.1 million as of June 30, 2007. Under *The Family Handyman* brand, we also publish special homeowner custom publications that are used by real estate brokers.

Every Day with Rachael Ray. *Every Day with Rachael Ray* is a full-size glossy magazine that features the popular author, TV food personality and talk show host Rachael Ray. The magazine offers smart and easy recipes, as well as practical advice on food destinations and entertaining. *Every Day with Rachael Ray* has a circulation of approximately 1.3 million as of June 30, 2007. The magazine featured nine issues in fiscal 2007, and has a companion website at www.rachaelraymag.com, which contains additional recipes in addition to the ones published in the magazine.

rd.com. The rd.com website extends the experience of reading *Reader's Digest* through audio, graphic, text and video enhancements, interactive discussions and reader involvement, and additional content relating to *Reader's Digest*. We also utilize rd.com to market our products through e-mail and the Internet, as well as to communicate with, and provide service to, our customers online.

Reiman Books and Magazines

Reiman publishes 13 special interest magazines on food, home and garden and other lifestyle topics in addition to offering books, cooking schools, catalogs and travel tours. Reiman has an innovative editorial model that makes extensive use of reader-generated content. Historically, almost all of Reiman's publications have not accepted on-page advertising, making circulation the principal driver of performance. However, we expect to promote advertising in these magazines beginning in fiscal 2008.

The editorial philosophy for our Reiman products includes the following core principles: (1) concentration on positive aspects of people and their lifestyles, (2) encouragement of reader involvement, (3) maintenance of low editorial costs, and (4) emphasis on product quality. Approximately 80% of the editorial content of Reiman magazines is contributed by readers.

As of June 30, 2007, we believe that six of Reiman's magazines would have ranked in the top 100 in national circulation in the United States, with *Taste of Home* being the largest food magazine in the United States, based upon the most recent Audit Bureau of Circulation statistics. Reiman's strategy has included launching a number of new book annuals and magazines, as well as repurposing content for retail and trade sales through Books Are Fun, bookazines and newsstand sales. Reiman has also focused on initiatives such as the re-launch of *Quick Cooking* as *Taste of Home Simple & Delicious* and is collaborating with Allrecipes.com to include content from Reiman's food publications.

Reiman magazines. Reiman publishes 12 bi-monthly magazines and one quarterly magazine in the United States and Canada, including *Taste of Home*, which is the largest-selling food magazine in the United States. *Taste of Home* is published six times a year and includes 68 full-color pages with more than 75 recipes in each issue. *Taste of Home* caters to readers who are looking for simple everyday recipes that can be created without exotic ingredients. The magazine was launched in 1993 and had approximately 3.5 million subscribers as of June 30, 2007. In addition to receiving recipes from its readers, *Taste of Home* also has approximately 1,000 field editors across the United States and Canada who regularly collect and send recipes to the magazine. The interactive aspect of the business model allows *Taste of Home* to cater to the needs of its loyal reader base and allows for a strong web presence at www.tasteofhome.com.

Other notable Reiman magazine titles include three Taste of Home extension brand food magazines, as well as *Birds & Blooms*, *Reminisce* and *Backyard Living*.

Reiman books. Reiman also publishes books based on editorial content derived from material contributed to Reiman magazines by its readers. Reiman books are created to complement Reiman magazines and to leverage the magazines' brand equity, reader loyalty and editorial capability. Reiman principally markets annual editions of books that are mostly created from prior-year magazine content and markets single-sales products. Reiman has 13 annual book programs and two calendar programs (including one book program that was launched in fiscal 2007) that are marketed on an advanced consent basis, with customers agreeing to receive future editions of the books unless they respond to an annual prepublication notice. Reiman also publishes several popular cookbooks under the Taste of Home franchise. Reiman recently launched *The Taste of Home Cookbook*, which already has sold more than 800,000 copies.

U.S. Books and Home Entertainment

We grouped as books and home entertainment ("BHE") products in our North American segment in fiscal 2007 *Reader's Digest Select Editions*, Reader's Digest Young Families, Reading Series Books, General Books, Recorded Music Collections and Series, and Adult Trade and Children's Publishing. These products are marketed and sold through direct mail and retail and also through the Internet, DRTV, telemarketing, package inserts and catalogs. Results in this business are driven by the size of the active customer base, response rates to promotional mailings and offerings, and membership in the continuity series business.

Reader's Digest Select Editions. *Reader's Digest Select Editions* is a continuity series of condensed versions of current popular fiction. A condensed work reduces the length of an existing text while seeking to retain the author's style, integrity and purpose. BHE first published the *Select Editions* books in 1950 and currently publishes six volumes of *Select Editions* each year. Each *Select Editions* volume contains edited and condensed versions of today's bestsellers. Some popular authors who have appeared in recent *Select Editions* include James Patterson, Mary Higgins Clark, Nicholas Sparks, Nelson DeMille and Sue Grafton.

Select Editions are marketed primarily through direct mail to our existing customers and also promoted through offerings in *Reader's Digest* magazine, as well as e-mail and Internet offers.

Reader's Digest Young Families. Reader's Digest Young Families sells products for children up to age eight, primarily through direct mail and Internet promotions targeting new mothers and grandparents. The division's products include interactive books, such as *Classics for Beginning Readers*, *Little Animal Adventures*, *Sesame Street ABCs* and *Read with Pooh*, and videos, such as *The Country Mouse and The City Mouse*. Young Families sells its products principally in the United States and Canada.

Reading Series books. Our U.S. BHE markets open-ended reading series books. Notable titles include *The World's Best Reading*, *Today's Best Non-Fiction*, and *Best Mysteries of All Time*.

General books. General books include books that span our consumer affinity interests including cookbooks, health books, how-to and do-it-yourself books, and reference books, some of which we publish in series. BHE also publishes books on subjects such as history, travel, religion, nature, home, computers and puzzles.

New general books are usually BHE original books, but also may be books acquired from other publishers. During the development period for an original RDA book, extensive research is conducted to prepare an appropriate marketing strategy for the book. BHE continues to examine its current marketing strategy and to identify new opportunities for growth.

Music. BHE releases music collections on compact discs in the United States. These releases span a broad range of musical styles, ranging from classical to pop and from local folk to relaxation music.

BHE licenses existing recordings from major record companies and sponsors its own recordings with renowned orchestras and international and local artists, while continuing to acquire rights to master recordings. As of June 30, 2007, BHE owns a music collection of more than 11,000 original titles. BHE has digitized a major portion of these selections and now offers an increasing number of tracks through various online providers. BHE also licenses its selections to third parties for retail sales or for movie synchronization.

We are a member of the Recording Industry Association of America in the United States and have been recognized with 51 gold, platinum and multi-platinum certificates.

Video. BHE home video products reflect the interests of its global customers—travel, history, natural history and children's animated programs.

BHE's high editorial and production standards differentiate its programs in a competitive marketplace. BHE original special interest documentaries are produced with award-winning production companies in Europe, Australia and the United States. To create programs cost effectively, BHE is developing partnerships with international broadcasters and prestigious moving-image archives.

When original programs are filmed, the footage is archived for potential use in future productions. Additionally, BHE is responding to technological innovation by filming in high definition and by offering video products in multiple formats, including DVD.

Reader's Digest Trade Publishing. Trade Publishing sells books and products for both children and adults and comprises two divisions: Reader's Digest Children's Publishing and Adult Trade Publishing. Our Trade Publishing products are sold both within the United States and internationally, having been translated into 39 localized editions, and marketed in 40 other countries outside the United States and Canada.

Reader's Digest Children's Publishing produces books, games and other products for children up to age 12 under the Reader's Digest Children's Publishing imprint. Its products are sold through retail channels as well as through its other businesses (including display marketing and catalogs) and other channels, including the Internet. The products represent such popular brands as Barbie, Disney (classic Disney and Pixar characters), Nickelodeon, Sesame Street, Fisher-Price, Marvel, Hasbro, Little Tikes and NASCAR.

Reader's Digest Adult Trade Publishing originates books in many illustrated reference categories, including gardening, crafts, travel, do-it-yourself, history and family reference, including World Almanac Education Group, Inc. ("World Almanac"). These books are sold through retail channels, catalogs, book clubs, Books Are Fun, QSP and television. Through the adult Trade Publishing division, many illustrated reference categories, including gardening, crafts, travel, do-it-yourself, history and family reference, are sold to Reader's Digest International divisions.

Canada

RDA's Canadian operations sell magazines and BHE products. RDA's Canadian operations have been working to build the most trusted brand with strategic partnerships in Canada. An integrated customer approach and multi-channel publishing strategy have led to a consistent performance in the region. In terms of paid circulation, *Reader's Digest* is the largest magazine in Canada, *Our Canada* is fifth largest and *Selection du Reader's Digest*, the French edition of *Reader's Digest* in Canada, is the seventh largest. Our Canadian magazine publishing company is focused on expanding through new magazines and digital growth, while establishing new partnerships and reaffirming existing relationships. For fiscal 2007, our Canadian operations were included in the results of our North American segment. Commencing with fiscal 2008, our Canadian operations will be reported in our International segment.

Other initiatives

Taste of Home Entertaining is a start-up home party plan business that markets merchandise directly to consumers. Taste of Home Entertaining was launched in May 2006 and has approximately 8,400 independent sales consultants who, in fiscal 2007, conducted approximately 38,000 home parties and sold approximately 1.0 million products that relate to entertaining in the kitchen, dining room and backyard. Other products include cookware, kitchen gadgets, cutlery, dinnerware, publications, decorations and celebrity chef Mario Batali's "The Signature Series" set of kitchen tools.

Allrecipes.com, acquired in April 2006, is America's second-largest home cooking website, and leading social networking food website, with approximately 40,000 recipes that are created, reviewed and rated by participating home cooks. In 2007, recipes on the website were viewed approximately 540 million times, with an average of approximately eight million unique monthly visitors who have collectively viewed an average of 100 million pages per month. Females represent approximately 77% of the people who visit the website, with 70% between the ages of 25 and 54. Allrecipes.com has strong relationships with retailers and packaged goods advertisers and generates revenue from advertising sponsorships and business-to-business software licensing.

We believe Allrecipes.com has the potential domestically and internationally to become a significant aggregator of online food content. This growth would provide us with a larger audience for our cooking-related products without increasing direct mail promotion, and we believe would provide a springboard for replicating this online model in our other affinities.

Reader's Digest International

Our International segment during fiscal 2007 was organized across three primary regions: Western Europe, Central and Eastern Europe and Asia Pacific/Latin America. Commencing with fiscal 2008, we have re-defined these regions to consist of Europe, Canada/Latin America and Asia Pacific. In fiscal 2007, our International segment comprised our operations that publish and market magazines and BHE products in more than 70 countries outside of the United States and Canada, including:

- International Magazines;
- International Books and Home Entertainment; and
- New Products and Initiatives.

Outside of North America, BHE sells its books in 44 countries, music products in 41 countries and video products in 32 countries. Most products and promotions are developed in the United Kingdom, France, Germany, Canada, Australia and the United States and are then adapted to other markets. For most international editions of *Reader's Digest*, subscriptions comprise more than 90% of circulation. Globally, *Reader's Digest* is published in 50 editions, which include editions published by third parties under licenses in eight countries. As with BHE products, these titles are sold primarily through direct marketing. To varying degrees, editorial content is created in local markets and housed in a central repository, enabling smaller markets to use the content developed in other markets around the world.

On March 2, 2007, we acquired Direct Holdings, a direct marketer and retailer of music, video and book products. For fiscal 2007, we had not yet integrated the addition of Direct Holdings to our portfolio into our primary segment reporting. Therefore, the operations of Direct Holdings have been reported as a separate segment for fiscal 2007. We expect to have the operations of Direct Holdings fully integrated into our International segment in fiscal 2008.

In fiscal 2007, Reader's Digest International contributed $1.1 billion and $70 million to our revenues and operating profit, respectively.

International Magazines

The content of and editorial procedures for the international editions of *Reader's Digest* are similar to those of the U.S. editions. Reader's Digest International magazines are marketed primarily through direct mail just as they are in Reader's Digest North America. Each international edition has a local editorial staff responsible for the editorial content of the edition. The mix of locally generated editorial material, material taken from U.S. editions and material taken from other international editions varies greatly among editions. In general, our larger international editions, such as those in France, Germany, Australia and the United Kingdom, carry more original or locally adapted material than the smaller editions.

Globally, *Reader's Digest* is published in 50 editions and 21 languages. Reader's Digest International licenses the right to publish *Reader's Digest* to licensees in India, Italy, South Korea, Norway, South Africa, Slovenia, Croatia and Indonesia. At the end of our 2007 fiscal year, we received formal approval to publish *Reader's Digest* in The People's Republic of China. For most international editions of *Reader's Digest*, subscriptions comprise more than 90% of circulation. The balance is attributable to newsstand and other retail sales. Our international magazines are sold primarily through direct marketing. In fiscal 2007, Reader's Digest International also published two new magazines, including *HealthSmart*, a health and lifestyle magazine in Australia, and *Our Beautiful Poland*, a general interest magazine in Poland, and several other local initiatives.

Some of Reader's Digest International's special interest magazines include *Receptar*, a leading Czech do-it-yourself and gardening monthly magazine, *Handyman* in Australia, *Joy* in Mexico, *Young Family* in Russia, and *Daheim in Deutschland* in Germany and *Meidan Suömi* in Finland, both general interest magazines.

Reader's Digest International intends to launch new magazines in the future, including more editions of *Reader's Digest* magazine, special interest magazines and other initiatives through a globally coordinated development process that is already in place.

International Books and Home Entertainment

The international element of the BHE business is similar to the U.S. business in that book, music and video products are sold using similar direct marketing techniques. Products sold within the United States, including those described in this annual report under "BUSINESS – Our Business Segments - Reader's Digest North America – Books and Home Entertainment" also are marketed internationally.

Books are published under a carefully orchestrated global publishing program. Product concepts are tested in a number of markets via direct mail, which leads to a publishing decision. Most titles are created in the United Kingdom, France, Germany, Australia and the United States and then adapted locally in other markets.

BHE markets two types of series books internationally—reading series and illustrated series. These book series may be either open-ended and continuing or closed-ended, consisting of a limited number of volumes. BHE publishes reading series books in four languages and sells them in ten countries outside of the United States and Canada. Illustrated series, which are generally closed-ended, are published in six languages and sold in 11 countries. General books are published in 24 languages and sold in 44 countries outside the United States and Canada.

BHE publishes *Select Editions*, its largest open-ended reading series, in 14 languages and sells them in 27 countries outside of the United States and Canada. Reader's Digest International publishes between four and six *Select Editions* volumes per year depending on the market. Reader's Digest International editions of *Select Editions* generally include some material from the United States edition or from other Reader's Digest International editions, translated and edited as appropriate. Reader's Digest International editions also may include condensed versions of locally published works with each local editorial staff determining the appropriateness of existing *Select Editions* works for its own local market.

BHE promotes music collections on compact discs and cassettes in 41 countries and markets a range of video products in 32 countries, outside of the United States and Canada. Reader's Digest International original special interest documentaries are produced with award-winning production companies in Europe, North America and Australia.

New products and initiatives

New country expansion. In the last four years, we have launched businesses in ten new countries, and we expect to continue to expand into several new countries in fiscal 2008 and beyond. In the past two years, we launched new businesses in Bulgaria, Kazakhstan, United Arab Emirates, Serbia, Bosnia and Lithuania, while launching new editions of *Reader's Digest* in Romania, Slovenia and Croatia. New country selection criteria include literacy rates, reliability of the postal system, level of interest in Western culture, customer acquisition costs and the regulatory framework. Once a country is selected, we typically offer books and promotion packages that have achieved the most success in other markets around the world as the introductory products.

We have utilized two distinct entry strategies in our international expansion: licensing arrangements with local partners and a "go alone" strategy where we form our own subsidiary. In markets with more moderate scale, we have negotiated licensing agreements with local partners who run the business while we provide products, promotion packages, best practices and other support. These arrangements are established with limited upfront investment and are structured with revenue and profit sharing agreements. Examples of successful licensing arrangements include launches in Croatia, Slovenia, Bosnia and Herzegovina, and Serbia with local partner Mladinska Knjiga, a regional publishing house; and in Lithuania with Alma Littera.

Markets with greater scale where we have access to customer lists are better suited for a "go alone" entry strategy. Once a market test returns the desired level of attractiveness, we invest in a small local editorial and operating staff and establish limited local infrastructure. This entry strategy has been adopted successfully in Romania, Ukraine, Kazakhstan and Bulgaria.

Under both strategies, significant management support is given from "hub" markets, such as the Czech Republic and Russia, as well as global and regional departments.

English language learning. Reader's Digest International is also focused on building a scalable global English language learning business. This product benefits from our brand, direct marketing, editorial expertise and existing international platform. The first product developed was "English in Twenty Minutes a Day," a print/CD-based product. "English in Twenty Minutes a Day" has been launched in over 18 markets.

Direct Holdings

Direct Holdings is a direct marketer and retailer of music, video and book products. Direct Holdings has an exclusive license to sell specified categories of products under the Time Life trademark pursuant to a license agreement with Time Warner Inc. and Time Inc. The ten year licensing agreement expires in 2013 with a provision for a further ten-year renewal term expiring in 2023. The license agreement is applicable to books, prerecorded music, video and audio products, educational and entertainment software, and certain related products. The Time Life brand is recognized around the world as a trusted source of high-quality music, video and book content. Direct Holdings uses the Time Life brand as a key selling point in direct response, retail and direct market channels. As of June 30, 2007, Direct Holdings' worldwide marketing database consisted of over 16 million names and included transactional, behavioral and demographic information for all Direct Holdings customers. In fiscal 2007, Direct Holdings contributed $252 million and $(8) million to our revenues and operating (loss) profit, respectively.

Direct Holdings predominantly operates in the music genres of Rock, Country, Christian, Classical, Easy Listening, Jazz, Blues, R&B and Christmas. Time Life brand music product primarily consists of content licensed through the four major record companies (the "Majors"). Licenses are typically for a five-year term and in North America often require production volume guarantees of 25,000 units. In North America, the company generally engages one of the Majors for the production of each compilation through a "finished goods" deal that is inclusive of master-use royalties and manufacturing costs. Depending on the type of product and its intended distribution channel, CDs range from twelve to thirty tracks and are one- to ten-CD set configurations.

The Time Life brand has a global footprint throughout Europe, Asia and the South Pacific. In Europe, Direct Holdings licenses the majority of its music product from major labels and some independents. Direct Holdings directly manages the payment process for manufacturing expenses, royalties and publishing copyright. The majority of the music products sold in Europe are direct adaptations of products created in the United States, while the remaining music content is sourced locally in Europe. Music products are sold through all distribution channels in which we operate.

Direct Holdings' video product categories include Comedy, Drama, Christian, History, Nature and Children. Most video product sales are in the form of single-DVD units or multi-DVD sets. Video products are sold through all distribution channels. Direct Holdings licenses its video product from various licensors. The company typically seeks to test a concept with no further purchase commitment. If the test is successful, a national rollout is scheduled, and in some cases an advance payment is made. Products either are purchased as finished goods from licensors, or Direct Holdings duplicates the product through a low-cost, third-party relationship with a U.S. duplicator.

For international distribution of video products, Direct Holdings almost exclusively sources content locally in Europe from various rights-holders, while for music products almost half of the content is repackaged content from the United States. In Australia, video products are licensed from a variety of sources, such as major studios, TV stations and other rights owners. Direct Holdings is a significant participant in the video market in Australia particularly for special interest series. Because there is little competition in the market, the division is able to obtain many programs that are not available in other geographies. As in Europe, most products are sourced and developed locally.

Direct Holdings' product fulfillment is outsourced both domestically and internationally. Direct Holdings utilizes multiple channels to market its music, video and book products, including long-form (typically 30 minute "infomercials") and short-form (two minutes or less) television advertising, outbound telemarketing, direct mail, the Internet and direct sales. DRTV is the engine that drives Direct Holdings' business in the U.S. market.

By leveraging content across multiple distribution channels and across multiple geographic markets, Direct Holdings believes it is able to efficiently generate multiple revenue streams from a single product. In addition, once a new customer is acquired, the full breadth of product offerings is available for additional sales through a targeted contact strategy intended to extract maximum value from each customer on file. Direct Holdings has expanded the sources of customer acquisition beyond television advertising to include general Internet advertising. The new sources of customers include search engine marketing, affiliate relationships and traditional advertising. Additionally, Direct Holdings is redesigning many of the promotional pages on its website to increase their selling effectiveness and is actively building a database of email addresses for prospective and existing customers.

School & Educational Services

Our School & Educational Services segment comprises United States and Canadian operations that have unique relationships with schools, teachers and students, and provide educational resources to a variety of audiences. This segment primarily publishes and/or markets magazines, books, educational products and home entertainment products, through the following business units:

- QSP, Inc. and Quality Service Programs, Inc. (QSP);
- Books Are Fun, Ltd. (Books Are Fun);
- Weekly Reader Publishing Group (Weekly Reader); and
- CompassLearning, Inc. (CompassLearning)

For fiscal 2007 we had not yet fully integrated operations of the March 2007 addition of WRC Media operations into our School & Educational Services segment. Therefore, WRC Media was operated and monitored separately and has been reported as a separate segment for fiscal 2007. We expect to have the operations of these companies fully integrated into our School & Educational Services segment in fiscal 2008.

QSP is one of the leading school and youth fundraising support organizations in North America, helping schools and other youth groups launch, promote and organize fundraising campaigns that sell our magazines, other publishers' magazines and food and gift products. In addition, QSP has online fundraising capabilities targeted primarily at small, non-school accounts through a number of fundraising Internet websites, such as eFundraising.com and Fundraising.com. As of June 30, 2007, QSP had approximately 400 sales representatives who work directly with schools and youth groups on fundraising campaigns.

Books Are Fun operates in the United States and Canada and uses independent sales representatives who sell books and gift items, including RDA books and home entertainment products, at discount prices by display marketing at schools, businesses, corporations and hospitals through book fairs and other displays. Book categories sold by Books Are Fun include bestselling novels, cookbooks, children's books and education, sports, hobbies, nature, travel and self-help titles. Non-book categories include bath and beauty products, music, videos and gift items.

As discussed under "The Acquisition Transactions," on March 2, 2007, we combined with WRC Media, parent of Weekly Reader Publishing Group and CompassLearning and a leading publisher of supplemental education materials for the pre-K through grade 12 market in the United States. Weekly Reader's product portfolio includes a broad array of print and electronic / Internet supplemental instructional and educational materials. For fiscal 2007, we had not yet integrated the addition of WRC Media to our portfolio into our School & Educational Services segment reporting. Therefore, the operations of WRC Media have been reported as a separate segment for fiscal 2007. We expect to have the operations of WRC Media fully integrated into our School & Educational Services segment reporting in fiscal 2008.

Over the past several years School & Educational Services has experienced declining revenue and operating profits which, were mainly driven by fewer corporate events held by Books Are Fun and lower magazine volumes at QSP. These results were associated with the competitive pressures and costs associated with recruiting and retaining members of both divisions' sales forces. During the past few years both divisions have suffered the loss of sales force personnel or independent sales representatives due to aggressive hiring tactics by a key competitor. We are working to reverse adverse business trends in our School & Educational Services segment. Over the past year, we have restructured these operations, installed new senior management, and recently begun to see some sales representatives return to Books Are Fun, as well as begun to integrate and leverage Weekly Reader and CompassLearning.

In fiscal 2007, School & Educational Services contributed $415 million and $0 to our revenues and operating profit, respectively.

QSP

QSP operates in the United States and is one of the largest participants in youth fundraising support. As part of these activities, QSP markets and sells subscriptions to *Reader's Digest* magazine, the Reiman magazines, RDA's other special interest magazines and other publishers' magazines, as well as food, gift, music and book products. QSP works directly with schools and youth groups on fundraising campaigns in which participants sell those products and the schools and youth fundraising organizations retain a significant amount of the proceeds. QSP derives its revenue through services rendered in connection with fundraising events. A substantial majority of QSP's sales occur during the first half of its fiscal year, coinciding with the fall school semester. QSP currently employs approximately 400 sales representatives.

Our Canadian subsidiary, Quality Service Programs, Inc., conducts operations in Canada substantially similar to those conducted by QSP in the United States.

Operations at QSP are supplemented by several proprietary electronic fundraising websites that provide turnkey fundraising services and significant lead generation. QSP.com uses proprietary software that enables e-mail messages to be sent on behalf of students about their school or youth group's fundraising activities to family and friends. The e-mail directs the recipients to the school or youth group's website, where they may purchase magazine subscriptions and a variety of gift and food products. Other QSP websites, eFundraising.com and fundraising.com, provide fundraising products, mainly food products, to organizations conducting fundraisers.

Several hundred other publishers make magazine subscriptions available to QSP at competitive discounted prices, while QSP obtains music products from a large music publisher. Many of QSP's chocolate food products are obtained from World's Finest Chocolate, a leading manufacturer of chocolate products for fundraising. In May 2007, we restructured our agreement with World's Finest Chocolate, Inc. to, among other things, reduce the term of the agreement from December 31, 2020 to December 31, 2009, reduce our annual minimum tonnage purchase requirements for the remaining term of the agreement, phase out the fundraising exclusivity rights previously granted to QSP (effective January 1, 2008), and eliminate certain employment restrictions. QSP engages independent contractors to process and fulfill gift, food, magazine, music and book orders.

The fundraising business is characterized by a high proportion of variable costs (remittance to fundraising sponsors and publishers, sales commission and cost of goods sold), low working capital requirements and virtually no capital expenditures.

Books Are Fun

Books Are Fun, through its independent sales representatives, sells premium-quality books and gift items, including BHE products, at discount prices. Books Are Fun display-markets its products on-site at schools and businesses throughout the United States and Canada through book fairs and other displays. Book categories sold by Books Are Fun include bestselling novels, cookbooks, children's books and education, sports, hobby, nature, travel and self-help titles. Non-book categories include bath and beauty products, music, videos and gift items. Books Are Fun's products are sold by approximately 800 independent sales representatives, who service approximately 70,000 schools, 12,000 large corporations and institutions, 13,000 daycare centers and 50,000 small businesses. Since many individuals purchase these products for gift giving, Books Are Fun's sales cycle is largely seasonal and typically experiences substantial volume in the second quarter of our fiscal year.

Books Are Fun purchases book titles, gifts and other products from approximately 300 publishers and vendors worldwide. Books Are Fun uses an extensive network of independent public warehousing facilities and carriers to store and transport products.

Success at Books Are Fun ultimately depends on the following: (1) quality of the product line-up, (2) average sales per event, (3) the number of events held, and (4) the number and quality of the sales representatives. Consumer acceptance of Books Are Fun's product line-up is essential and a key factor in average sales per event. Therefore, Books Are Fun focuses on the product selection and development process and inventory management to maintain a fresh product offering. We are also committed to attracting and retaining talented sales representatives.

Weekly Reader Publishing Group

Weekly Reader Publishing Group's revenue consists primarily of subscription revenue from periodicals and revenue from sales of books including workbooks, teacher resource materials and non-fiction reference books. Weekly Reader Publishing Group's customers are primarily within the United States. In fiscal 2007, Weekly Reader Publishing Group contributed $83 million and $0 to our revenues and operating profit, respectively.

Weekly Reader operates in six areas: periodicals, curriculum publishing, library publishing (Gareth Stevens), library wholesaling (World Almanac Education Library Services, or WAELS), licensing and custom publishing. Weekly Reader's periodicals division targets separate age groups with two segments, elementary magazines (Weekly Reader's pre-K to grade six editions with an optional science supplement *Science Spin*) and secondary magazines (grades six to ten), offering *Current Events*, *READ*, *Writing*, *Current Science*, *Current Health 1*, *Current Health 2*, *Know Your World Extra* and *Career World*. The curriculum publishing division publishes grade-specific workbooks, teacher reproducibles and curriculum kits. Workbooks are sold mostly through direct response channels, including catalogs and sample mailings, while teacher reproducibles are sold mostly through teacher dealers such as educational cataloguers and retail teacher stores, and curriculum kits are sold through independent sales representatives.

Gareth Stevens's library books are sold to wholesalers and to school and public libraries through independent sales representatives, and WAELS's products are sold to libraries through direct mail, telesales and the Internet.

The Licensing division pursues branding opportunities by licensing content to textbook publishers, database providers and other publishers, and through distribution partnerships, such as the Weekly Reader Editor's Choice featured on QVC. The Custom Publishing division publishes instructional materials paid for by corporate sponsors and not-for-profits, which are distributed to K through grade 12 students free of cost.

CompassLearning

CompassLearning's revenue consists primarily of license revenues from software sales and consulting/teacher training services to educators on curriculum development and technology integration in the classroom, utilizing CompassLearning's software products. CompassLearning's customers are primarily within the United States. In fiscal 2007, CompassLearning contributed $54 million and $(1) million to our revenues and operating loss, respectively.

CompassLearning, a research-based, technology learning solutions company, produces comprehensive educational assessment, curriculum, reporting and management tools for pre-K through grade 12 students, all of which are aligned to local, state and national standards. Through *CompassLearning Odyssey*, CompassLearning offers over 6,500 hours of standards based instruction in reading, writing, language arts, mathematics, science, social studies and project-based learning. Some of CompassLearning's products and services include online/offline formative assessment products, interactive state and national standards-based electronic curriculum, a management and reporting system for teachers, administrators and parents, professional services for teachers (integrating technology in the classroom), and technical support of CompassLearning product offerings.

The interactive, standards-based managed assessment and curriculum help educators individualize learning on a per-student basis. Over the past 15 years, more than 16,000 schools, in over 3,000 districts, representing approximately 14% of the 114,000 schools in the United States, purchased products from CompassLearning. In addition, CompassLearning provides onsite and group seminar consulting/teacher training services to educators to facilitate curriculum development and technology integration in the classrooms using *CompassLearning Odyssey* products.

Our Circulation and Advertising

The following table shows June 30, 2007 circulation and advertising information for our portfolio of magazines:

Magazines	**Paid Circulation**	**Advertising pages carried for the twelve months ended June 30, 2007**
Reader's Digest magazine(1)	18,503,000	10,807
Reiman magazines(2)	13,825,000	29
Special interest magazines	8,531,000	2,408

(1) In Canada and international markets, *Reader's Digest* magazine is published in multiple editions and languages, such as *Selecciones*.
(2) Reiman magazines do not have a guaranteed circulation rate base and, in fiscal year 2007, were not audited by the Audit Bureau of Circulations, a not-for-profit organization that audits circulation in the United States and Canada. The amount indicated in the table above represents their average circulation for the year for all of Reiman's magazines.

We currently publish eight magazines in the United States that have circulation of more than one million. Circulation generated 64% of total North America fiscal 2007 revenue for *Reader's Digest* and special interest magazines, and advertising generated 36% of total revenue. Circulation levels for all Reiman titles fluctuate throughout the year. The overall circulation level for Reiman titles is managed in total to maximize the profitability of the entire portfolio, which may cause year-over-year increases or decreases in the average circulation for individual titles. Substantially all of the Reiman magazines have not accepted on-page advertising and rely on subscriptions for approximately 70% of their revenue, with newsstand sales supplying the balance. However, we expect to promote advertising in these magazines beginning in fiscal 2008.

According to the Audit Bureau of Circulations, the U.S. edition of *Reader's Digest* has the largest paid circulation of any U.S. magazine, other than those automatically distributed to all members of the American Association of Retired Persons. Such determination is based on the 2006 audit report issued by the Audit Bureau of Circulations. Subscriptions account for approximately 94% of the U.S. paid circulation of *Reader's Digest*, while single-copy sales—via newsstands, supermarkets and similar retail establishments—account for the remainder. We also sell our special interest magazines by subscription and at newsstands.

We maintain the circulation rate base for *Reader's Digest* through annual subscription renewals and new subscriptions. Subscriptions are sold through a variety of direct response marketing techniques. The majority of subscriptions is typically sold between July and December of each fiscal year. Subscribers to *Reader's Digest* may cancel their subscriptions at any time and may request a refund for any unused balance of the subscription price. We have announced that we intend to reduce our rate base in the United States from 10 million to 8 million effective as of January 1, 2008.

We believe that many international editions of *Reader's Digest* have among the largest paid circulation for monthly magazines both in the individual countries and in the regions in which they are published. For most international editions of *Reader's Digest*, subscriptions comprise more than 90% of circulation. The balance is attributable to newsstand and other retail sales. Approximately 79% of total international fiscal 2007 revenue for *Reader's Digest* was generated by circulation revenue and 21% by advertising revenue.

The U.S. editions and the larger international editions of *Reader's Digest* offer advertisers different regional editions, major market editions and demographic editions. These editions, which usually contain the same editorial material, permit advertisers to concentrate their advertising in specific markets or to target specific audiences. We sell advertising in multiple *Reader's Digest* editions worldwide principally through an internal advertising sales force and offer discounts for placing advertisements in more than one edition.

Production and Fulfillment

On October 17, 2007, we entered into a seven year contract with Williams Lea, a global corporate information solutions provider. Under the contract, Williams Lea will deliver outsourced print procurement and marketing solutions to our operations in 19 countries across the United States and Canada, Europe, Middle East, Asia Pacific and Latin America. Williams Lea will assume the promotional printing operations of our direct-mail business, providing us with increased leverage and purchasing power by virtue of Williams Lea's expertise and global scale. The contract with Williams Lea is expected to reduce our print procurement cash expenditures by an aggregate of approximately $130 million over the first three years.

Magazines

We utilize independent contractors and vendors to print all editions of *Reader's Digest* and our special interest magazines. An exclusive contract that we have with a U.S. printer to print the U.S. editions of *Reader's Digest* is scheduled to expire in October 2011. Two printers print Reiman magazines under contracts expiring in 2008.

Lightweight coated and uncoated papers are the principal raw materials used in the production of *Reader's Digest,* Reiman and special interest magazines. We believe that market purchases will continue to provide an adequate supply of paper for future needs and that, in any event, alternative sources are available at competitive prices. A variety of factors affect paper prices, including demand, capacity, pulp supply and general economic conditions.

We have agreements with a single independent contractor to handle order and payment processing for *Reader's Digest*, Reiman magazines and our U.S. special interest magazines. These agreements expire in December 2012. The same contractor also handles these matters for most of our BHE operations.

Subscription copies of the U.S. edition of *Reader's Digest*, the special interest magazines and the Reiman magazines are delivered through the United States Postal Service as "periodicals" class mail. Subscription copies of international editions of *Reader's Digest* are delivered through the postal service in each country of publication.

In the United States, a distribution network handles newsstand and other retail distribution. We also have contracted in each country with a newsstand magazine distributor for the distribution of *Reader's Digest*.

In Europe, we have several multi-country agreements with independent contractors as well as in-country independent contractors to handle fulfillment, warehousing, customer service and payment and order processing, while two primary printing companies assist with the printing of *Reader's Digest* magazine.

We believe that, generally, there is an adequate supply of alternative production and fulfillment services available at competitive prices should the need arise. We have contingency plans to minimize recovery time should our current contractors be unable to meet our production and fulfillment requirements. Nevertheless, significant short-term disruption could occur.

Book and Home Entertainment products

We utilize independent contractors and vendors to print and bind the various editions of *Select Editions* and have an agreement through December 2007, and currently being re-negotiated, with a printing company to print the English-language *Select Editions* distributed in the United States and Canada. All other direct mail books in North America are printed through an agreement with one printing company that expires in February 2009. We have a U.S.-based manufacturing contract for entertainment products that expires in December 2007 pending the completion of negotiations regarding a global contract for this business. The European operations use several manufacturing companies for the production of books. The majority of home entertainment products are produced throughout Europe by three major manufacturers. On a global basis, we have contracts through April 2008 with three printers for conventional books printed in China.

Paper is the principal raw material necessary for production of Select Editions, series books and general books. We have a non-exclusive annual purchasing agreement with one of the major paper companies to provide paper for all editions of *Select Editions*. We purchase paper for series books and general books for each printing, and we believe that our existing contractual arrangements and other available sources of paper provide an adequate supply of paper at competitive prices. Independent contractors are used to acquire some of the necessary raw materials to manufacture music and video products.

Independent contractors are hired to handle our fulfillment, warehousing, customer service and payment processing. We have an agreement with a single independent contractor expiring in December 2012 to handle order and payment processing for most of the U.S. BHE business. In addition, in July 2006, we entered into a four-year contract with a single fulfillment company to handle warehousing and fulfillment for the United States direct mail business units. Our printers or suppliers generally package and deliver our products directly to the postal service.

We believe that, generally, there is an adequate supply of alternative production and fulfillment services available at competitive prices should the need arise. Nevertheless, significant short-term disruption could occur, and contingency plans are in place to minimize recovery time should current contractors be unable to meet production and fulfillment requirements.

Educational Products

Our printed educational products are printed and bound by third parties with whom we have contracts or to whom we issue purchase orders on a project-by-project basis. We believe that outside printing and binding services at competitive prices are available. Currently, due to product idiosyncrasies and printing industry specialization, different vendors are used as necessary to maximize printing efficiency. Most pre-press production, typesetting, layout and design functions are conducted in-house. Non-print products, such as CD-ROMs produced by Weekly Reader Custom Publishing or CompassLearning are replicated by third parties. Most of WAELS's products are acquired as finished goods from third parties and re-sold to end users. Weekly Reader's Gareth Stevens's and WAELS's book products are distributed to customers from a company-owned warehouse.

The principal raw materials used in our educational products are paper and ink. We purchase paper from both suppliers and printers directly based on pricing and, to a lesser extent, availability, and Gareth Stevens and Weekly Reader purchase finished goods including paper components from the printers of their publications. Ink used by publications is provided by their respective printers and included in the cost of print production. Both the paper and ink used are commodity products that are affected by demand, capacity and economic conditions. We believe that adequate sources of supply are, and will continue to be, available to fulfill our requirements.

Order processing, customer service, cash application and collection, and fulfillment functions are currently performed at separate locations for each of Weekly Reader's educational operations.

Marketing

We sell magazine subscriptions, Select Editions, series books, general books, music and video products and certain other products principally through direct mail solicitations to households on our customer lists, as well as to customer lists that we rent or purchase from third parties. BHE product offers and many international magazine subscription offers are often accompanied by sweepstakes entries and, in some cases, premium merchandise offers. Our direct marketing policy allows customers to return any book or home entertainment product, either before or after payment, and to receive a refund of the amount paid. We believe that our returned goods policy is essential to our reputation, and that it elicits a greater number of orders. Sales of BHE products are seasonal, as more consumers respond in the fall and winter months (particularly before Christmas) than during the rest of the year.

While most copies of general books are sold through initial promotional single-offer mailings, additional copies are also sold through other channels including catalog, package inserts and the Internet. General books are distributed for retail sale in stores through independent distributors and Books Are Fun.

Reiman markets most of its books through direct mail and cross-promotion on its magazines. Reiman sells its books by offering a free preview period during which customers agree to examine the book before purchasing it. If they do not wish to purchase the book, they can return it without further obligation. In addition, Reiman markets magazines principally through direct mail, package inserts, the Internet and cross-promotion of titles within its magazine group. It markets products to its customer database, which as of June 30, 2007, includes approximately 47 million current and former customers, combined with selective rental of outside customer lists. Reiman test markets new magazine ideas and titles, which rely on reader-submitted editorial content, with current subscribers of its own magazines and with selected readers from outside lists.

As part of our growth strategy and efforts to better manage our distribution and customer acquisition costs, we are increasing sales of our products through direct sales channels other than direct mail. These other distribution channels include QSP, Books Are Fun, DRTV, package inserts, freestanding inserts, telemarketing, the Internet, display marketing and other direct sales. *Reader's Digest* magazine and other magazine publications, including Reiman, obtain and renew the vast majority of their subscribers in the United States through non-sweepstakes promotions.

We rely on strong promotion packages to maximize response rates and drive product sales. These promotion packages are created and tested primarily in five countries (the United Kingdom, France, Germany, the United States and Canada) and then adapted to other countries around the world. Promotion flow has strengthened considerably over the past five years. In recent years, we have become considerably more efficient in developing promotion packages, and now conduct fewer tests to design an effective package. As a result, our Reader's Digest International segment has improved response rates by using more new promotions and fewer old promotion packages.

We offer sweepstakes in our promotional mailings to promote the sale of BHE products in the United States. Prizes totaled about $2.6 million for the 2007 edition of the sweepstakes. Generally, each international subsidiary sponsors its own sweepstakes. The mechanics of the sweepstakes vary from jurisdiction to jurisdiction, depending upon local law.

From time to time, we are involved in legal, regulatory and investigative proceedings concerning sweepstakes and other direct marketing practices. Also, from time to time, jurisdictions in which we do business enact more restrictive laws or regulations governing direct marketing and data protection and privacy. Although some of these proceedings have negatively affected our direct marketing business, we do not believe that any current proceedings or currently proposed laws and regulations will have a material adverse effect on our direct marketing business.

In 2001, we entered into a voluntary comprehensive agreement with attorneys general for 32 U.S. states (and subsequently with four additional states) and the District of Columbia regarding standards for direct mail sweepstakes promotions. Pursuant to the agreement, we are promoting consumer education and have adopted standards for promotions in the United States similar to those agreed to by other direct marketing and publishing companies.

We are subject to postal rate increases, which affect our product deliveries, promotional mailings and billings. Postage is one of the largest expenses in our promotional and billing activities, and increases in the postal rate are factored into our pricing strategies and operating plans. Higher postal rates or other delivery charges usually increase the total cost to our customers, which may have a negative effect on sales. As a result, we may strategically determine the extent, if any, to which we will pass these cost increases on to our customers. In many countries, we actively develop and maintain good working relationships with the postal authorities in an effort to obtain better rates and services.

We rely on postal delivery service for timely delivery of most products and promotional mailings. In the United States and most international markets, delivery service is generally satisfactory. Some international jurisdictions, however, experience periodic work stoppages in postal delivery service or less than adequate postal efficiency.

In some states in the United States and in some international jurisdictions, some or all of our products are subject to sales tax or value-added tax. Taxes, like delivery costs, are generally stated separately on bills, where permitted by applicable law. Higher taxes increase the total cost to our customers, which may have a negative effect on sales. In jurisdictions where applicable tax must be included in the purchase price, we may be unable to fully recover from customers the amount of any tax increase or new tax.

Information Technology and Customer Database Enhancement

The size and quality of our databases of current and prospective customers in the countries where we operate contribute significantly to our business. We constantly strive to improve our customer databases. Our U.S. databases of more than 75 million households as of June 30, 2007, represent over half the total number of households in the country. As of June 30, 2007, our international databases included a total of almost 55 million households. We continue to make significant investments in our database management and related information technology to improve operating efficiencies, to increase the level of service provided to customers and to facilitate globalization of operations.

The United States and some international jurisdictions, particularly in Europe, have data protection laws or regulations that prohibit or limit exchanging the type of information that we maintain. Some jurisdictions also prohibit the retention of information, other than certain basic facts, about non-current customers. Although these regulations may hinder the ability to collect, retain and use customer information, we believe that current laws and regulations do not prevent us from engaging in activities necessary to operate our current businesses.

Competition and Trademarks

We own or have rights to trademarks, service marks and tradenames that we use in conjunction with the operation of our business worldwide, including, without limitation, the following: “Reader’s Digest,” the “Pegasus” logo, “QSP,” “Books Are Fun,” “Taste of Home,” “Allrecipes,” “Weekly Reader,” “World Almanac,” “Reader’s Digest Select Editions” and the names of many of our magazines, websites, features and other products. We also own or have the rights to copyrights that protect the content of our products. Direct Holdings IP L.L.C., a wholly owned subsidiary of Direct Holdings U.S. Corp., licenses the “Time Life” trademark and tradename from Time Warner Inc. and Time Inc. We also license intellectual property from third parties for use in our products, including several entities in the Disney group.

We believe that the name recognition, reputation and image that we have developed in our markets significantly enhance customer response to our direct marketing sales promotions. For these reasons, trademarks are important to our business, and we aggressively defend our trademarks. Solely for convenience, the trademarks, service marks and tradenames referred to in this Annual Report are without the ® and ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and tradenames.

Although *Reader's Digest* magazine is a well-established institution in the publishing industry, it competes with other magazines for subscribers and with magazines and all other media, including television, radio and the Internet, for advertising. *Reader's Digest*, Reiman magazines and the special interest magazines compete with other magazines of similar respective genres for readers and advertising.

We believe that our company names, image and reputation, as well as the quality of our customer databases, provide a significant competitive advantage over many other direct markets. However, BHE, QSP and Books Are Fun compete with companies selling similar products at retail as well as by direct marketing through various channels, including fundraising services, direct marketing, display marketing, retail and the Internet. Because tests show that consumer responses to direct marketing promotions can be adversely affected by the overall volume of direct marketing promotions, we also compete with all other direct marketers, regardless of whether their products are similar to our products. Our BHE businesses compete principally on the basis of direct marketing customer service, product popularity and price.

Employees

As of June 30, 2007, we employed approximately 5,000 people worldwide (approximately 3,100 in the United States and 1,900 in our international subsidiaries). We believe that our employee relations are generally satisfactory.

RISK FACTORS

Investment in our securities is subject to a number of risks. You should carefully consider each of the following risks and all of the other information set forth elsewhere in this annual report. These risks and other factors may affect forward-looking statements, including those contained in this annual report or made by us elsewhere. The risks and uncertainties described below are not the only risks facing us. Additional risks and uncertainties not presently known to us, or that we currently believe to be immaterial may also materially and adversely affect our business and operations. If any of the following risks or uncertainties develops into actual events, this could significantly and adversely affect our business, prospects, financial condition and operating results.

Risks Related to Our Indebtedness

Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or in our industry, and prevent us from meeting our debt obligations.

As a result of our acquisition on March 2, 2007, we are highly leveraged and have significant debt service obligations. At June 30, 2007, our total indebtedness was approximately $2 billion.

Our high degree of leverage could have important consequences, including the following:

- making it more difficult for us to make payments on our debt obligations;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures and business opportunities;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, acquisitions, debt service requirements under our outstanding debt and our senior subordinated notes due 2017 and general corporate or other purposes;
- limiting our ability to plan for, or react to, changes in our business and future business opportunities and changing market conditions;
- placing us at a competitive disadvantage compared to our competitors who are less highly leveraged;
- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest, which could increase our interest payment obligations and which could have an adverse effect on us;
- exposing us to the risk of being unable to effectively repatriate foreign cash to service our indebtedness due to local country restrictions;
- increasing our vulnerability to general economic and industry conditions; and
- materially adversely affecting our business, results of operations and financial condition if we are unable to service our indebtedness.

Our subsidiaries and we may be able to incur substantial additional indebtedness in the future, which could exacerbate the risks associated with our substantial leverage.

Our subsidiaries and we may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facilities and the indenture relating to our senior subordinated notes due 2017, including up to $200.0 million of incremental term loans. Although the agreements governing our debt instruments contain restrictions regarding our incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and we could incur substantial indebtedness in compliance with these restrictions. If we add new indebtedness to our current debt levels, the related risks that we now face, including those described in this document, could intensify.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

Our senior secured credit facilities and the indenture governing our senior subordinated notes due 2017 contain covenants that may limit our ability to engage in specified types of transactions. These covenants limit our and our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- issue preferred stock;
- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- sell certain assets, including common stock of our subsidiaries;
- pay dividends on, repurchase, or make distributions in respect of our capital stock or make certain other restricted payments;
- make certain types of investments, loans, guarantees or acquisitions;
- enter into transactions with our affiliates;
- agree to payment restrictions affecting our subsidiaries; and
- make capital expenditures.

Our ability to generate the funds required to service our indebtedness depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness depends, in large part, upon our ability to generate cash from our operations and to manage our working capital. This can be affected by events beyond our control, including general economic, financial, competitive, legislative, regulatory and other factors, and we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

To the extent that our operating cash flow is insufficient to meet our current debt obligations, and to the extent that we are unable to access the capital markets on terms acceptable to us, we may, among other things, decrease our business expenditures and/or increase our indebtedness under our existing credit facilities or through additional financings. In order to obtain additional financing, we may be required to refinance our existing credit facilities. Our failure to obtain any necessary refinancing or additional financing on terms and conditions that are comparably favorable or acceptable to us could materially and adversely affect our results of operations and financial condition. If we cannot service our indebtedness, we also may have to take actions such as selling assets, seeking additional equity or forgoing, reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot assure you that any such actions, if necessary, could be effected on commercially reasonable terms, or at all.

A decline in our operating results or available cash could cause us to experience difficulties in complying with covenants contained in our financing agreements, which could result in our bankruptcy or liquidation.

If we were to sustain a decline in our operating results or available cash, we could experience difficulties in complying with the covenants contained in the indenture governing our senior subordinated notes or our senior secured credit facilities. In addition, under our senior secured credit facilities, we are required to achieve specified financial and operating results and to satisfy and maintain specified financial ratios and other financial condition tests. Our ability to meet those financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet those ratios and tests.

A breach of any of these or other covenants in our senior subordinated notes or senior secured credit facilities could result in a default under either of these agreements and by reason of cross-acceleration or cross-default provisions, our senior secured credit facilities, our senior subordinated notes and any other indebtedness may then become immediately due and payable. Upon such a default, our creditors could declare all amounts outstanding to be immediately due and payable and the lenders under our senior secured credit facilities could terminate all commitments to extend further credit, which could have a material adverse effect on our results of operations and financial condition.

If we were unable to repay amounts due under our senior secured credit facilities, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness and institute foreclosure proceedings against our assets. We have pledged a significant portion of our assets as collateral under the senior secured credit agreement. If the lenders under the senior secured credit agreement accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay the senior secured credit facilities, as well as our unsecured indebtedness. We could be forced into bankruptcy or liquidation.

If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our senior secured credit agreement to avoid an event of default. We may be unable to obtain any such waiver which could result in our default under our senior secured credit agreement, and the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

Variable rate indebtedness subjects us to the risk of higher interest rates, which could cause our debt service obligations to increase significantly.

Certain of our borrowings, including borrowings under our senior secured credit facility, are at variable rates of interest, and, therefore, expose us to the risk of increased interest rates. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if our outstanding indebtedness remained the same, thereby causing our net income to decrease.

Initially, the applicable margin with respect to revolving loans under our senior secured credit facility is an annual percentage equal to (1) 1.25% for base rate loans and (2) 2.25% for Eurocurrency rate loans. The applicable margin with respect to term loans under our senior secured credit facility is an annual percentage equal to (1) 1.00% for base rate loans and (2) 2.00% for Eurocurrency rate loans. In addition, the interest rates under our senior secured credit facilities are based in part on our leverage ratio. Applicable margins with respect to revolving loans will be subject to reduction by up to 75 basis points based on our consolidated leverage ratio for base rate and Eurocurrency rate loans. In April 2007, we entered into interest rate swaps with a notional value of $750 million, involving the exchange of floating for fixed rate interest payments, to reduce interest rate volatility. In the future, we may enter into additional interest rate swaps. Each quarter point change in interest rates would result in a $1.4 million change in our annual interest expense on our term loans. Similarly, assuming all revolving loans are fully drawn, each quarter point change in interest rates would result in a $0.8 million change in annual interest expense on our revolving credit facility.

Risks Related to Our Business

If we are unable to anticipate, respond to, influence or adapt to trends in what the public finds appealing in our industry, our business will be adversely affected.

We operate in highly competitive markets that are subject to rapid change, including changes in customer preferences. Our continued success depends on our ability to provide creative, useful and attractive ideas, information, concepts, trade publishing, music, entertainment, educational and software products and services, which appeal to a large number of consumers. In order to accomplish this, we must be able to respond quickly and effectively to changes in consumer tastes for ideas, information, concepts and products. The strength of our brand name and our business units depends in part on our ability to influence these tastes. We cannot be sure that our new ideas and content will have the appeal and garner the acceptance that they have in the past, or that we will be able to respond quickly to changes in the tastes of consumers. There are substantial uncertainties associated with our efforts to develop successful new products and services for our customers, as well as to adapt our print materials and music and video products to new technologies, including the internet and digitization. In addition, we cannot be sure that our existing ideas and content will continue to appeal to the public.

We operate in highly competitive industries and must design and price our products properly and competitively and launch new products to attract new and younger customers to augment and replenish our maturing customer base while maintaining the quality of existing products.

We operate in highly competitive industries both in the United States and in our foreign markets. Our magazines, books, educational materials and related products compete with other mass media and many other types of leisure-time activities. In addition, each of our products faces significant competition within its particular field of product offerings. Some of our competitors have more prominent brand names, are more established in our industries in terms of larger market shares, and have greater financial and other resources than we do in some markets. In addition, other companies may enter our markets in the future. We compete on the basis of the following, among other things:

- the variety, quality and attractiveness of our products and services;
- the pricing of our products and services;
- the manner in which we market and promote our products and services; and
- the effectiveness of the distribution of our products and services and our customer service.

Numerous well-established and smaller entrepreneurial companies produce, market and sell products that compete with the products that our businesses offer. Competition for advertising dollars in magazine operations is primarily based on advertising rates as well as editorial and aesthetic quality, the desirability of the magazine's demographic, reader response to advertisers' products and services and the effectiveness of the advertising sales staff. Our magazines compete with other magazines for subscribers and with all media, including television, radio, newspapers and the Internet, for advertising. Our Books and Home Entertainment and Books Are Fun businesses compete with companies selling similar products at retail outlets, through direct and display marketing and on the Internet. QSP competes with companies selling similar products through fundraising services, direct marketing, the Internet and retail outlets.

Our success in attracting and retaining new consumers to augment and replenish our customer base depends in large part on our ability to:

- identify customer trends and preferences;
- develop new products across our business lines;

- acquire and effectively manage the inventory of new products in our display marketing businesses in response to those trends and preferences; and
- expand into new distribution channels, such as retail and Internet channels.

The launch of new products could increase our expenses, such as paper and printing expenses, as well as distribution and editorial expenses. If we fail to launch a broadly appealing mix of new products and channels, we may not be able to attract new customers and therefore may not be able to recoup the expenses associated with the launching of such products. In addition, should our new products fail to appeal to our existing customer base, it is possible that our existing customers will seek product offerings from our competitors, which could materially and adversely affect our results of operations and financial condition.

In addition, certain of our new products typically do not earn a profit when they are first introduced and require a period of investment thereafter. We invest significant resources to develop and market our new initiatives, but we cannot predict whether they will become profitable during the period we have projected, or at all.

If we do not compete effectively in our markets, if customers and advertising sales do not increase as we expect, or if our advertising sales or customer base declines, our business and results of operations could be materially adversely affected.

If we fail to effectively implement our operational and strategic initiatives, our business could be materially adversely affected.

Our future performance depends in large part upon our management team's ability to execute our strategy to position us for the future.

There can be no assurance that we will be able to successfully implement our operational and strategic initiatives that are intended to position us for future growth or that the products we design will be accepted or adopted in the time periods assumed. We also make no assurance that investments in these initiatives will recoup their costs and/or be profitable in the future. Failure to implement this strategy may result in a material adverse effect on our financial position, results of operations and cash flows.

Our failure to meet the challenges associated with maintaining circulation levels in a cost-efficient manner could adversely affect us.

Circulation is a significant source of our revenues, representing about 90% of total U.S. fiscal 2007 revenues for *Reader's Digest* and our special interest magazines. Circulation is also the principal driver of performance for our Reiman magazines, which have limited advertising revenues. Circulation revenues for our print products are affected by:

- competition from other publications and alternative forms of media and entertainment, including network, cable and satellite television, the Internet and radio;
- declining consumer spending on discretionary items like magazines;
- our ability to efficiently retain and acquire subscribers via the mail, as acquisition and postage costs increase;
- a declining number of regular magazine buyers;
- renewal rates; and
- the aging demographics of the customer base for certain of our magazines.

Sales of our magazines through subscriptions and at the newsstand may decline. As publishers compete for subscribers, subscription prices could decrease and marketing expenditures may increase. If we fail to maintain satisfactory circulation levels at satisfactory subscription rates, our business may be materially and adversely affected, which would materially and adversely affect our results of operations and financial condition.

We may not be able to achieve a proper balance between circulation rate base and advertising revenues.

We must balance our circulation rate base goals, in particular those for the U.S. *Reader's Digest* magazine, with our advertising revenue objectives. This balancing is a continuous effort that varies by product and requires both effective management of the circulation rate base and the acquisition of new subscribers through cost-effective marketing methods. Because magazine subscriptions are of relatively short duration, maintaining or increasing a circulation rate base requires significant promotional expense. Historically, we have relied primarily on direct mail for our promotional efforts. Higher postage costs, including the recent increases in the United States, adversely affect our ability to retain and acquire customers. Many of our competitors rely more heavily on advertising revenues than on circulation revenues. Accordingly, it may be more cost-effective for those companies to offer discounted subscription prices in order to maintain circulation levels that permit them to generate more advertising revenues. Because we rely more heavily on circulation revenues, our ability to utilize this strategy has been limited. We cannot assure you that we will be able to retain and acquire a sufficient number of magazine subscribers in an economically efficient manner. Failure to do so could require further reductions of our circulation rate base, which could negatively affect our advertising revenues and materially and adversely affect our results of operations and financial condition.

A decline in advertising revenues could adversely affect our profitability.

Advertising is an important source of magazine revenues. In fiscal 2007, total magazine advertising revenues constituted approximately 7% of our total revenues. A reduction in demand for advertising could result from:

- a general decline in economic conditions;
- a decline in the circulation of our magazines;
- a decline in popularity of our editorial content;
- a change in the demographic makeup of the population where our magazines are sold;
- the activities of our competitors, including increased competition from other forms of advertising-based media, (e.g., newspapers, radio and television broadcasters, cable television, direct mail and electronic media); and
- a decline in the amount spent on advertising in general or in particular industries such as the automotive or pharmaceutical industries.

In addition, as the Internet continues to grow as a global medium for information, communication and commerce, advertisers are increasingly shifting advertising dollars from offline media to online media. We cannot assure you that we will be able to attract the same or a growing number of advertisers, which may materially and adversely affect our advertising revenues and materially and adversely affect our results of operations and financial condition.

Failure to efficiently manage our direct marketing initiatives or to protect the integrity of our customer databases could negatively affect our business.

We use various direct marketing strategies to market our products, including direct mailings, catalogs, online marketing and telemarketing. In each case, we rely on our customer list, which is a database containing information about our current and prospective customers. We use this database to develop and implement our direct marketing campaigns. Managing the frequency of our direct marketing campaigns and delivering appropriately tailored products in such campaigns is crucial to maintaining and increasing our customer base and achieving adequate results from our direct marketing efforts. We also face the risk of unauthorized access to our database or the corruption of our database as a result of technology failure or otherwise. Enhancing and refreshing the database, maintaining the ability to utilize the information available from the database, and properly utilizing the available information are vital to the success of our business, and our failure to do so could lead to decreased sales, and could materially and adversely affect our results of operations and financial condition.

Any failure by us to manage our growing operations or to successfully integrate acquisitions and other significant transactions could harm our financial results, business and prospects.

As part of our business strategy, we have in the past and may in the future engage in discussions with third parties regarding possible investments, acquisitions, strategic alliances, and joint ventures, and may enter into agreements relating to such transactions that will enhance our business objectives. In order to pursue this strategy successfully, we must identify suitable candidates for, and successfully complete, transactions as well as effectively integrate any such acquired companies into our operations or transition services to outsourced vendors. If we fail to identify and successfully complete transactions that further our strategic objectives, or such transactions do not result in anticipated synergies, we may be required to expend resources to develop products and technology internally, we may be unable to sustain our historical growth rates, we may be put at a competitive disadvantage or we may be adversely affected by negative market perceptions, any of which may have a material adverse effect on our results of operations, financial position or cash flows.

Acquisition risk

Acquisitions involve numerous challenges, risks and difficulties, including:

- difficulties in the integration of operations, technologies, products, systems and personnel of the acquired company;
- diversion of financial and management resources from existing operations;
- inability to generate sufficient revenue to offset acquisition costs;
- loss of key contracts with vendors and/or contractors or renegotiation of existing contracts on less favorable terms;
- difficulties in attracting and retaining key personnel;
- negative impacts on employee morale and performance as a result of job changes, job eliminations and reassignments;
- the disruption of our respective ongoing businesses;
- possible inconsistencies in standards, controls, procedures and policies;
- loss of customers and failure to maintain important business relationships;
- unanticipated incompatibility of purchasing, logistics, marketing, sales and administration methods;
- unanticipated costs of terminating or relocating facilities and operations;
- difficulty in determinations related to accounting policies, including those that require a high degree of judgment or complex estimation processes, including valuation and accounting for goodwill and intangible assets, stock-based compensation, and income tax matters;
- unanticipated expenses related to such integration; and
- the potential unknown liabilities associated with acquired businesses.

Even if we identify suitable acquisition targets, we may be unable to complete acquisitions or obtain the necessary financing for these acquisitions on terms favorable to us, or at all. To the extent we complete an acquisition, we may be unable to realize the anticipated benefits from it because of operational factors or difficulties in integrating the acquisitions with our existing businesses.

For all of the above reasons, we may not be able to successfully implement our acquisition strategy. Furthermore, in the event of an acquisition or investment, we may issue stock that would dilute stock ownership, incur debt that would restrict our cash flow, assume liabilities, incur large and immediate write-offs, incur unanticipated costs, divert management’s attention from our existing business, experience risks associated with entering new markets, or lose key employees from the acquired entities.

A prolonged diversion of management’s attention and any delays or difficulties encountered in connection with the integration of any business that we may acquire could prevent us from realizing the expected benefits of an acquisition and could have a material and adverse effect on our results of operations and financial condition.

Internal growth and expansion risk

Additionally, we are likely to incur additional costs if we develop new products or enter new markets where we do not currently operate, which may limit our ability to expand to, or further expand in, those areas. Our rate of expansion into new geographic areas may also be limited by:

- our inability to raise sufficient capital;
- competition, which could increase the costs of attracting and maintaining our customers;
- the cost of implementation and on-going administration of newly developed products and services;
- our inability to achieve sufficient scale of operations to cover the administration and marketing costs associated with entering new markets, and
- demographics and population density.

Our ability to manage our growth and compete effectively will depend, in part, on our success in addressing these demands and risks. Any failure by us to manage our growth effectively could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to obtain at favorable prices the third-party products that we sell.

Our gross margins in our Books Are Fun and QSP businesses are highly dependent on the costs to obtain the books, gifts and magazines that they sell. Although these products have been available to us on competitive terms in the past, we may not have access to these products at comparable prices in the future. Failure to continue to have access to products at competitive prices could adversely affect our operating margins in these businesses.

Our future new products and marketing initiatives, including channel diversification, may not be successful, which could have a material adverse effect on our financial condition and results of operations.

Our business depends, in part, on the steady flow of new products and new marketing initiatives (such as new offers) to stimulate continued marketplace demand. Our business also depends on reducing our reliance on direct marketing, and diversifying into alternative distribution channels. We license certain of our products from third parties. The acquisition of the rights to market specific products or to use specific product names can involve a significant financial commitment. Such commitments typically take the form of license fees, prepaid royalties, and future minimum royalty and advertising payments. We rely on our licensors to provide access to content at prices that enable us to achieve adequate gross margins. We do not have long-term or exclusive relationships with all sources of content, and obtaining these licenses is dependent upon relationships with licensors that may change in the future. An inability to license content at competitive prices could materially adversely affect our ability to create new products and harm our business prospects and results of operations. While our strategy is to develop products that will contribute positively to earnings, there is no guarantee that all or any of our efforts will be successful. Sales of new products may not meet expectations, which could have a material adverse effect on our financial condition and results of operations.

In addition, a significant portion of Direct Holdings' revenue is derived from sales of products marketed under the Time Life trademark and tradename, which are licensed from Time Warner Inc. and Time Inc. The Time Life license agreement will expire in 2013 with an automatic renewal to 2023 subject to implementation at the time of renewal of a transition plan under which Direct Holdings must convert to a new mark that makes changes to the design of the name and mark for the Time Life business, including noticeably different or varied letter font or typestyle and noticeably different colors. Although Direct Holdings primarily focuses on the direct marketing of its products, it also offers products through a retail presence in large music and video retail outlets. Direct Holdings believes that consumer awareness of the Time Life brand is an important factor in its retail sales. If Direct Holdings is unable to develop and sell products under one or more new and equally effective brand names when the Time Life license expires, or if the value of the existing trademarks are diminished in the interim, Direct Holdings' business, financial condition and results of operations could be materially adversely affected.

We may not realize our anticipated cost savings from becoming a private company and increasing the efficiency of our supply chain; any failure to manage costs could hamper profitability.

The level of our expenses impacts our profitability. While we proactively attempt to manage such expenses effectively, increases in the cost of sales and marketing, staff-related expenses, investment in new products, acquisitions, and implementation of regulatory requirements, among others, may occur from time to time.

We have identified potential annual cost savings from our becoming a private company by implementing headcount reductions and certain other expense reductions. Additionally, we have been working with a leading supply chain consulting firm to analyze our infrastructure and to identify additional cost reduction opportunities within our supply chain and maintenance, repair and operations functions. However, estimates of cost savings are inherently uncertain, and we may not be able to achieve these cost savings within the period we have projected, or at all. Our ability to successfully realize cost savings and the timing of any realization may be affected by factors such as the need to ensure continuity in our operations, contracts, regulations and/or statutes governing employee-employer relationships, our ability to renegotiate supply contracts or find alternative suppliers and other factors. Implementing additional supply chain and maintenance, repair and operations cost savings is also expected to require one-time costs.

There can be no assurance that we will be able to successfully contain our expenses. Our estimates of the expenses necessary to achieve the cost savings we have identified may not prove accurate, and any increase in such expenses may affect our ability to achieve our anticipated cost savings within the period we have projected, or at all. This may result in a material adverse effect on our financial position, results of operations and cash flows.

Increases in postage and paper and other operating costs could negatively affect our results.

Paper and postage represent significant components of our total cost to produce, distribute, and market our printed products.

We use the U.S. Postal Service for distribution of substantially all of our magazines and many of our marketing materials. Historically, we also have relied on direct mail for a significant portion of our customer acquisition activities. As such, the continued rise in postal rates has increased our costs. In addition, in those product lines where the customer pays shipping directly, higher postal rates or other delivery charges increase the total cost of our products to our customers, which may have a negative effect on sales.

We expect to incur postage and delivery service costs of approximately $410 million in fiscal 2008. Postal rates are dependent on the operating efficiency of the U.S. Postal Service and on legislative mandates imposed upon the U.S. Postal Service. Although we work with others in the industry and through trade organizations to encourage the U.S. Postal Service to implement efficiencies that will limit rate increases, we cannot predict with certainty the magnitude of future price changes in postage. Higher postal rates or other delivery charges usually increase the total cost to our customers, which may have a negative impact on sales. Further, we may be unable to pass such increases on to our customers.

Paper is the principal raw material used in our business for printed products and promotional materials. We expect to incur paper costs of approximately $210 million in fiscal 2008. Paper is a commodity and its price has been subject to significant volatility. Historically, we have been able to realize favorable paper pricing through volume discounts and multi-year contracts; however, all of our paper supply contracts provide for price adjustments based on prevailing market prices. The price of paper may fluctuate significantly in the future, and changes in the market supply of or demand for paper could affect delivery times and prices. We may need to find alternative sources for paper from time to time. We cannot assure you that we will continue to have access to paper in the necessary amounts or at reasonable prices or that any increases in the cost of paper will not have a material adverse effect on our business. We cannot predict with certainty the magnitude of future price changes in paper, and we may not be able to pass such increases on to our customers.

Our inability to absorb the impact of increases in postage and paper costs or any strategic determination not to pass on all or a portion of these increases to customers could materially and adversely affect our results of operations and financial condition.

We also have other significant operating costs, and unanticipated increases in these costs could adversely affect our operating margins.

Our business is seasonal, and seasonal fluctuations may adversely affect our results.

Our operating results have varied and are expected to continue to vary from quarter to quarter as a result of seasonal patterns. The sales of certain of our products in our School & Educational Services segment are significantly affected by the school year, as sales in August through December are typically the strongest, as products are shipped in connection with the start of the school year. Seasonal and quarterly fluctuation may have a material adverse effect on our business, financial condition or results of operations in the future.

If we fail to maintain our relationships with our authors, illustrators, salespeople, and creative talent, as well as to develop relationships with new creative talent, our business could be adversely affected.

Our business, in particular the trade publishing, media and technology-based portions of our business, is highly dependent on maintaining strong relationships with the authors, illustrators and other creative talent responsible for the products and services that are sold to our customers. Any overall weakening of these relationships, or the failure to develop successful new relationships, could have an adverse impact on our business and financial performance.

We also have relationships with independent salespeople and educational consultants who acquire and provide marketing and customer service functions for some of our customers, particularly in our School & Educational Services segment. These independent salespeople and educational consultants receive compensation for introducing customers to our products. The failure to maintain relationships with these independent salespeople and educational consultants would result in a loss of our revenues, which could adversely affect our business.

Our School & Educational Services segment has not performed well in recent years, and there is no assurance that our turnaround strategy will be successful.

The revenues and operating profit generated by our School & Educational Services (formerly Consumer Business Services) segment for the last few years have been declining. Revenues in this segment declined from $525.1 million in the year ended June 30, 2004 to $415.0 million in the year ended June 30, 2007, and in the comparable period operating profit decreased $59.0 million to $0. This decline has been principally driven by Books Are Fun and, to a lesser extent, by QSP. Revenues and results at Books Are Fun decreased due to the launch of a direct competitor in 2004, the defection of a significant portion of the corporate sales force to that competitor, fewer corporate events, lower average sales per school event, escalating inventory and overhead and restructuring charges in 2006. In fiscal 2007, QSP revenues also declined primarily due to a decline in magazine volumes because of lower number of accounts, a decrease in same-school sales and lower gift volumes driven by challenges in participation in fundraising programs. Both Books Are Fun and QSP continued to experience competitive pressure for accounts, which adversely affected profit margins. Although we have devised strategies and have taken certain steps in an effort to improve the results of their businesses, we cannot assure you that our strategies will be successful, and a continued decline in this segment may adversely affect our results of operations and financial condition.

In addition, a portion of our business in this segment is affected significantly by changes in purchasing patterns or trends in, as well as the underlying strength of, the educational, trade, entertainment and software markets. Many of our customers in these sectors purchase our products with monies received from sources of governmental funding, including federal, state and local governments. Thus, our business may be adversely affected by budgetary restraints and other reductions in educational funding at the federal or state level, as well as new legislative or regulatory actions. Our business also could be adversely affected by changes in the procurement process related to the expenditure of government funds, to which we may be unable to adapt successfully.

We are subject to government regulation; compliance with laws and regulations is complex and expensive, and any violation of the laws and regulations applicable to us could reduce our revenues and profitability and otherwise adversely affect our operating results.

The marketing and sale of our products are subject to various laws, regulations and policies administered by U.S. federal, state and local and foreign governments in markets in which we operate our businesses. Several laws and regulations adopted by the Federal government have created additional administrative and compliance requirements on us. The cost of compliance may have an adverse effect on our profitability. In addition, if we do not comply adequately, we may be faced with civil, criminal and administrative penalties. Changes in these laws, regulations and policies, or in their interpretation or in enforcement priorities or activity, could increase our costs and limit the manner in which we market our products and conduct our other business operations.

We collect information from our customers in the various markets in which we operate and we utilize that information principally for marketing and promotional purposes. Our collection, transfer and use of this information are limited by privacy and data protection laws and regulations in those jurisdictions, including the National Do Not Call Registry operated by the U.S. Federal Trade Commission, the U.S. Federal CAN-SPAM Act of 2003 and the European Data Protection Directive. Our compliance with these laws and regulations increases our operating costs, and additional laws and regulations in these areas may further increase our operating costs and adversely affect our ability to market our products effectively.

We rely on sweepstakes as an important component of our direct marketing efforts. Legislative and regulatory developments and our agreements with state attorneys general in the United States have significantly reduced the effectiveness of sweepstakes as a marketing technique. The Deceptive Mail Prevention and Enforcement Act, enacted in 1999, mandates specific disclosures, their placement and prominence. The Multi-State Attorneys General Agreement that we signed in 2001 restricts certain promotion techniques and the use of promotional devices and requires specific disclosure language. As a result, we have increasingly tested other direct marketing techniques in an effort to diversify our overall marketing strategy in our Books and Home Entertainment business and to attract and retain new customers of this business. We cannot assure you that marketing techniques other than sweepstakes will be as effective as sweepstakes were. In our single-sales books business, we have been able to effectively bring in new customers with promotions other than sweepstakes. These names, however, currently have a lower value to us than sweepstakes-generated names. We have had limited success in using promotions, other than sweepstakes, targeting our series or music customers. If we fail to effectively utilize alternative marketing techniques in our Books and Home Entertainment business, our business may be materially and adversely affected, which could materially and adversely affect our results of operations and financial condition.

In addition, if additional significant legislative or regulatory restrictions on direct-marketing techniques develop in our markets, we will be forced to revise our marketing practices in those markets. We cannot assure you that alternative practices would yield similar results, and the failure to do so could materially and adversely affect our results of operations and financial condition.

Our television direct marketing programs also are significantly affected by government regulation of television advertising, particularly those regulations adopted by the Federal Communications Commission (and comparable foreign regulators). These regulations impose restrictions on, among other things, the content and format of our DRTV programs. If we are required to remove or alter the format or content of our television or telemarketing programs, our business could be harmed.

Our failure to comply with applicable laws and regulations could result in fines, sanctions and other penalties and additional restrictions on our collection, transfer or use of personal data. These developments could materially and adversely affect our results of operations and financial condition.

Changes in governmental regulation or legislative reform could increase our costs of doing business and adversely affect our profitability.

Consumer, publishing and advertising laws and regulations are subject to change and differing interpretations. Changes in the political climate or in existing laws or regulations, or their interpretations, or the enactment of new laws or the issuance of new regulations could adversely affect our business by, among other things:

- increasing our administrative and other costs;
- forcing us to undergo a corporate restructuring;
- limiting our ability to engage in inter-company transactions with our affiliates and subsidiaries;
- affecting our ability to continue to serve our customers and to attract new customers;
- forcing us to alter or restructure our relationships with vendors and contractors;
- restricting our ability to market our products; or
- requiring us to implement additional or different programs and systems.

While it is not possible to predict when and whether fundamental policy changes would occur, these could include policy changes on the local, state and federal level that could fundamentally change the dynamics of our industry. Changes in public policy could materially affect our profitability, our ability to retain or grow business, or in the event of extreme circumstances, our financial condition. There can be no assurance that legislative or regulatory change will not have a material adverse effect on our business.

We face additional risks associated with significant non-U.S. operations, and we continue to expand into foreign markets.

We currently operate in more than 70 countries. For the fiscal year ended June 30, 2007, our international segment contributed $1.1 billion to our revenues and $70 million to our operating profit. In recent years, we have entered into new countries, mostly in central and eastern Europe and we expect to continue to seek to expand our business internationally. There are many risks associated with our goals relating to our overseas operations and future expansion plans, including:

- limitations on our resources with which to manage growth in new markets;
- difficulties in maintaining the proper balance between a profitable pace of growth and a measure of control over the expansion of our operations that will enable us to maintain the quality of our customer lists;
- reduced protection for intellectual property rights in some countries;
- change in tariffs, significant unexpected duties or taxes or other adverse tax consequences;
- economic slowdown or downturn in foreign markets;
- transportation and supply chain disruptions and increased expenses as a result of epidemics, terrorist activity, acts of war or hostility, increased security and less-developed infrastructure;
- political instability and civil unrest;
- the regulatory environment, including privacy regulation, database protection and limitations on direct marketing techniques (e.g., sweepstakes);
- unexpected unfavorable legislative or regulatory developments and inconsistent government policies; and
- international currency fluctuations or sudden currency revaluations.

If we do not effectively manage the risks associated with our international operations and sales, our expansion opportunities could be limited, and our results of operations and financial condition could be materially and adversely affected.

Because we operate, and sell our products and services, in foreign countries, changes in currency exchange rates, as well as other risks and uncertainties, could adversely affect our operations and financial results.

We operate globally through operations in various locations around the world. In fiscal 2007, we generated 42% of our revenues in markets outside of the United States. The functional currency for most of our foreign operations is the applicable local currency. In preparing our financial statements, we translate revenues and expenses in foreign countries from their local currencies into U.S. dollars using weighted average exchange rates. Accordingly, we could be adversely affected by changes in currency exchange rates. Given our inability to predict the degree of exchange rate fluctuations, we cannot estimate the effect these fluctuations may have upon future reported results or our overall financial condition, but they could materially and adversely affect our results of operations and financial condition. In addition, our business could be adversely affected by the political and economic risks attendant to conducting business in foreign countries.

Economic weakness in the United States and abroad could negatively affect our business.

Most of our products involve discretionary spending on the part of consumers. This makes our products particularly sensitive to general economic conditions and economic cycles and trends in advertising placements. Also, we derive a portion of our revenues from the sale of advertising in our publications. Our advertising revenues are susceptible to fluctuations in economic cycles. Advertising weakness can come from any segment of the U.S. economy. For example, if pharmaceutical companies come under pressure or automotive companies have significant economic weakness, advertising sales in our magazines and websites could be affected. Sustained economic weakness in the United States or in Europe and in other markets where we generate a significant amount of our revenues could reduce consumer spending in our markets and negatively affect our business, which could materially and adversely affect our results of operations and financial condition.

We have placed emphasis on building our Internet community. Failure to fulfill this strategy could adversely affect our business prospects.

The competitive environment in which we operate demands, and our future growth strategies incorporate, the development of our Internet and digital businesses. We believe there is a trend towards offering supplemental materials to our published products and educational materials, as well as the opportunity to renew subscriptions, increasingly in an electronic format and, in particular, over the Internet. We believe that this trend will accelerate as younger, technically savvy consumers make up a greater portion of our consumer base. In order for our Internet business to succeed, we must, among other things:

- significantly invest time and resources in our Internet business;
- significantly increase our online traffic and revenue;
- attract and retain a base of frequent visitors to our websites;
- expand the content and products we offer over our websites;
- attract and retain talent for critical positions;
- maintain and form relationships with strategic partners to attract more consumers;
- continue to develop and upgrade our technologies; and
- bring new product features to market in a timely manner.

We cannot assure you that we will be successful in achieving these and other necessary objectives or that our Internet business will be profitable or successful. Our failure to adapt to new technology or delivery methods, or our choice of one technological innovation over another, may have an adverse impact on our ability to compete for new customers or to meet demands of our existing customers. If we are not successful in achieving these objectives, our business, financial condition and prospects could be materially adversely affected.

The occurrence of natural or man-made disasters could disrupt the marketing and promotion and delivery of our products and services, and adversely affect our financial condition and results of operation.

The success of our businesses is largely contingent on the availability of direct access to consumers. For example, the School & Educational Services business requires direct personal access to consumers through offices and schools for display marketing and access to schools and youth groups for fundraising activities and sales of supplemental education products. In addition, a significant portion of our business relies on postal services for delivery of products and for promotional marketing activity. As a result, any event that disrupts or limits our direct access to consumers or disrupts our ability to rely on postal services or other delivery services could materially and adversely affect our business.

We are exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, floods and tornadoes, and pandemic health events such as avian influenza, as well as man-made disasters, including acts of terrorism and military actions. The continued threat of terrorism and ongoing military actions may cause significant volatility in global financial markets, and a natural or man-made disaster could trigger an economic downturn in the areas directly or indirectly affected by the disaster. These consequences could, among other things, result in a decline in business from those areas. Disasters also could disrupt public and private infrastructure, including communications and financial services, which could disrupt our normal business operations.

In addition, increased energy costs, strikes and other labor-related supply chain disruptions, poor postal service or disruptions to service from postal strikes could adversely affect our business. Because our business experiences high seasonal sales concentrations, the risk of a disruption from factors beyond our control is particularly acute during our peak sales periods.

A natural or man-made disaster also could disrupt the operations of our counterparties or result in increased prices for the products and services they provide to us.

Our business may suffer if we are not able to retain or attract sufficient qualified personnel, including key managerial, creative, editorial, marketing and sales personnel globally.

We operate in a business where there is intense competition for experienced personnel in all of our global markets. We depend on our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel. Our future success depends in large part upon the continued contribution of our senior management and other key employees. A loss of a significant number of skilled managerial, creative and editorial personnel could have a negative effect on the quality of our products. Similarly, a loss of a significant number of experienced and effective sales personnel would likely result in fewer sales of our products and could materially and adversely affect our results of operations and financial condition. Our ability to identify, recruit, hire, train, develop and retain qualified and effective personnel depends on numerous factors, including factors that we cannot control, such as competition and conditions in the local employment markets in which we operate. The loss of the services of any of our senior management or other key employees could harm our business and adversely affect our ability to compete in our markets.

Increases in sales or other taxes could reduce our revenues.

In some markets, both domestic and international, some or all of our products are subject to local and national sales taxes and other taxes such as value-added taxes. Taxes, like delivery costs, are generally stated separately on bills, where permitted by applicable law. Higher taxes increase the total cost of our products to our customers, which may have a negative effect on the sales of our products. Higher taxes also may reduce profit margins on these products if we do not pass on the increase to our customers. In jurisdictions where applicable tax must be included in the purchase price, we may be unable to fully recover from customers the amount of any tax increase or new tax. This could materially and adversely affect our results of operations and financial condition.

We may not be able to adequately protect our intellectual property, our brand and our reputation.

Our intellectual property, including our copyrights, trademarks, service marks, patents, and trade secrets, and all of our other intellectual property rights, are important assets. We are susceptible to unauthorized parties imitating and/or reproducing our products and infringing on our intellectual property rights. Although we rely on copyright, patent, trademark and other laws in the United States and other jurisdictions to protect our intellectual property rights, we may be unable to successfully protect them. In addition, the laws of many foreign countries do not protect intellectual property to the same extent as do the laws of the United States. Therefore, it may be more difficult to protect our intellectual property rights in some foreign jurisdictions, including new markets into which we want to expand our business. We may not be able to successfully preserve these rights in the future, and our significant proprietary rights could be challenged, circumvented, infringed or invalidated. Imitation of our products or infringement of our intellectual property rights could diminish the value of our brands or otherwise adversely affect our revenues. Policing unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent misappropriation of such intellectual property rights. In addition, our business activities have in the past been alleged, and could in the future be alleged or determined to have infringed upon the intellectual property rights of another party. We could incur significant costs to protect our intellectual property rights or to defend against infringement and other claims by third parties. There can be no assurance that we would prevail in any litigation relating to our intellectual property. Litigation diverts the time and resources of management, regardless of the merits of the claim. Whether or not we are successful, we could incur significant costs by engaging in litigation, and our results of operations, financial condition and reputation could be materially and adversely affected.

Our brand and our reputation are also important assets, as our ability to attract and retain customers is in part dependent upon the external perceptions of our company, the quality of our products and services, and our integrity. Damage to our reputation or negative publicity or perceptions about us, including by association with adverse developments in the industries in which we conduct our businesses, could cause a loss of consumer confidence in our company, as well as unfavorable regulatory scrutiny.

Significant changes in pension fund investment performance or assumptions relating to pension costs may have a material effect on the valuation of pension obligations, the funded status of pension plans and our pension cost.

Some of our foreign pension plans are under funded. In addition, even with respect to plans that are currently over funded, our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations at the measurement date and the expected long-term rate of return on plan assets. Significant changes in investment performance or a change in the portfolio mix of invested assets can result in corresponding increases and decreases in the valuation of plan assets, particularly equity securities, or in a change to the expected rate of return on plan assets. A change in the discount rate would result in a significant increase or decrease in the valuation of pension obligations, affecting the reported funded status of our pension plans as well as the net periodic pension cost in subsequent fiscal years. Similarly, changes in the expected return on plan assets can result in significant changes in the net periodic pension cost of subsequent fiscal years. Significant variations in pension performance could produce volatility in our reported results, and significant under funding in our pension plans could necessitate higher company contributions to those plans.

Difficulties associated with our outsourced fulfillment operations could harm our business and operating results.

A portion of our fulfillment activities are outsourced to service providers. These activities include taking customer orders, product manufacturing, product fulfillment and product delivery. The failure of any of these service parties to perform competently may harm our business. We also rely on hardware and software systems provided by third-party vendors to perform vital functions and processes in our operations. Our inability to operate and integrate these technologies properly may negatively impact our product supply chain and may harm our business and operating results. In addition, the failure of a vendor to continue to provide services or upgrades to us may negatively impact our business and operating results.

The investors that acquired us (the "Sponsors") control us and may have conflicts of interests with us in the future.

Investment funds associated with or designated by the Sponsors indirectly own, through their ownership in our parent company, RDA Holding Co., a substantial portion of our capital stock. As a result, the Sponsors have control over all matters requiring the approval of our stockholders, and our decisions to enter into any corporate transaction, regardless of whether outstanding creditors believe that any such transactions are in their own best interests. For example, the Sponsors could cause us to make acquisitions that increase the amount of indebtedness that is secured or that is senior to our outstanding indebtedness, or to pay dividends or sell assets, which may impair our ability to repay outstanding indebtedness. In addition, subject to applicable law, the Sponsors will be able to elect all the members of our board of directors and to control actions to be taken by us, including amendments to our organizational documents and approval of significant corporate transactions, including mergers.

Additionally, our Sponsors are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business and as a result, those acquisition opportunities may not be available to us. So long as our Sponsors continue to indirectly own, or affiliates of Ripplewood hold proxies with respect to, a significant amount of our common stock, even if such amount is less than 50%, our Sponsors will continue to be able to strongly influence or effectively control our decisions.

UNRESOLVED STAFF COMMENTS

Not applicable.

PROPERTIES

The table below shows our headquarters and other properties that we own or lease. These locations house our executive, administrative, editorial, advertising sales and operational offices and warehouse and other facilities.

Location	Area (sq. ft.)
Westchester County, NY	269,209 leased
Greendale, WI	153,000 owned
Fairfield, IA	103,570 owned
New York, NY	151,937 leased
Various U.S. Cities	557,514 leased
International	203,072 owned; 754,501 leased

We believe that our current facilities, together with expansions and upgrades of facilities presently underway or planned, are adequate to meet our present and reasonably foreseeable needs. We also believe that adequate space will be available to replace any leases that expire in the near future.

LEGAL PROCEEDINGS

We are defendants in various lawsuits and claims arising in the regular course of business. Based on the opinions of management and counsel for these matters, we believe that recoveries, if any, by plaintiffs and claimants would not materially affect our financial position or results of operations.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our outstanding common stock is privately held, and there is no established public trading market for our common stock. As of the date of this filing, there was one holder of record of our common stock.

SELECTED FINANCIAL DATA

The Selected Financial Data are included in the accompanying Combined Consolidated Financial Statements and Financial Statement Schedules in this Annual Report on Page F-65.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following analysis of our combined consolidated results of operations and financial condition provides information that we believe is relevant to an assessment and understanding of our combined consolidated or combined results of operations and financial condition. This discussion should be read in conjunction with the Combined Consolidated and Combined Financial Statements and related notes beginning on page F-1. This discussion contains forward-looking statements about our markets, the demand for our products and services and our future results. Actual results may differ materially from those suggested by our forward-looking statements for various reasons, including those discussed in the "RISK FACTORS" and "DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS" sections of this Annual Report. We do not have any intention or obligation to update forward-looking statements included in this Annual Report. Certain amounts and percentages do not recalculate due to rounding. All references to dollars in this discussion and analysis are in millions, except per share data.

Subsequent to March 2, 2007, unless indicated otherwise, references in this Management's Discussion and Analysis section to "we," "us" and "our" are to The Reader's Digest Association, Inc. and its subsidiaries, including WRC Media Inc. and Direct Holdings U.S. Corp. Prior to March 2, 2007, these references are to the combined operations of WRC Media Inc. and Direct Holdings U.S. Corp. All references to 2007, 2006, and 2005, unless otherwise indicated, are to fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Our fiscal year is the period from July 1 through June 30.

Basis of Presentation

We are a diverse multimedia publisher and a provider of information, entertainment and education through published magazines, books, educational products, recorded music collections and home video products. We sell these and other products worldwide through direct marketing and direct sales channels. Our best known trademark is our flagship brand, *Reader's Digest*. We also sell products through QSP, our schools and youth fundraising company, and Books Are Fun, our display marketing business.

WRC Media Inc. is a publisher of supplemental education materials for the pre-K through 12th grade market in the United States. WRC Media's product portfolio includes a broad array of print and digital format supplemental educational materials. These include the *Weekly Reader*, a classroom periodical and CompassLearning's Odyessy educational software.

Direct Holdings is a direct marketing business that sells recorded music compilations, video products and books primarily through direct response television under the Time Life brand. Music products, which account for approximately 80% of Direct Holdings' revenues, cover a wide variety of genres including Rock, Country, Christian, Classical, Easy Listening, Jazz, Blues, Soul and Christmas, while the video business offers a broad range of product categories including Comedy, Christian, Nature and Children's programming.

On January 23, 2007, RDA Holding Co. (a Ripplewood controlled entity), WRC Acquisition Co. (a subsidiary of RDA Holding Co.) and WRC Media entered into a merger agreement that provided for WRC Acquisition Co. to merge with and into WRC Media, with WRC Media being the surviving corporation (the "WRC Media Merger"). An investment fund affiliated with Ripplewood acquired its original interest in WRC Media in 1999 and had at the time of the WRC Media Merger approximately a 46% economic interest and a majority voting interest in WRC Media. The merger consideration of $101 paid to WRC Media's existing stockholders to acquire all the common stock of WRC Media at the closing of the WRC Merger on March 2, 2007 included a combination of RDA Holding Co. common stock ($81), RDA Holding Co. junior pay-in-kind preferred stock ($20) and cash ($0.1).

On January 23, 2007, RDA Holding Co. entered into a stock acquisition agreement to acquire all the common stock of Direct Holdings in exchange for shares of common stock of RDA Holding Co. and net cash totaling $57 (the "Direct Holdings Stock Acquisition"). An investment fund affiliated with Ripplewood acquired its original interest in Direct Holdings in December 2003 and had at the time of the Direct Holdings Stock Acquisition approximately an 84% voting and economic interest in Direct Holdings. The net consideration of $57 paid at the closing of the Direct Holdings Stock Acquisition included a combination of RDA Holding Co. common stock ($50) and net cash ($7).

On March 2, 2007, RDA Holding Co. acquired The Reader's Digest Association, Inc. pursuant to a Merger Agreement dated November 16, 2006 among The Reader's Digest Association, Inc., RDA Holding Co. and Doctor Acquisition Co. (a wholly owned subsidiary of RDA Holding Co.) (the "RDA Merger Agreement"). Pursuant to the RDA Merger Agreement, Doctor Acquisition Co. was merged with and into The Reader's Digest Association, Inc., with The Reader's Digest Association, Inc. being the surviving corporation (the "Acquisition Transaction"). In the Acquisition Transaction, each outstanding share of common stock of The Reader's Digest Association, Inc. (except those held in treasury) was converted into the right to receive $17.00 in cash and each outstanding share of Doctor Acquisition Co. was converted into one share of common stock of The Reader's Digest Association, Inc., as the surviving corporation. Prior to the Acquisition Transaction, The Reader's Digest Association, Inc. was a publicly traded company listed on the New York Stock Exchange. Upon the closing of the Acquisition Transaction, RDA Holding Co. became the owner of all the issued and outstanding common stock of The Reader's Digest Association, Inc., the surviving corporation of the Acquisition Transaction. Concurrently with the closing of The Reader's Digest Association, Inc. acquisition on March 2, 2007, RDA Holding Co. contributed all of the outstanding shares of WRC Media and Direct Holdings to The Reader's Digest Association, Inc.

Prior to the acquisition of The Reader's Digest Association, Inc., investment funds affiliated with Ripplewood controlled a majority of the voting rights in both WRC Media and Direct Holdings. Because Reader's Digest was acquired by an investor group led by Ripplewood, and because Ripplewood acquired its controlling ownership position in WRC Media in 1999, prior to its ownership position in Direct Holdings and the Reader's Digest Association, Inc., WRC Media is considered the predecessor company for purposes of preparing the financial statements of the combined company following the Acquisition Transaction. Accordingly, our historical financial statements reflect only the businesses of WRC Media and Direct Holdings, which will affect the comparability of our future financial statements. The combination of WRC Media and Direct Holdings for the periods prior to March 2, 2007 was accounted for using the historical cost method prescribed in Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," for a combination of entities under common control.

The Reader's Digest Association, Inc. reports on a fiscal year that begins on July 1. The years ended June 30, 2007 and 2006 are fiscal 2007 and 2006, respectively. WRC Media and Direct holdings previously reported on a fiscal year that ended on December 31 and on a fiscal year that ended on the last Saturday in June, respectively. Subsequent to March 2, 2007, both WRC Media and Direct Holdings changed their respective fiscal year ends to June 30, which was retroactively applied to the 2006 and 2005 combined financial statements. Direct Holdings' 2006 fiscal year began on June 26, 2005 and ended on June 24, 2006 and its 2005 fiscal year began on June 24, 2004 and ended on June 25, 2005. The period from June 25, 2006 to June 30, 2006 and June 26, 2005 to June 30, 2005 is not material to the combined financial statements for 2006 and 2005, respectively.

Our Reportable Segments

Our business is organized and reports across three business segments: Reader's Digest North America, Reader's Digest International and School & Educational Services. However, for fiscal 2007 we had not yet fully integrated the March 2007 additions of WRC Media and Direct Holdings into our three business segments. Therefore, these companies were operated and monitored separately for fiscal 2007. We expect to have the operations of these companies fully integrated into our historic segment structure in fiscal 2008. In addition, historically our Canadian operations were reported in our North American segment, but are expected to be reported in our International segment for fiscal 2008.

Information regarding each segment's revenue, income or loss before taxes for each of the last three fiscal years and total assets as of the end of each of the last two fiscal years is included in "Note 15—Segments" in our combined consolidated financial statements included in this Annual Report, which is incorporated by reference herein.

Effect of the Acquisition Transaction

The acquisition of The Reader's Digest Association, Inc. by RDA Holding Co. was accounted for using the purchase method of accounting prescribed in SFAS No. 141. Accordingly, the consolidated results of The Reader's Digest Association, Inc. are included in the combined consolidated financial statements from the acquisition date on March 2, 2007 and include the pushdown of purchase consideration from RDA Holding Co. As a result, the accompanying combined financial statements of The Reader's Digest Association, Inc. and subsidiaries consist exclusively of the combined results of WRC Media and Direct Holdings for all periods prior March 2, 2007. Accordingly, comparability of the fiscal 2007 and fiscal 2006 year ended periods is limited.

Our significant accounting policies are more fully described under "Critical Accounting Policies" below, and in "Note 1, Organization and Summary of Significant Accounting Policies," in our Notes to Combined Consolidated Financial Statements.

Trends

Industry trends

Our business is affected by a number of important trends in the publishing and media industries, including, but not limited to, the following:

Popularity of reader-generated content

We are a pioneer of reader-generated content, which, along with celebrity themes, is a growing trend in the publishing industry, particularly online publishing, both internationally and in the United States. Our *Reader's Digest* magazine has for many years relied on readers' contributions for a portion of its content. In addition, almost all the content in our Reiman publications and Allrecipes.com, our social networking food website, comes from readers. We believe that, in addition to reducing editorial costs, our ability to utilize a significant amount of reader-generated, community-oriented content creates a bond with our customers, generates strong renewal rates, and is a unique differentiator in the print world.

International demand for consumer products and printed media

We believe that the expansion of our international business will continue to be a significant driver of our growth. The magazine publishing market outside the United States has grown, and we continue to increase the number of countries in which we offer magazines. In the past two years, for example, we launched new businesses in Bulgaria, Kazakhstan, Serbia, Bosnia and Herzegovina, and Lithuania, while launching new editions of *Reader's Digest* in Romania, Slovenia and Croatia. As of June 30, 2007, we published 50 editions of *Reader's Digest*. The demand for magazines and other consumer products has grown more quickly in emerging markets than in more mature North American and Western European markets. Our BHE business is also important to our international strategy. As of June 30, 2007, we market our book products in 44 countries, music products in 41 countries and video products in 32 countries outside the United States and Canada. We believe our product-testing process and new-country selection criteria have allowed us to identify markets in which we can successfully market and sell our products.

Growth of the Internet

The growth of the Internet is a significant trend in our businesses. The increased use of the Internet among people of all ages around the world represents an opportunity for publishers to attract subscribers, offer free content and build relationships with subscribers. The Internet is a channel for acquiring new customers that may allow us to reduce our traditional reliance on direct mail. A growing percentage of advertising expenditures in consumer magazines has migrated toward Internet editions of print media, Internet search engines and other electronic media. We have been growing our online advertising capabilities since acquiring Allrecipes.com, which is an ad-driven model, and establishing independent sales teams at each of the major online brands, such as www.rd.com. Our online focus is to extend brands of sale and to enhance customer relationships by more powerfully connecting to consumers online.

Principal Revenue factors

We pay close attention to a number of performance and revenue measures, which vary according to the business segment and product, including:

- *Magazine metrics.* The performance of our flagship *Reader's Digest* magazine, our Reiman magazines and our other magazines is partly a function of:

  - circulation, which we measure against either our rate base (which is the guaranteed average circulation upon which our advertising rates are based) or, historically in the case of our Reiman magazines, the number of paid subscribers and newsstand buyers;
  - renewal rates for our magazines among existing subscribers;
  - prices of our magazines, which are partly a function of our costs;
  - the number of countries in which we offer products;
  - the number of advertising pages sold per fiscal year and the rate paid per page; and
  - advertising revenue, net of agency fees.

- *BHE metrics.* The performance of our Reader's Digest Select Editions books, our general books and music, our Young Families products and other similar products is partly a function of:

  - our active customer base;
  - the number of countries in which we offer products;
  - our response rates to direct marketing;
  - the number of new customers;
  - customer payment rates; and
  - series membership for products that are sold as series.

- *School & Educational Services metrics.* The performance of our *School & Educational Services* products is partly a function of:

  - for our Books Are Fun business, the products, the number of events, the average sales per event, the size of our sales force, our product margins and inventory turns; and
  - for our QSP youth fundraising support business, the number of magazine subscriptions sold; food products and other gift products sold; average prices, same-school sales, the size of the sales force; the number of retained accounts; the number of new accounts and the level of student participation.

Cost factors

Our business is also affected by a number of significant cost factors, some of which affect specific types of products and others that affect our business as a whole.

- *Production costs*. Production costs for our products include the cost of the physical production of our books and magazines, the cost of paper and the costs of merchandise purchased from third parties. See "BUSINESS – Production and Fulfillment."

- *Postage costs*. Historically, we have relied on direct mail for a significant portion of our customer acquisition activities. The rise in postal rates in the various markets we operate has increased our customer acquisition costs as we depend on postal services and private delivery services for the delivery of our products. Paper is the principal raw material used in our business for printed products and promotional materials. We expect to incur paper costs of approximately $210 million in fiscal 2008.

- *Promotion costs*. Promotion costs are a significant cost factor in our business. We believe that our sales are directly affected by the levels of our promotional spending, including: (1) the cost of the direct mail solicitations, (2) package inserts, (3) cross-promotional activities, (4) renting and purchasing customer lists, (5) special promotions (including sweepstakes) and (6) DRTV and telemarketing.

- *Outsourced fulfillment costs*. Our costs also include the costs of fulfillment, warehousing, customer service and payment and order processing, which are generally handled by independent contractors.

- *Editorial costs*. Editorial costs include amounts we pay to our own writers and other editorial staff and third-party sources of editorial content. We maintain a central editorial repository, which permits the editors of our magazines to utilize content prepared for other magazines or regions efficiently and favorably affects our editorial costs.

- *Sales force costs*. The important costs for QSP, Books Are Fun and Taste of Home Entertaining include salaries, commissions and other related costs.

- *Restructuring costs*. In connection with the Acquisition Transaction, we have implemented several restructuring programs to strategically reposition our businesses and streamline operations. These restructuring activities principally involve reductions in headcount, contract terminations, asset dispositions or write-downs and facilities closures. These restructuring charges, as well as reversals in future periods based on changes in estimates, are summarized in the notes to our combined consolidated and combined financial statements contained elsewhere in this Annual Report, see Note 4 to the combined consolidated and combined financial statements.

- Interest Expense. We have increased our aggregate borrowing in connection with the Acquisition Transaction. Our increased indebtedness and deferred financing costs will significantly increase our interest expense.

Other factors

In addition to the revenue and cost factors described above, our financial condition and results of operations are affected by a number of other factors on an ongoing basis, including the following:

- *Seasonality.* We typically experience our strongest revenue in our second fiscal quarter (the three month period ending December 31) due to purchases during the holidays. Summer and fall are the most active promotion periods in our North American segment for both our magazine and BHE businesses, in part due to the significant percentage of our sales that result from holiday gifts. In addition, as fundraising frequently is done at the beginning of the school year, the QSP business is strongest in the second fiscal quarter. We experience less pronounced seasonality for our Books Are Fun business, which is strongest in the second fiscal quarter, and weakest in the first fiscal quarter as schools are closed and corporate employees often take vacations during that quarter. Our International segment is also less seasonal, although profits do fluctuate as a function of when we time our customer acquisition mailings (generally in July and January, depressing first fiscal quarter and third fiscal quarter profits as a result), and revenue tends to be strongest in our second fiscal quarter. Weekly Reader's and CompassLearning's sales are significantly affected by the school year. For example, Weekly Reader's sales in its third, and to a lesser extent its fourth, fiscal quarters are typically the strongest as products are shipped in connection with the start of the school year. CompassLearning's net revenue is historically strongest in its fourth quarter. The historical strength of CompassLearning is generally attributed to the end of the school fiscal year (June 30) and the need for the schools to spend budget money prior to year-end.

- We have identified annual cost savings from becoming a private company following the Acquisition Transaction, implementing headcount reductions and the absence of certain other expenses. We also believe there are significant cost and revenue synergies among our product affinities, including infrastructure and distribution channel synergies. Additionally, we have been working with a leading supply chain consulting firm to analyze our infrastructure in order to identify additional cost reduction opportunities within our supply chain and maintenance, repair and operations functions. On October 17, 2007, we entered into a contract with Williams Lea, a global corporate information solutions provider, that is expected to reduce our print procurement cash expenditures by an aggregate of approximately $130 million over the first three years. See "BUSINESS – Production and Fulfillment" for more information.

- *Changes in working capital*. Our working capital fluctuates to enable us to manage the seasonality of our business, reflecting the timing of our peak selling period in the fall and early winter, our second fiscal quarter. During the first fiscal quarter, selling activity is seasonally low and we purchase inventory and promotion material for use in the second fiscal quarter. As a result, working capital increases and free cash flow historically has been negative. During the second fiscal quarter, selling activity typically increases and working capital typically decreases as promotional material is mailed and inventory is sold. As a result, working capital decreases and free cash flow historically has been positive. During the third and fourth fiscal quarters, working capital changes are less dramatic and free cash flow historically has been generally positive.

- *Foreign exchange rates.* Because we conduct a significant portion of our business outside the United States, our revenue and costs are affected by fluctuations in the exchange rates between the U.S. dollar and the local currencies in the foreign markets in which we operate. We cannot predict the effect of foreign currency fluctuations on our revenue and costs from period to period.

Debt

On March 2, 2007, we entered into a Credit Agreement providing for a six-year senior secured $300.0 revolving credit facility and a seven-year $1,310.0 term loan (the “2007 Credit Agreement”). The 2007 Credit Agreement term loan includes within the above-mentioned facilities a US $100.0 term loan tranche made available in an equivalent amount of euros to one of our German subsidiaries. Additionally, on March 2, 2007, we entered into an Indenture among us, the Guarantors (as defined therein) and The Bank of New York, as Trustee, pursuant to which we issued $600.0 of 9% Senior Subordinated Notes due 2017 (“Senior Subordinated Notes”) in a private offering. In connection with this offering, the entire outstanding principal amount of $390.0 under our previously existing $500.0 Five-Year Revolving Credit Agreement dated April 14, 2005 and amended April 19, 2006 (the “2005 Credit Agreement”) was repaid and we also repurchased $299.9 of the $300.0 aggregate outstanding principal amount of our 6-1/2% senior unsecured notes due in 2011. See “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources” for additional information.

Results of Operations

2007 vs. 2006

Revenues

Revenues in 2007 increased $682 to $1,076, compared with $394 in 2006. The increase in revenues is due to the acquisition of The Reader’s Digest Association, Inc. on March 2, 2007. Subsequent to the acquisition, Reader’s Digest Association, Inc. revenues were $687 for the period from March 3, 2007 to June 30, 2007. In connection with the purchase method of accounting prescribed in SFAS No. 141, the fair value of our unearned revenue was reduced by $196 to establish a new accounting basis as of March 2, 2007, which reduced Reader’s Digest Association, Inc. revenues for the period from March 3, 2007 to June 30, 2007, by $54.

WRC Media’s revenues in 2007 increased $3 to $137, compared with $134 in 2006. The increase in revenues is mainly due to an increase in third party software sales at CompassLearning, which was partially offset by a decrease in publishing revenues. Publishing revenues decreased due to a reduction in orders for library services, a decline in the book preview program at Gareth Stevens and the discontinuance of an insert program at Weekly Reader.

Direct Holdings’ revenues in 2007 decreased $8 to $252, compared with $260 in 2006. The decrease in Direct Holdings’ revenues was primarily attributable to planned reductions in unprofitable customer promotion activity in its European operations, offset by favorable results of TV, Internet and customer service promotions in the United States.

Operating Loss

Operating loss in 2007 was $(35), an increase of $22, as compared with the 2006 operating loss of $(13). The increase in operating loss during 2007 is due to the acquisition of The Reader’s Digest Association, Inc. on March 2, 2007.

The Reader’s Digest Association, Inc. operating loss was $(28) for the period from March 3, 2007 to June 30, 2007. The operating loss is impacted by: certain purchase accounting fair value adjustments of $(63) including $(54) in reduced revenue due to fair value adjustment to unearned revenue as described above; other operating charges of $(36) mainly for restructuring and corporate unallocated expenses of $(14). Reducing the loss was a one time inventory cost reduction of $7 in the School & Education Services segment, at QSP, related to certain performance and delivery issues with their chocolate supplier. The inventory cost reduction was recognized as a credit to product, distribution and editorial expenses during 2007.

Other operating charges of $(36) mainly consist of restructuring charges $(15) related to the integration of WRC Media’s and Direct Holdings’ operations; $(15) related to the restructuring of our agreement with World’s Finest Chocolate (“WFC”) to reduce the term of the agreement, reduce the annual minimum tonnage purchase requirements, phase out the fundraising exclusivity rights previously granted to QSP and eliminate certain employment restrictions;

and $(4) related to our contract with a supply change consulting firm engaged to analyze cost reduction opportunities.

WRC Media's reported a $0 operating profit (loss) in 2007 as compared with a 2006 operating profit of $3. The decrease in operating profit is attributed to an increase in software amortization at CompassLearning's Odyssey software educational software and lower revenues discussed above. Additionally, promotion, marketing and administrative expenses increased mainly due to deal related costs incurred in connection with the Acquisition Transaction. Such increases were offset by lower intangibles amortization due to the impairment and write-off of certain definite-lived intangibles in 2005.

Direct Holdings' operating loss in 2007 was $(8), an improvement of $7, as compared with the 2006 operating loss of $(15). The decrease in operating loss at Direct Holdings was principally attributable to the sale of Lillian Vernon Corporation ("LVC") to an unrelated third party in May 2006. Since the third party purchaser of LVC did not assume certain LVC outstanding balances owed to Direct Holdings for prepaid fulfillment and distribution services, the then outstanding LVC net receivable of $13 was determined to be fully impaired and was written off in 2006. Additionally, in 2006, Direct Holdings also reversed a $3 accrual due to the settlement of estimated royalty payments.

Interest Expense

Interest expense, net increased $(54) to $(79) in 2007, compared with $(25) in 2006. The increase is principally attributable to an increase in interest expense of $(53) related to the 2007 Credit Agreement and the Senior Subordinated Notes. As of June 30, 2007, we had outstanding debt of $1,292 under the 2007 Credit Agreement, which includes $85 outstanding under our $300.0 revolving credit facility, and $600 of 9% Senior Subordinated Notes due 2017. The increase in interest expense is also attributable to the March 2, 2007 repayment of WRC Media's previously existing debt, in which WRC Media incurred prepayment and forbearance fees of $(5) and wrote off unamortized deferred financing fees of $(3). The weighted average interest rates were 8.7% and 13.4% in 2007 and 2006, respectively.

Gain on Recapitalization at WRC Media

In connection with the repayment of WRC Media's second-lien term loan credit agreement, WRC Media recognized a gain of $19 as accrued interest of $19 on the second-lien term loan originally recorded in connection with a troubled debt restructuring in 2006 was not required to be paid. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources" for additional information.

Income Taxes

The 2007 income tax benefit of $5 reflects a foreign income tax provision of $13 and a domestic tax benefit of ($18). The domestic tax benefit primarily relates to the decrease in certain deferred tax liabilities for which neither a corresponding current tax payable nor a decrease in net deferred tax assets resulted. Additionally, the domestic tax provision also reflects the establishment of $13 valuation allowance on net operating loss and foreign tax credit carry forwards. The foreign income tax provision reflects the establishment of $6 of valuation allowance on certain net operating loss carry forwards since it is was more likely than not that the deferred tax assets will not be realized. The 2007 income tax benefit also includes a $3 charge of foreign withholding tax and U.S. income tax on certain unremitted foreign earnings that previously had been considered permanently reinvested.

2006 vs. 2005

As discussed above, our accompanying combined financial statements consist exclusively of the combined results of our predecessor entities WRC Media and Direct Holdings for all periods prior to March 2, 2007. Accordingly, our 2006 and 2005 accompanying combined financial statements only report the combined historical operating results of WRC Media and Direct Holdings.

Revenues

Revenues in 2006 decreased $(48) to $394 compared with $442 in 2006. Direct Holdings' revenues decreased $(43) to $260 in 2006, compared with $304 in 2005. WRC Media revenues decreased $(5) to $134 in 2006, compared with $139 in 2005.

The decrease in Direct Holdings' revenues results from volume declines in U.S. and European operations. The decrease in U.S. revenues was due to volume declines across its TV and telemarketing sales channels, which were partially offset by increased prices. European revenues decreased primarily as a result of decreased promotion activity in order to eliminate unprofitable products and sales channels.

The decrease in WRC Media's revenues is attributable to a decrease in software and publishing revenues.

Operating Loss

Operating loss in 2006 was ($13) a decrease in the loss of $73 as compared with the 2005 operation loss of $(86). WRC Media operating income was $2, an increase of $73 as compared to a 2005 operating loss of $(71). Direct Holdings 2006 operating loss of $(15) was flat when compared with 2005.

The decrease in operating loss at WRC is principally driven by the $70 impairment of goodwill and intangibles at WRC Media in 2005. In 2006, there was no impairment of goodwill or intangibles at WRC Media.

As of June 30, 2006, Direct Holdings wrote off of its LVC prepaid fulfillment and distribution services receivable of $13, $5 lower than LVC write off in 2005 of $18, and reversed a $3 accrual due to the settlement of estimated royalty payments, which were primarily offset by revenue declines as discussed above and related decreases in expenses.

Interest Expense

Interest expense, net decreased $34 to $(25) in 2006, compared with $(59) in 2005 due to the recapitalization of debt at WRC Media in 2005. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Liquidity and Capital Resources" for additional information. The weighted average interest rates were 13.4% and 9.8% in 2006 and 2005, respectively.

Extraordinary Gain at Direct Holdings

In connection with its acquisition of the Time Life business in 2003, Direct Holdings agreed to pay additional contingent consideration if certain specified performance criteria, as defined, were met. Since the fair value of the liabilities acquired exceeded the fair value of the assets acquired at the acquisition date, Direct Holdings recorded an acquisition contingency of approximately $8. As of June 24, 2006, Direct Holdings did not meet the defined criteria requiring payment of additional consideration. Accordingly, Direct Holdings released the acquisition contingency of $8 by writing off the remaining net book value of fixed assets and intangible assets of $1. The remaining balance that represented negative goodwill of approximately $7 was recognized as an extraordinary gain in the 2006 combined statement of operations.

Discontinued Operations

On July 22, 2005, WRC Media completed the sale of its American Guidance Service, Inc. ("AGS") subsidiary. As a result, the 2006 and 2005 combined statements of operations have been presented to reflect the operation of AGS as a discontinued operation. AGS is a publisher of testing and assessment products and supplemental instructional materials. The sale of AGS resulted in a net gain on sale of $53 after related income taxes of $39. AGS income from operations before income taxes for the period from July 1, 2005 to July 22, 2005 was $4 and $28 for 2005.

The 2005 combined financial statement of operations also includes a discontinued operations gain from the sale of Direct Holding's Asia business of $9.

Income Taxes - Continuing Operations

The income tax provision of $(3) recorded in 2006 primarily reflects the recording of deferred tax liabilities related to book versus tax differences on goodwill and intangibles.

In 2005, we concluded that the deferred tax assets for both WRC Media and Direct Holdings were not realizable and required a valuation allowance except for the portion of deferred tax assets that would be utilized to reduce the gain on sale of AGS in 2006. The tax benefit recorded in 2005 of $52 primarily relates to the reversal of the valuation allowances attributable to the gain on sale of AGS.

Income Taxes - Discontinued Operations

The income tax provision of $(41) in 2006 primarily reflects the use of net operating loss carryforwards to offset the gain recognized on the sale of AGS in 2006.

The income tax provision of $(19) in 2005 reflects the tax on the operating results of AGS that was subsequently sold in 2006. The valuation allowance on these carryforwards had been reversed in the 2005 tax provision because it was more likely than not that the carryforwards would be realized.

Liquidity and Capital Resources
(*includes forward-looking information)*

The consolidated statement of cash flows for the year ended June 30, 2007 is summarized below:

Cash and cash equivalents at June 30, 2006	**$ 7**
Net change in cash due to:	
Operating activities	(176)
Investing activities	---
Financing activities	217
Effect of exchange rate fluctuations on cash and cash equivalents	2
Net change in cash and cash equivalents	**43**
Cash and cash equivalents at June 30, 2007	**$ 50**

Cash and cash equivalents increased to $50 as of June 30, 2007, compared with $7 as of June 30, 2006. The increase in cash is attributed to the proceeds of new borrowings offset by the net cash distribution to RDA Holding Co. in connection with the Acquisition Transaction. Cash flow from operations decreased to $(176) as of June 30, 2007, compared with $1 for the year ended June 20, 2006. This is primarily due to the acquisition of The Reader's Digest Association, Inc. on March 2, 2007.

Financial Statement Reporting Requirements

We were delayed in the timely delivery of our fiscal 2007 year-end audited financial statements and first quarter 2008 unaudited financial statements pursuant to the terms of our 2007 Credit Agreement and the Indenture relating to our Senior Subordinated Notes (the "Financial Delivery Requirement"). The delay in completing the Financial Delivery Requirement results from technical aspects of the accounting rules and complexities related to changing the fiscal year-end for our predecessor company WRC Media from December 31 to June 30 to conform to our June 30 reporting cycle. On December 12, 2007, we received a notice from the Administrative Agent under our 2007 Credit Agreement that commenced the 30 day period during which we must satisfy the Financial Delivery Requirement under our 2007 Credit Agreement. Until we satisfy the Financial Delivery Requirement under our 2007

Credit Agreement, we will be unable to draw down funds from our revolving credit facility. Delivery of this Annual Report will satisfy the Financial Delivery Requirement as it relates to the fiscal 2007 year-end audited financial statements.

Borrowings

The Reader's Digest Association, Inc.

2007 Credit Agreement

On March 2, 2007, we entered into a credit agreement providing for a six-year senior secured $300.0 revolving credit facility and a seven-year $1,310.0 term loan (the "2007 Credit Agreement"). At June 30, 2007, $85.2 was outstanding under the revolving credit facility and $1,309.3 under the term loan. The 2007 Credit Agreement term loan includes within the above-mentioned facilities a US$100.0 term loan tranche made available in an equivalent amount of euros to one of our German subsidiaries. Financing fees of $40.4 related to the 2007 Credit Agreement were deferred and are amortized on a straight-line basis over the life of the agreement.

Borrowings under the term loan bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate ("Base Rate") determined by reference to the higher of (1) the prime rate and (2) the federal funds rate plus 0.50% or (b) a Eurocurrency rate ("Eurocurrency Rate") determined by reference to the rate for Eurocurrency deposits for a period of one, two, three or six months or, subject to availability to the lenders, nine or twelve months, as selected by us. For Base Rate loans and Eurocurrency Rate loans, the applicable margin is 1.00% and 2.00%, respectively.

Borrowings under the revolving credit facility bear interest at a percentage per annum equal to, at our option, either (1) the Base Rate plus 1.25% for Base Rate loans or (2) the Eurocurrency Rate plus 2.25% for Eurocurrency Rate loans. Applicable margins with respect to revolving loans will be subject to reduction by up to 0.75% based on our consolidated leverage ratio from time to time.

We are required to pay a commitment fee for the revolving credit facility for the average daily unutilized commitments. The initial commitment fee rate is 0.375% per annum and may be reduced to 0.25% subject to our attaining certain leverage ratios.

The 2007 Credit Agreement generally requires us to prepay outstanding term loans upon the occurrence of certain defined events, including net cash proceeds of any incurrence of new debt (as defined), certain assets sales or dispositions (as defined) and 50% (which percentage will be reduced if our total leverage ratio is less than certain ratios) of our annual excess cash flow (as defined).

In addition, we are required to repay the term loan in equal quarterly installments beginning June 30, 2007 (with any remainder expected to be due on March 2, 2014) in aggregate annual amounts equal to 1.0% of the initial aggregate principal amount. The principal amount outstanding under the revolving credit facility is due and payable in full at maturity, on March 2, 2013.

All obligations under the 2007 Credit Agreement are unconditionally guaranteed by RDA Holding Co., us and, subject to certain exceptions, each of RDA Holding Co.'s direct and indirect domestic wholly-owned subsidiaries (collectively referred to as the "Guarantors"). The loans made to our German subsidiary are also unconditionally guaranteed by its subsidiaries as well as secured by all of the stock and assets of those subsidiaries (subject to certain exceptions).

All obligations under the 2007 Credit Agreement, and the guarantees of those obligations, are generally secured by the following assets of the Guarantors: (i) 100% of our common stock and each of our direct and indirect domestic subsidiaries and 65% of the voting common stock and 100% of the non-voting common stock of our direct and indirect foreign subsidiaries and (ii) a security interest in substantially all our tangible and intangible assets. Subject to certain exceptions, all obligations of each non-U.S. borrower are unconditionally guaranteed by each restricted subsidiary of such borrower.

The 2007 Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to: (i) incur additional indebtedness or issue shares by subsidiaries, (ii) create liens on assets, (iii) engage in mergers or consolidations, (iv) sell assets, (v) pay dividends and distributions, (vi) make investments, loans or advances, (vii) repay subordinated indebtedness (including the Senior Subordinated Notes described below), (viii) make certain acquisitions, (ix) engage in certain transactions with affiliates, (x) enter into certain burdensome agreements, (xi) amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes), and (xii) change our lines of business and (xiii) make capital expenditures.

In addition, the 2007 Credit Agreement includes a financial covenant requiring us to comply with a maximum leverage ratio, as defined. The 2007 Credit Agreement also contains certain defined customary affirmative covenants and events of default.

We entered into interest rate swap agreements with a notional value totaling $750.0, involving the exchange of floating- for fixed- rate interest payments, to reduce interest rate volatility and to comply with the interest rate provisions of our 2007 Credit Agreement. See Note 8, Financial Instruments, for further information.

Senior Subordinated Notes and Indenture

On March 2, 2007, we entered into an Indenture among us, the Guarantors (as defined therein) and The Bank of New York, as Trustee, pursuant to which we issued $600.0 of 9% Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes") in a private offering. Financing fees of $24.8 related to the Senior Subordinated Notes were deferred and are amortized on a straight-line basis over the life of the agreement.

The Senior Subordinated Notes mature on February 15, 2017. Interest on the Senior Subordinated Notes accrues at the rate of 9% per annum and is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2007, to the holders of Senior Subordinated Notes of record on the immediately preceding February 1 and August 1. Interest on the Senior Subordinated Notes is computed on the basis of a 360-day year comprised of twelve 30-day months.

The Senior Subordinated Notes are guaranteed on a senior subordinated basis by all of our subsidiaries that guarantee our obligations under the 2007 Credit Agreement. Any domestic subsidiaries that in the future guarantee our indebtedness will also guarantee the Senior Subordinated Notes. The guarantees of the Senior Subordinated Notes will be released when the guarantees of our 2007 Credit Agreement indebtedness are released.

The guarantees of the Senior Subordinated Notes are unsecured senior subordinated obligations of our subsidiary guarantors and have the same ranking with respect to indebtedness of our subsidiary guarantors as the Senior Subordinated Notes have with respect to our indebtedness.

We may redeem some or all of the Senior Subordinated Notes at any time prior to February 15, 2012 at a price equal to 100% of the principal amount of the Senior Subordinated Notes plus accrued and unpaid interest plus a defined "make-whole" premium. The Senior Subordinated Notes are also redeemable at our option, as defined, in whole or in part, at any time on or after February 15, 2012.

At any time prior to February 15, 2010, we may redeem, at our option, up to 35% of the original principal amount of the Senior Subordinated Notes with the proceeds of one or more equity offerings at a redemption price of 109% of the principal amount of the Senior Subordinated Notes, together with accrued and unpaid interest, if any, to the date of redemption.

Upon the occurrence of a change of control (as defined) of The Reader's Digest Association, Inc., holders of the Senior Subordinated Notes have the right to require us to repurchase all or a portion of the Senior Subordinated Notes at a purchase price in cash equal to 101% of the principal amount of the Senior Subordinated Notes plus accrued and unpaid interest.

The Indenture, among other things, limits our ability and the ability of our subsidiaries to: (i) incur, assume or guarantee additional indebtedness, (ii) issue redeemable stock and preferred stock, (iii) repurchase common stock, (iv) make other restricted payments, including, without limitation, paying dividends and making investments, (v) create liens, (vi) redeem debt that is junior in right of payment to the Senior Subordinated Notes, (vii) sell or otherwise dispose of assets, including common stock of subsidiaries, (viii) enter into agreements that restrict dividends from subsidiaries or (ix) enter into mergers or consolidations.

Registration Rights Agreement

In connection with the issuance of the Senior Subordinated Notes, we entered into a Registration Rights Agreement, dated as of March 2, 2007. The Registration Rights Agreement provides that we and each of the Guarantors will, at our expense and for the benefit of the holders of the Senior Subordinated Notes, (i) file a registration statement on an appropriate registration form (an "Exchange Offer Registration Statement") with respect to a registered offer (an "Exchange Offer") to exchange the Senior Subordinated Notes for new notes guaranteed by the Guarantors on a senior subordinated basis, with terms substantially identical in all material respects to the Senior Subordinated Notes (the notes so exchanged, the " Exchange Notes ") (except that the Exchange Notes will not contain terms with respect to transfer restrictions or any increase in annual interest rate) and (ii) use our reasonable best efforts to cause the Exchange Offer Registration Statement to be declared effective under the Securities Act of 1933.

Upon an Exchange Offer Registration Statement being declared effective, we will offer the Exchange Notes (and the related guarantees) in exchange for surrender of the Senior Subordinated Notes.

If the Exchange Offer is not consummated, in certain circumstances we will be required to file a shelf registration statement covering resale of the Senior Subordinated Notes. In addition, in certain circumstances if the Exchange Offer is not consummated on or prior to the 360th day after March 2, 2007, up to an additional 1.0% of penalty interest may accrue on the principal amount of the Senior Subordinated Notes outstanding.

2005 Credit Agreement and Senior Unsecured Notes

On March 2, 2007, the entire outstanding principal amount of $390.0 under our $500.0 Five-Year Revolving Credit Agreement dated April 14, 2005 and amended April 19, 2006 (the "2005 Credit Agreement") was repaid and we also repurchased $299.9 of the $300.0 aggregate outstanding principal amount of our 6-1/2% senior unsecured notes due in 2011.

Direct Holdings

On May 31, 2005, Direct Holdings entered into an amended asset-backed revolving credit agreement (the "Amended CIT Credit Facility") with The CIT Group/Business Credit, Inc. ("CIT"). The Amended CIT Credit Facility provided for a maximum available credit line totaling $20. The credit line was collateralized by substantially all of the assets of Direct Holdings, including accounts receivable, inventory and equipment. The Amended CIT Credit Facility also provided for two Term Loans ("Term Loan A" and "Term Loan B") in the amount of $2.5 each and a $5 sub limit for standby letters of credit within the $20 credit line.

In February 2006, CIT assigned Term Loan B to Citicorp North America. In March 2006, the maximum revolving credit line decreased from $20 to $15 pursuant to an Extension Agreement. New financial covenants as well as other restrictions were set forth. The Extension Agreement also waived a default associated with delivery of audited financial statements for the year ended June 30, 2005.

On May 26, 2006, Direct Holdings entered into an Assumption and Amendment Agreement which provided for several changes to the Amended CIT Credit Facility and Extension Agreements. The Assumption and Amendment Agreement was necessary to remove consolidated covenants and provisions that were in place prior to the sale of Direct Holdings' previous sister company, Lillian Vernon Corporation. Term Loan A increased to $4 and Term Loan B increased to $12.5.

On December 27, 2006, CIT entered into an Amendment and Waiver (the “Waiver Amendment”) with Direct Holdings and certain other parties, amending the Amended CIT Credit Facility. Among other things, the Waiver Amendment provided for a waiver through December 31, 2006 relating to delivery of annual audited financial statements for the year ended June 30, 2006. It also amended certain EBITDA calculations and trailing EBITDA minimums required to be maintained by Direct Holdings.

In connection with the Acquisition Transaction and the contribution of Direct Holdings to The Reader’s Digest Association, Inc., on March 2, 2007, Direct Holdings repaid the outstanding principal and accrued interest of $30 under the Amended CIT Credit Facility (including its revolver, Term Loan A and Term Loan B).

WRC Media

Credit and Guaranty Agreement

In connection with the July 2005 sale of a subsidiary and related recapitalization transactions, two of WRC Media's subsidiaries entered into the Credit and Guaranty Agreement ("First-Lien Facility"). The agreement provided for a facility consisting of a Senior Term Loan with a Tranche A and Tranche B, and a Revolving Credit Facility ("WRC Revolver"), to be secured by liens on substantially all of WRC Media's assets. The agreement also provided for a final maturity of the First-Lien Facility of July 22, 2009.

Beginning November 20, 2006, in connection with the delivery of WRC Media's financial statements as of and for the nine-month period ended September 30, 2006, WRC Media was in default of the Credit and Guaranty Agreement because its borrowings were in excess of the permitted borrowings. At December 31, 2006, WRC Media was not in compliance with certain defined covenants, including leverage and coverage ratios. On January 23, 2007, WRC Media entered into the Forbearance and First Amendment Agreement whereby, among other provisions, WRC Media was, subject to certain terms and conditions, provided $23 in permitted borrowings. Under the terms of the Forbearance and First Amendment Agreement, subject to certain conditions including the avoidance of additional defaults, the lenders agreed not to exercise certain rights until March 31, 2007. In consideration of the execution and delivery of the Forbearance and First Amendment Agreement, WRC Media was required to pay a forbearance fee of up to $4 on the maturity date of the term loans. As noted above, WRC Media was also in default of certain financial covenants which were not waived. By virtue of these defaults, the lenders were entitled to certain remedies, including the repayment of all borrowings.

In connection with the Acquisition Transaction and the contribution of WRC Media to The Reader's Digest Association, Inc., on March 2, 2007, WRC Media repaid all borrowings and forbearance fees, under the First-Lien Facility and the Forbearance and First Amendment agreements, totaling $113.

Term Loan Credit Facility

In connection with the July 22, 2005 redemption and repurchase by WRC Media of all of the shares of WRC Media's 15% Senior Preferred Stock due 2011 ("Senior Preferred Stock) and the warrants to purchase common stock of two of WRC Media's subsidiaries, WRC Media entered into a $30 Term Loan and Guaranty Agreement ("Second-Lien Term Loan Credit Agreement"), in addition to the payment of $55 and the issuance of 92,754,145 shares of WRC Media common stock to the holders of Senior Preferred Stock.

The Second-Lien Term Loan Credit Agreement provided for similar but less restrictive covenants to those of the Credit and Guaranty Agreement. The Second-Lien Term Loan Credit Agreement was a priority loan to the Credit and Guaranty Agreement.

SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," prescribes the accounting when debt is restructured by a company. Additional guidance on the application of SFAS No. 15 is provided by EITF Issue 02-07, "Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15." The consensus of these pronouncements is that unless there is evidence to the contrary, when debt is restructured with consideration materially less than the carrying value of the retired debt, the provisions of SFAS No. 15 apply. Therefore, although WRC Media was in compliance with its loan covenants when the recapitalization transactions occurred in 2005, because the consideration issued to the Senior Preferred shareholders was significantly less than the Senior Preferred Stock's carrying value, the provisions of SFAS No. 15 applied. Accordingly, the difference between the carrying value of the Senior Preferred Stock and the consideration received by the Senior Preferred shareholders of $83 was reduced by the $29 of interest expected to be earned by the Second-Lien Term Loan Credit Agreement loan holders over the term of the loan. Therefore, WRC Media recognized a gain of $54 and increased the carrying value of the Second-Lien Term Loan Credit Agreement loan by $29. The net gain on recapitalization of $38 was not reduced by income taxes.

Beginning November 20, 2006, WRC Media was in default of the Second-Lien Term Loan Credit Agreement due to the excess borrowings discussed above and the cross default provisions of the Credit and Guaranty Agreement and Second-Lien Term Loan Credit Agreement. As of December 31, 2006, WRC Media was also in default of certain financial covenants which had not been waived. By virtue of these defaults, the lenders were entitled to certain remedies, including the repayment of all borrowings.

In connection with the Acquisition Transaction and the contribution of WRC Media to The Reader's Digest Association, Inc., on March 2, 2007, WRC Media repaid all borrowings under the Second-Lien Term Loan Credit Agreement, totaling $40.1. In connection with the repayment of the Second-Lien Term Loan Credit Agreement, WRC Media recognized a gain in other income and (expense), net on the extinguishment since accrued interest of $18.5 expected to be earned by the Second-Lien Term Loan Credit Agreement was not required to be paid.

Other Liquidity Matters

International lines of credit and overdraft facilities totaled $42 at June 30, 2007, of which $23.5 were outstanding. The interest rates on outstanding borrowings at June 30, 2007 ranged from 5.4% to 6.5%. These lines of credit are subject to renewal annually.

As of June 30, 2007, our $2.9 stand-by letters of credit serves as security for a real estate lease entered into by WRC Media.

Contractual Obligations and Commitments
(includes forward-looking information)

For information regarding debt and other obligations, including lease commitments and contingencies, see Note 7, Goodwill and Other Intangible Assets, Net; Note 12, Debt; and Note 14, Commitments and Contingencies, in our Notes to Combined Consolidated Financial Statements.

In the normal course of business, we enter into long-term arrangements with suppliers for raw materials and merchandise and with other parties whose recordings or works we use in our products. These arrangements may contain minimum purchase requirements. We enter into these agreements to facilitate an adequate supply of materials and to enable us to develop better products for sale to our customers. The table below details our significant contractual obligations and the timing of payments due for those contracts with minimum purchase requirements.

Contractual Obligations	Less than one year	One to three years	Three to five years	More than five years
Debt obligations[1]:				
2007 Credit Agreement	$ 13	$ 26	$ 26	$ 1,330
Senior Notes				600
Lease commitments:				
Operating leases	31	53	43	87
Purchase commitments:				
World's Finest Chocolate[2]	49	65	---	---
Royalty contracts	5	1	1	---
Pension and postretirement obligations[3]	65	129	130	336
Service and outsource contracts[4]	17	17	4	---
Total	**$ 180**	**$ 291**	**$ 204**	**$ 2,353**

(1) *See Note 12, Debt, in our Notes to Combined Consolidated Financial Statements for the Year Ended June 30, 2007 and Combined Statements for the Years Ended June 30, 2006 and 2005 for additional information.*

(2) *In May 2007, QSP, Inc. restructured its agreement with World's Finest Chocolate to reduce the term of the agreement from December 31, 2020 to December 31, 2009, reduce our annual minimum tonnage purchase*

requirements for the remaining term of the agreement, phase out the fundraising exclusivity rights previously granted to QSP, Inc. (effective January 1, 2008), and eliminate certain employment restrictions. The commitments detailed above represent our minimum purchase requirements of chocolate products from fiscal 2007 until the agreement terminates at the end of calendar 2009. If the tonnage purchase requirements are not met, QSP, Inc. is subject to certain penalties as defined in the restructured agreement.

(3) *This item includes payments that are expected to be made for pension and postretirement benefits. Amounts in "More than five years" category only include projected payments from fiscal 2013 through fiscal 2017. See Note 9, Pension Plans and Other Postretirement Benefits, in our Notes to Combined Consolidated Financial Statements for the Year Ended June 30, 2007 and Combined Statements for the Years Ended June 30, 2006 and 2005 for additional information.*

(4) *This item includes a number of service contracts, such as product fulfillment agreements and information technology license and maintenance agreements. These contracts terminate at varying dates ranging from fiscal 2008 through 2011.*

On October 17, 2007, we entered into a seven year contract with Williams Lea, a global corporate information solutions provider. Under the contract, Williams Lea will deliver outsourced print procurement and marketing solutions to our operations in 19 countries across the United States and Canada, Europe, Middle East, Asia Pacific and Latin America. Williams Lea will assume the promotional printing operations of our direct-mail business, providing us with increased leverage and purchasing power by virtue of Williams Lea's expertise and global scale. The contract with Williams Lea is expected to reduce our print procurement cash expenditures by an aggregate of approximately $130 million over the first three years.

Critical Accounting Policies

(includes forward-looking information)

Our significant accounting policies are more fully described in Note 1, Organization and Summary of Significant Accounting Policies, in our Notes to Combined Consolidated Financial Statements. The accounting policies described below are those that we believe are critical to an understanding of our financial statements and require management to make significant judgments. These judgments entail estimates and assumptions that are essential to determining the recorded amounts and their impact on our operating results. Due to the uncertainty inherent in these estimates and assumptions, actual results may differ. The determination of the accounting policies that are critical and the assumptions and estimates that we have made have been reviewed and discussed with the Audit Committee of our Board of Directors.

Allocation of Purchase Consideration to Goodwill

Included in the financial statements are the purchase method of accounting adjustments related to the Acquisition Transaction, the WRC Media Merger and Direct Holdings Stock Acquisition**.** See Notes 2, Entities under Common Control, and Note 3, Acquisitions and Divestitures, for additional information. The cost of the Acquisition Transaction was used to establish a new accounting basis at The Reader's Digest Association, Inc. and subsidiaries, by allocating the cost of the assets acquired, including identified intangible assets totaling $1,078 and liabilities assumed at estimated fair values. The excess of the cost of the acquisition, including transactions costs, over the amounts assigned to the net liabilities assumed of $1,765 was recorded to goodwill and pushed down to the reporting units using the enterprise value.

The purchase price paid to the holders of the common stock of WRC Media and Direct Holdings not owned by investment funds affiliated with Ripplewood (38.5% in the case of WRC Media and 15.6% in the case of Direct Holdings) in the WRC Media Merger and the Direct Holdings Stock Acquisition was also accounted for using the purchase method of accounting. Accordingly, only 38.5%, in the case of WRC Media, and 15.6%, in the case of Direct Holdings, of assets acquired and liabilities assumed have been adjusted to their fair market value, with the remaining percentage recorded at historical carrying amounts.

The estimated fair values was determined using a number of factors, including the use of certain valuation methodologies (i.e. discounted cash flow projections, cost to reproduce or replace and market data where appropriate) and certain operational assumptions and estimates (i.e. revenue and operational growth rates). The principal factors used in the discounted cash flow analysis requiring judgment are the weighted average cost of capital and growth rate assumptions. Due to the many variables inherent in the estimation of fair value, differences in assumptions and estimates may have a material effect on the results of our future goodwill and intangible impairment tests. See Long-Lived Assets discussion below for additional information.

Revenue Recognition

Our primary revenue recognition policies for our key products are described below.

Magazines — Sales of our magazine subscriptions, less bad debt and return reserves are deferred and recognized as revenues proportionately, on the first day of each month, over the subscription period. Revenues from sales of magazines through the newsstand are recognized at the issue date, net of an allowance for returns. Advertising revenues are recorded as revenues at the time the advertisements are published, net of discounts and advertising agency commissions.

Sponsor Fundraising Programs — Our sponsor fundraising program business, which operates principally through QSP receives its revenues net of amounts due to its sponsors. Accordingly, we present revenues net of sponsors' earnings. Sales of subscriptions to magazines published by other companies and sales of music products are recorded as revenues at the time orders are submitted to the publisher, net of bad debts and remittances to magazine and music publishers.

Books, Display Marketing and Other Products — Revenues are recorded when title passes, net of provisions for estimated returns and bad debts. Title passes upon time of shipment or upon delivery. For our display marketing products, title passes either at the point of sale or at the time of shipment. In certain circumstances, our promotion entitles the customer to a preview period. Revenue generated by these promotions is recognized after the preview period lapses.

The most significant element in our revenue recognition policy is the estimate of returns and bad debts.

Software Products - We recognize revenue for software sales upon shipment of the product, provided collection of the receivable is probable, payment is due within one year and the fee is fixed or determinable. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period. If significant post-delivery obligations exist, revenues are deferred until no significant obligations remain. Revenue from service contracts, installation and user training is recognized as the services are performed. Software hosting services and post-contract support is recognized ratably over the term of the related contract. Included in unearned revenues is our obligation to perform under signed contracts for which payment has been made.

Software revenues are recognized based on the residual method. We allocate the aggregate revenue from multiple element arrangements to each element based on vendor specific objective evidence. We have established vendor-specific objective evidence for installation, training and post-contract support, as we sell installation, training and post-contract customer support independent of multiple element agreements. Customers are charged standard prices for the installation, training and post-contract customer support, and these prices do not vary significantly from customer to customer.

If we enter into a multiple element agreement where vendor-specific objective evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until all elements of the arrangement are delivered.

Estimates of Returns and Bad Debt

Our ability to accurately estimate returns and bad debt is critical in determining the amount of revenue to recognize. We present our revenues net of an allowance for returns and bad debts.

We estimate returns for all products, as well as cancellations of magazine subscriptions, based on historical data, method of promotion and results of market testing for the products. Reserve levels are adjusted as actual return data is received. On a consolidated basis, our estimates of returns have not differed significantly from actual results.

Estimates of bad debts are prepared using historical data based on the type of product and promotion and the source of customer. We review our bad debt reserves periodically to ensure they are appropriately stated. If actual results differ from our estimates, the reserve is adjusted as actual bad debt data is received. On a consolidated basis, our estimates of bad debts have not differed significantly from actual results.

Revenues for our books and home entertainment and magazine businesses are principally driven by direct mail and, therefore, are the most sensitive to changes in payment rates and returns. Our School and Education Services businesses are much less susceptible to changes in payment rates and returns because the businesses in this segment collect most of their cash at the point of sale.

Inventory Valuation

We periodically assess our inventory for obsolescence and to ensure it is recorded at the lower of cost or market value. In estimating the necessary inventory reserve, we forecast demand for products on hand and assess market conditions, including potential usage in future promotions. We also consider the shelf-life of our perishable inventory. Adjustments to inventory reserves are recorded in product, distribution and editorial expenses on the statements of operations. On a consolidated basis, our estimates of bad debts have not differed significantly from actual results. As of June 30, 2007, we have established an inventory reserve of $(64) or 25% of our gross inventory. A 10% increase in our inventory reserve at June 30, 2007 would have affected our net loss by approximately $19 in 2007.

Deferred Promotion Costs and Related Amortization

Promotion costs for our books and home entertaining advertising costs are deferred only if certain criteria are met, including whether the future profit expected to be generated by a promotional campaign is greater than the costs deferred. Estimates of revenues and profits to be generated and of returns are made using historical data based on the type of product, method of promotion and customer targeted. As actual results for a specific promotional campaign are received, the campaign is reassessed. To the extent that capitalized costs of the campaign exceed the profit expected to be generated, the difference is expensed immediately. Amortization related to deferred promotion expenses is included in promotion, marketing and administrative expenses on the statements of operations. On a consolidated basis, our estimates have not differed significantly from actual results.

Pension Assumptions

The calculation of pension income (expense) is based on various actuarial assumptions. We review these assumptions annually, together with actuarial consultants, to determine reasonable rates.

During our periodic review of assumptions used in determining the net pension income (expense) to be recorded in 2007, we examined the assumed long-term rate of return on pension assets and the discount rate. Currently, the long-term rate of return on pension assets is the most significant factor in determining our net pension income (expense). The assumed long-term rate of return on pension assets represents the rate of return we expect our pension assets to earn over an extended time horizon. Accordingly, significant changes in this rate due to short-term fluctuations in market conditions are not appropriate.

In 2007, our assumed long-term rate of return on pension assets, used to determine net pension income for our over-funded U.S. plan, was 8.5%. Based on our projections and expectations of future performance, we have not changed our long-term rate of return on pension assets for 2007. A 25 basis point decrease in the long-term rate of return on pension assets used for 2007 would have decreased net pension income by $(0.6). Because our U.S. Retirement Plan is over-funded, this would not have affected our funding strategy.

In 2007, our assumed long-term rate of return on our international pension assets, used to determine the net pension expense, was 7.05%. Based on our projections and expectations of future performance, our long-term rate of return on international pension assets for fiscal 2008 was adjusted to 7.11%. A 25 basis point decrease in the weighted average long-term rate of return on pension assets used for 2007 would have increased net pension expense by approximately $0.3.

The discount rate is currently not as significant an assumption in calculating the net pension income or benefit obligation for our U.S. plan because our plan is mature and includes a significant number of retirees who are currently receiving benefits. Accordingly, the period over which the obligation is discounted is much smaller than it would be for other employers' plans. In 2007, the discount rate used to determine the pension income for our U.S. plans was 5.50%. Our discount rate for the 2008 pension income will increase to 6.25%. A 25 basis point decrease in the discount rate used for 2007 would have decreased net pension income by $(0.1). The discount rate is matched to yield curves reflective of the cash flows of our plan and also compared to indices of high-quality long-term corporate bonds of the appropriate duration.

For the international plans, the weighted average discount rate used to determine the pension expense was 5.07% in 2007, respectively. The weighted average discount rate projected for pension expense in 2008 is expected to increase to 5.57%. This is primarily driven by the increase in rates of high-quality long-term corporate bonds in the United Kingdom. A 25 basis point decrease in the discount rate used for 2007 would have increased net pension expense by approximately $0.1. The discount rates are generally set by reference to yields of high-quality long-term corporate bonds of the appropriate duration.

Income and expenses associated with our pension plans are included in promotion, marketing and administrative expenses on the statements of operations. Impacts on respective countries vary depending on the nature of each individual plan.

Restructuring Charges

Restructuring charges are recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" or SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under SFAS No. 146, costs associated with restructuring actions, including one-time severance benefits, are only recorded once a liability has been incurred. However, the severance programs at Reader's Digest Association, Inc. generally do not qualify as one time benefits; therefore, we recognize severance amounts pursuant to SFAS No. 112 and SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" (the impact of pension curtailments and settlements that are directly attributable to our restructuring actions are recorded in accordance with SFAS No. 88). Severance incurred in connection with the Acquisition Transaction are recognized in connection with purchase accounting and in accordance with EITF Issue No. 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination." Severance charges represent the cost to separate employees from our operations to streamline the organization. The separation is accomplished through a combination of voluntary and involuntary severance programs. As such, severance amounts are recorded when a termination plan is developed and approved, including the identification of positions to be separated, and when payment is probable and estimable. Other amounts related to restructuring actions, including charges to terminate contractual obligations in connection with streamlining activities, are estimated and recorded in accordance with SFAS No. 146.

The impact of restructuring charges is recorded in other operating items, net on the statements of operations. See Note 4, Other Operating Items, Net, in our Notes to Combined Consolidated Financial Statements for further information.

Long-Lived Assets

Goodwill and intangible assets with indefinite lives are assessed for impairment annually, or on an interim basis if indicators of impairment are present. These assessments, which require a significant level of judgment, involve management's estimates of future cash flows, market trends and other factors. If goodwill and intangibles with indefinite lives are determined to be impaired, a loss is recorded.

Management's estimates of future cash flows take into consideration market trends and our internal projections of performance relative to other constraints, including the efficiency and effectiveness of sales channels and potential changes in market penetration. External factors, such as competition and the health of regional economies, must also be considered. Although these factors are critical to assessing impairment, estimates of fair value are also sensitive to small changes in profit margins and discount rates.

Intangible assets with finite lives must be assessed for impairment whenever changes in circumstances indicate that the assets may be impaired. We assess recoverability by comparing the asset's carrying amount to the undiscounted future net cash flows expected to be generated by the asset. To the extent the carrying value of the asset exceeds its future cash flows, an impairment loss is recorded based on the fair value of the asset. See Note 7, Goodwill and Other Intangible Assets, Net, in our Notes to Combined Consolidated Financial Statements for further information.

In addition to the above, property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of that asset may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We assess recoverability by comparing the asset's carrying amount to the undiscounted future net cash flows expected to be generated by the asset. If we determine that the asset is impaired, the impairment recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset. Impairments are recorded in other operating items, net on the statements of operations. See Note 4, Other Operating Items, Net, in our Notes to Combined Consolidated Financial Statements for further information.

<u>*Income Taxes*</u>

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized, using enacted tax rates, for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets, including net operating losses, are reduced by a valuation allowance if it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

We are subject to tax in a number of locations, including many state and foreign jurisdictions. As might be expected, significant judgment is required when calculating our world-wide provision for income taxes. Because of this uncertainty, we establish consolidated tax liabilities based on an estimate of whether it is likely that additional taxes and interest will be due. In some cases, many years may elapse before an audit is completed with respect to items for which a reserve has been established. As settlements are reached, we adjust the corresponding accruals, if required, in the period in which the final determination is made. The establishment of valuation allowances is dependent on and requires significant judgment as to expected future operating results of both foreign and domestic operations.

Quantitative and Qualitative Disclosures About Market Risk
(includes forward-looking information)

The functional currency for our foreign operations is the local currency. In the normal course of business, significantly all of the transactions of our foreign operations occur in the local currency. We purchase forward contracts to minimize the effect of fluctuating currencies on specifically identifiable transactions. These transactions were minimal in 2007. Based on our historical experience, we expect the foreign exchange gains and losses over the next year to be minimal.

Interest expense related to our 2007 Credit Agreement is sensitive to changes in the general level of U.S. interest rates. The 2007 Credit Agreement includes within the above-mentioned facilities a US$100.0 term loan tranche made available in an equivalent amount of euros to one of our German subsidiaries. Borrowings under the term loan bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate ("Base Rate") determined by reference to the higher of (1) the prime rate and (2) the federal funds rate plus 0.50% or (b) a Eurocurrency rate ("Eurocurrency Rate") determined by reference to the rate for Eurocurrency deposits for a period of one, two, three or six months or, subject to availability to the lenders, nine or twelve months, as selected by us. For Base Rate loans and Eurocurrency Rate loans, the applicable margin is 1.00% and 2.00%, respectively.

Based on our average debt outstanding under this agreement over the past twelve months, a 1% change in the interest rate charged on these borrowings would have affected our 2007 interest expense by $4.4.

We entered into interest rate swap agreements with a notional value totaling $750.0, involving the exchange of floating- for fixed rate interest payments, to reduce interest rate volatility and to comply with the interest rate provisions of our 2007 Credit Agreement.

Additional information is available in Note 8, Financial Instruments, in our Notes to Combined Consolidated Financial Statements.

Recent Accounting Standards
(includes forward-looking information)

In June 2006, the FASB issued FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS 109" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition and measurement of tax positions. Disclosure requirements under this guidance will include a rollforward of the beginning and ending unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within a year. FIN 48 is effective for fiscal years beginning after December 15, 2006 for public companies and for fiscal years beginning after December 15, 2007 for non-public companies. We are currently evaluating the impact of this standard on our consolidated financial statements and the impact is not expected to be material. We plan on adopting FIN 48 during fiscal year 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are evaluating the impact of this standard on our consolidated financial statements and the impact is not expected to be material.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to voluntarily choose to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, the adoption will have on our consolidated financial statements.

FINANCIAL STATEMENTS

The financial statements are listed in the accompanying Index to Combined Consolidated Financial Statements in this Annual Report on Page F-1.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information is timely recorded, processed, summarized and reported, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Inherent Limitations on Effectiveness of Controls

Our disclosure controls and procedures and our internal controls over financial reporting may not prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Evaluation of Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2007.

Management's Annual Report on Internal Control over Financial Reporting

Not applicable.

Attestation Report of Independent Registered Public Accounting Firm

Not applicable.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, we routinely enhance our information systems by either upgrading our current systems or implementing new systems. We currently are in the process of integrating the businesses of WRC Media and Direct Holdings, and expect to make changes to our internal controls in connection therewith. No change in our internal control over financial reporting occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

OTHER INFORMATION

None.

PART III

DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information Concerning Our Directors

The following is information about our directors as of June 30, 2007.

Name	Age	Current Position with Company	Director of Company Since
Mary G. Berner	48	CEO and Director	2007
Timothy C. Collins	50	Director	2007
Harvey Golub	68	Chairman of the Board	2007
Andrew S. B. Knight	67	Director	2007
Andrew R. Lack	60	Director	2007
Eric Schrier	55	Director	2006
Stephen T. Shapiro	39	Director	2007
Harris Williams	37	Director	2007

Biographical information concerning the director nominees is set forth below.

Mary G. Berner has served as our Chief Executive Officer and Director since the consummation of the Acquisition Transaction in March 2007. From November 1999 until January 2006, Ms. Berner led Fairchild Publications, Inc., first as President and CEO and then as President of Fairchild and an officer of Condé Nast when Fairchild became a division of Condé Nast Publications, Inc. in September 2005.

Timothy C. Collins has served as our Director since the consummation of the Acquisition Transaction in March 2007. Mr. Collins founded Ripplewood, in 1995 and has been CEO and Senior Managing Director since its inception. Prior to founding Ripplewood, Mr. Collins managed the New York office of Onex Corporation, a Toronto-based investment company, from 1990 to 1995. Prior to Onex Corporation, Mr. Collins was a Vice President at Lazard Frères & Company from 1984 to 1990. Previously, he worked from 1981 to 1984 with the management consulting firm of Booz, Allen & Hamilton, specializing in strategic and operational issues of major industrial and financial firms. Mr. Collins is also the Chief Executive Officer of RHJ International SA. Mr. Collins currently also serves as a director of Commercial International Bank, RSC Equipment Rental and RHJ International, each of which is publicly traded.

Harvey Golub has served as the Chairman of our Board of Directors since the consummation of the Acquisition Transaction in March 2007. Mr. Golub joined American Express in 1984 as President and CEO of IDS Financial Services (now known as Ameriprise Financial). In 1990, he was named Vice Chairman of American Express and elected a member of the company's Board of Directors. He was named President of American Express in July 1991 and elected CEO of American Express in January 1993 and Chairman of the Board in August 1993. Mr. Golub retired as CEO and Chairman of American Express in January 2001. Prior to joining IDS Financial Services, Mr. Golub was a senior partner with McKinsey & Co. Currently, Mr. Golub is the Executive Chairman of Ripplewood, as well as the Non-executive Chairman of the Board of Campbell Soup Company. He also serves on the boards of Dow Jones & Company, Lincoln Center for the Performing Arts, the New York Presbyterian Hospital and the American Enterprise Institute, and as a member of the Advisory Boards of CGI International and Miller Buckfire & Co., LLC.

Andrew S. B. Knight has served as our Director since the consummation of the Acquisition Transaction in March 2007. Mr. Knight has served as a non-executive Director of RIT Capital Partners, a U.K.-based private investment firm, since 1996. Mr. Knight is also a director of News Corporation and Templeton Emerging Markets Investment Trust PLC. He is a former editor of *The Economist* and served as Chief Executive of the Telegraph group, Chairman of News International and Deputy Chairman of Home Counties Newspapers Holdings PLC until its acquisition by Eastern Counties Newspapers. He is a past Chairman of the Shipston Home Nursing and Jerwood charities, and founder of the SMA Trust to further research into spinal muscular atrophy.

Andrew R. Lack has served as our Director since the consummation of the Acquisition Transaction in March 2007. Mr. Lack is the Chairman of the Board of Sony BMG Music Entertainment. Mr. Lack also serves on the Board of Directors for MGM Holdings, Inc. From August 2004 to February 2006, Mr. Lack served as CEO of Sony BMG Music Entertainment, where he oversaw all operations of the global recorded music company. From January 2003 to August 2004, he served as Chairman and Chief Executive Officer of Sony Music Entertainment. Previously, Mr. Lack served as President and Chief Operating Officer of NBC. During his tenure with NBC, he oversaw Entertainment, News, including MSNBC and CNBC, NBC Stations, Sales, and Broadcast & Network Operations. From 1993 to 2001, Mr. Lack was the president of NBC News, where he transformed the News division into one of the most-watched news organizations. Before joining NBC, Mr. Lack spent much of his television career at CBS News, where his broadcasts earned numerous honors, including 16 Emmy Awards and 4 Alfred I. DuPont-Columbia University Journalism Awards.

Eric Schrier has served as our Director since January 2006. He served as our President and Chief Executive Officer from January 2006 to March 2007, and the President for our North America segment from February 2003 to January 2006. Mr. Schrier served as our Senior Vice President and Global Editor-in-Chief from January 2000, when he joined Reader's Digest, until January 2006.

Stephen T. Shapiro has served as our Director since the consummation of the Acquisition Transaction in March 2007. Mr. Shapiro is a founding partner of GoldenTree Asset Management and a member of its Investment Committee. Prior to joining GoldenTree, Mr. Shapiro was a Managing Director in the High Yield Group at CIBC World Markets, where he was most recently Head of Media and Telecommunications Research. Prior to its acquisition by CIBC World Markets in 1995, Mr. Shapiro was a research analyst with The Argosy Group L.P. Before joining The Argosy Group L.P., Mr. Shapiro was a bankruptcy attorney with Stroock & Stroock & Lavan. Mr. Shapiro is a graduate of The University of Pennsylvania Law School and graduated with Honors from the University of Pennsylvania College of Arts & Sciences with a major in modern diplomatic history.

Harris Williams has served as our Director since the consummation of the Acquisition Transaction in March 2007. Mr. Williams is a Managing Director at Ripplewood focused on the Media and Healthcare sectors. Prior to joining Ripplewood, Mr. Williams was in the investment banking division of Credit Suisse primarily focused on mergers and acquisitions and leveraged buyouts. While at Credit Suisse, Mr. Williams executed transactions across a range of industries including Aerospace, Automotive, Healthcare, Media, Oil & Gas, Real Estate and Technology. Mr. Williams also serves on the boards of the New York Children's Museum of the Arts and the Reader's Digest Foundation. Mr. Williams has an MBA from the Wharton School at the University of Pennsylvania and graduated as the top scholar from the Boston University School of Management with a BS in Business Administration.

The stockholders' agreement dated January 23, 2007, among RDA Holding Co. and RDA Investors I, LLC ("Ripplewood Fund I"), RDA Investors II, LLC ("Ripplewood Fund II") and RDA Investors III, LLC ("Ripplewood Fund III" and, together with Ripplewood Fund I and Ripplewood Fund II, the "Ripplewood Funds"), J. Rothschild Group (Guernsey) Ltd., GoldenTree Asset Management, LP. and the other stockholders of RDA Holding Co. (the "Stockholders' Agreement") contains agreement among the parties with respect to the election of our Directors. Under the terms of the Stockholders' Agreement, the Ripplewood Funds set the size of our Board as they deem appropriate, and are entitled to propose the appointment of all our Directors, including the Chairman of the Board and independent Directors. Ripplewood has agreed that one director shall be designated by J. Rothschild Group (Guernsey) Ltd. and one director shall be designated by Golden Tree Asset Management, LP, subject to continuing stock ownership requirements. The Stockholders' Agreement requires that at least one Director be "independent" for purposes of Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended. Each party to the Stockholders' Agreement agrees to take all action necessary to effect the appointment to the Board of each Director appointee of Ripplewood.

Information Concerning Our Executive Officers

Biographical information concerning Mary A. Berner, our Chief Executive Officer, who also serves as a director, is set forth above under the caption "Information Concerning Our Directors." Biographical information concerning our remaining executive officers as of June 30, 2007 is set forth below.

William Adler, 55, has served as our Vice President, Global Communications since 2003. Prior to that, he served as our Senior Director, Global Communications since 2002. Mr. Adler joined Reader's Digest in July 1999 as Director, Corporate Communications.

Alyce Alston, 43, has served as our President, Home & Garden and Health & Wellness since March 2007. Prior to that, she was Chief Executive Officer of De Beers North America since March 2005. Ms. Alston joined De Beers after serving for five years with Fairchild Publications / Condè Nast Publications, where she was Group Publisher and Vice President of *W*, *W Jewelry* and *Vitals* magazines.

Michael Brennan, 60, has served as our President, RD Europe and Chief Executive Officer of Direct Holdings U.S. Corp. since July 2007. Prior to that, he served as President, Latin America/Asia-Pacific, a position he held since 1998.

Jean Clifton, 46, has served as our Senior Vice President and Chief Financial Officer since September 2007. From July 2006 until August 2007 she acted as a management consultant/owner of Platinum Strategic Partners, L.L.C., an advisory services and investment company. Ms. Clifton spent 20 years with Journal Register Company in Trenton, N.J., most recently serving as President and Chief Operating Officer, from June 2005 until July 2006. She served as Executive Vice President, Chief Financial Officer and Treasurer of Journal Register Company from October 1989 through May 2005, and as a member of its Board of Directors since 1989.

Lisa Cribari, 52, has served as our Vice President, Global Human Resources since September 2005. Ms. Cribari joined us in 1988. From 1996 until September 2005, Ms. Cribari had been our Vice President, Global Compensation & Benefits.

Eva Dillon, 50, has served as our President and Group Publisher, *Reader's Digest*, *Selecciones* and *RD Large Print* since April 2007. Prior to joining us, she served with Condè Nast as Vice President and Publisher of *Cookie* magazine from 2005 to April 2007. Prior to that, she worked for Fairchild Publications as its Vice President and Publisher of *Jane* magazine from 1995 to 2005.

Michael Geltzeiler, 48, has served as our President, School of Educational Services since March 2007. Mr. Geltzeiler joined us as Senior Vice President and Chief Financial Officer in September 2001. In August 2004, Mr. Geltzeiler's responsibilities were expanded to include oversight of Global Operations and Information Technology.

Suzanne Grimes, 48, has served as our President, Food and Entertaining since March 2007. Prior to joining us, she worked for Condè Nast Media Group as its Senior Vice President, Corporate Sales from August 2004 to March 2007. She was Vice President and Publisher of *Glamour* magazine from April 2001 to April 2004.

Paul Heath, 47, has served as our President, RD Asia-Pacific since July 2007. He joined Reader's Digest in December 2001 as Managing Director of Australia and New Zealand. Prior to that he was with Gateway Computers where he was Vice President and Managing Director for the U.K. and Ireland, and previously Australia and New Zealand.

Jodi Kahn, 44, has served as our President, Digital Business since she joined us in July 2006. From 1991 to 2006, she worked for Time Warner, Inc., serving as its Vice President, Business Strategy for Time Inc. Interactive from 1999 to 2003. From 2004 to 2006, Ms. Kahn served as Publisher of *TIME for Kids*.

Emma Lawson, 46, has served as our Senior Vice, President, Global Marketing and Publishing since July 2007. Prior to that, she was our Vice President, Global Marketing and Publishing from June 2003 to June 2007. Ms.

Lawson served as our Vice President, Global Publisher - General Books and Illustrated Series from August 1999 to June 2003.

Andrea C. Martin, 47, has served as our President, RD Canada & Latin America since July 2007. Prior to that, she held various positions with our Canadian subsidiary including President and CEO from 2004 to 2007, Vice President Marketing and Home & Entertainment Publishing from 2003-2004 and Vice President Marketing Product Lines from 2001 to 2003.

Andrea Newborn, 44, has served as our Vice President and General Counsel since March 2007, and as our Secretary since July 2007. Ms. Newborn joined us in 1991, and served as our Vice President and Associate General Counsel since 2000. Ms. Newborn also is a member of the Board and Secretary of Reader's Digest Partners for Sight Foundation.

Albert Perruzza, 60, has served as our Senior Vice President Global Operations & Business Redesign since 1999. He joined our company in 1972.

Jeffrey Spar, 42, has served as our Senior Vice President and Chief Information Officer since July 2002. He joined us in November 1998, where he served as our Vice President and Chief Information Officer until July 2002.

Dawn Zier, 42, has served as our President, North American Consumer Marketing since August 2005. From December 2005 to March 2007, she oversaw our Canadian subsidiary. Ms. Zier was Vice President, Consumer Marketing, U.S. Magazines from February 2001 to August 2005. In July 2003, General Manager, Reading Series was added to her duties and in August 2005, she was given responsibility for our Books and Home Entertainment division. Ms. Zier joined Reader's Digest in February 1992. She is active in the industry and currently serves as co-chair of the Magazine Director's Advisory Committee for the Audit Bureau of Circulations.

Code of Ethics

We have adopted a code of ethics, called The Reader's Digest Association, Inc. Ethical, Legal and Business Conduct Policies, which applies to all our employees, including our Chief Executive Officer, Chief Financial Officer, principal accounting officer and controller. A copy of our code of ethics is available on our corporate website at www.rda.com under the title "Code of Conduct" in the "Company Information" section. A free copy of our code of ethics may be requested from:

The Reader's Digest Association, Inc.
Corporate Secretary
Reader's Digest Road
Pleasantville, NY 10570

If we make any substantive amendments to, or a waiver from, a provision of The Reader's Digest Association, Inc. Ethical, Legal and Business Conduct Policies that applies to our Chief Executive Officer, Chief Financial Officer, principal accounting officer or controller, we will disclose the nature of the amendment or waiver on our website at www.rda.com or in a report on Form 8-K.

The Audit Committee

The current members of our Audit Committee are Andrew S. B. Knight, Andrew R. Lack, Steven T. Shapiro and Harris Williams. The Audit Committee operates pursuant to a charter approved by the Audit Committee and the Board.

The Board of Directors is satisfied that each member of our Audit Committee has sufficient expertise and business and financial experience necessary to perform his duties on our Audit Committee effectively. No one member of our Audit Committee has been determined by our Board of Directors to qualify as an "audit committee financial expert" within the meaning of regulations adopted by the Securities and Exchange Commission.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

On March 2, 2007, we entered into a definitive merger agreement under which the Sponsors acquired all our outstanding common shares (the "Acquisition Transaction"). In connection with the Acquisition Transaction, the composition of our executive management and Board of Directors experienced significant change.

The analysis discussed below relates to pre-Acquisition Transaction compensation philosophy and programs and to post-Acquisition Transaction compensation philosophy and programs where changes have occurred. Prior to the Acquisition Transaction, we were a publicly held company with an independent Compensation Committee. Post-Acquisition Transaction, we are a privately held company. For the balance of fiscal 2007, our executive compensation programs remained in place with the exception of equity and equity-based programs which were terminated as a result of the Acquisition Transaction.

Upon the consummation of the Acquisition Transaction, our new Board of Directors terminated our Chief Executive Officer, Eric Schrier, and appointed a new Chief Executive Officer, Mary Berner. Following her appointment, Ms. Berner made senior management changes. Also, effective as of December 31, 2006, our former Chairman, Thomas Ryder, retired as our director and as Chairman of the Board and from all remaining officer and fiduciary positions with us and continued as a full-time employee and Special Advisor to the Chief Executive Officer. Effective upon the Acquisition Transaction, Mr. Ryder retired from Reader's Digest. In accordance with the SEC disclosure requirements, this analysis covers both our current and former CEO, our Principal Financial Officer and the next three highest paid executive officers with us as of the fiscal year-end (collectively, the "Named Executive Officers"), and two additional individuals who would have been Named Executive Officers if it were not for the fact that they were not executive officers at the end of the fiscal year (Mr. Ryder and our former Senior Vice President and General Counsel, Michael Brizel).

Our Executive Compensation Philosophy

Our executive compensation program is designed to offer market competitive compensation opportunities, which are tied to individual and corporate performance. Our compensation philosophy is designed to provide a total compensation package that will enable us to:

- Attract, motivate and retain high caliber executive talent critical to our success;
- Reward our executive officers for attaining desired levels of company financial performance; and
- Promote stock ownership to foster commonality of interests between executives and shareholders (both our public shareholders pre-Acquisition Transaction and our private shareholders post-Acquisition Transaction).

We are committed to placing a majority of total executive compensation at risk by linking incentives to achievement of financial, operational and strategic goals that will ultimately create shareholder value. In addition, the program recognizes and rewards exceptional individual contributions. Our Compensation Committee monitors our compensation programs and, from time to time, as necessary, the Committee may modify our programs to ensure alignment with our business strategy.

Program Oversight

Our Compensation Committee is responsible for overseeing our executive compensation philosophy, structure, policies, programs and practices.

Prior to the Acquisition Transaction, the Compensation Committee had responsibility for administering employee benefit plans; recommending the amount and form of any contribution to The Employee Ownership Plan and the 401(k) Partnership of The Reader's Digest Association, Inc.; reviewing and approving the compensation levels and programs for officers and key personnel and determining their incentive compensation; approving annual and long-term incentive plan design, performance goals, aggregate costs, certification of the achievement of performance goals and funding (i.e. aggregate payout) of major incentive programs; establishing corporate goals relevant to the Chief Executive Officer's compensation, evaluating the Chief Executive Officer's performance and recommending the appropriate level of CEO compensation to the Governance Committee. Following the Acquisition Transaction, the Compensation Committee retained the majority of these responsibilities, including responsibility for reviewing and approving all aspects of compensation and benefits arrangements for the Chief Executive Officer as well as all aspects of compensation and benefits arrangements intended primarily for our executive officers. They are also responsible for approving annual and long-term incentive plan design, performance goals, aggregate costs, certification of achievement of performance goals and funding (i.e. aggregate payout) of major incentive programs.

Role of the Compensation Consultant

The Compensation Committee has the authority to engage consultants or other such advisors as the committee deems necessary to carry out its duties. In 2007, Mercer Human Resource Consulting continued to serve as the independent consultants to our Compensation Committee prior to the Acquisition Transaction. Mercer's role was to keep the Committee abreast of market trends and opportunities as well as to benchmark company performance and pay levels versus the competitive group of companies to which we compare ourselves as well as from which we recruit our top talent. Mercer advised the Compensation Committee on compensation matters including the selection of our peer companies for performance and pay purposes, the individual components of the executive compensation program that will drive our objectives, and the determination of the appropriate levels of pay for both fixed and variable components within the program. Following the Acquisition Transaction, Mercer Human Resource Consulting provided independent advice and counsel to both the new Compensation Committee and our new Chief Executive Officer, Mary Berner, on the design of the long-term incentive program introduced in fiscal 2008.

Role of Management

In addition to outside consultants, the Committee relies on CEO and management input and expertise to help determine compensation program design as well as target and payout recommendations for executive officers. The CEO makes compensation recommendations for executive officers based on market and other data points provided by internal executive compensation experts in the human resources department as well as performance against established goals for each of our executive compensation plans (see below for additional details). The CEO also helps define business strategy upon which compensation plans are designed.

Setting Executive Compensation

Competitive Data

The Compensation Committee annually determines the appropriate combination of cash and equity-based compensation for our Named Executive Officers, by reviewing the competitiveness of our executive compensation program in relation to selected comparable companies, or our "peer group."

The group used to benchmark our executive level compensation is composed of eight publicly traded companies in the media/publishing industry. The companies range in size from $286 million to $6.3 billion in revenue.

Although these companies may not include the same portfolio of businesses as Reader's Digest, in general, they do represent the publicly traded companies that have one or more businesses for which we compete for talent. The peer group of companies includes the following: McGraw-Hill Companies; Scholastic Corporation; Dow Jones & Company; American Greetings Corporation; Meredith Corporation; Primedia Inc.; Gemstar TV Guide International; and Martha Stewart Living.

While we utilize this peer group to provide us with competitive data points for pay and performance purposes, we do not rely solely on this information. Following the Acquisition Transaction, several of our executives have come from privately held media/publishing companies, many of which place more emphasis on shorter term compensation (i.e. base and annual bonus) rather than on longer term compensation (e.g. equity). Other executives come from outside the media/publishing industry. As a result, we supplement the above peer group data with a broader comparator group that includes our eight peer companies described above as well as seven additional companies that operate in the media/publishing industry, including R.R. Donnelley and Sons, Co., Gannett Co., Tribune Co., New York Times Co., E. W. Scripps Co., Knight Ridder (recently acquired by McClatchy Co.), and Belo Corp. We also consider other survey data from other sources, including the Towers Perrin Media Executive Compensation survey (which includes many of the companies listed above) and other general industry survey data sources.

We strive to compensate our executives at the median for total annual cash compensation (i.e. base pay and annual bonus) and at the 65^{th} percentile or higher for long-term pay when corporate performance is at or above targeted performance levels. However, it is possible that an individual executive officer's target compensation opportunity may fall outside of the target competitive position, because we also take into consideration the size and scope of the role, level of responsibility, experience, leadership capabilities, success in achieving business objectives of each executive officer, as well as internal pay equity.

Executive Compensation Program Components

The principal components of our executive compensation program are:

- Base salary
- Annual bonus
- Long-term incentives, and
- Other compensation and benefits, including retirement and other benefits, deferred compensation, perquisites, severance and change-in-control plans

For our Named Executive Officers in fiscal 2007:

- Pay at risk ranged from 63% to 85% of target total direct compensation;
- Short-term incentives ranged from 20% to 28% of target total direct compensation; and
- Long-term incentives ranged from 44% to 66% of target total direct compensation.

Together, these components reinforce both shorter and longer term business objectives and are reviewed at least annually with the Compensation Committee.

Base Salary

Competitive salaries are essential to recruiting and retaining key executive talent. Base salaries for our executive officers are generally targeted at the 50^{th} percentile of the market and take into account the scope and responsibility of the position relative to other positions outside and within the company as well as the individual executive officer's performance and experience. Salaries are reviewed annually by the Committee to ensure that they remain competitive and that any increases continue to be in line with the scope and impact of the position. Base salaries are intended to comprise less weight than the variable component of the executive officers' total compensation and are not intended to be the driver of compensation growth for the executive.

Our CEO makes recommendations to the Compensation Committee for subsequent year base salary levels for executive officers, other than himself or herself, taking into consideration company and unit (i.e. business unit or corporate staff function) performance in the previous year, the performance of each executive officer in achieving his or her annual objectives, changes in responsibilities, and competitive data from the peer group and other survey sources on pay levels and salary increase budgets.

Based on this data, at a meeting held in the first quarter of each fiscal year, the Compensation Committee considers and approves subsequent year salary levels (through the next first fiscal quarter) for all executive officers, including our CEO. In August 2006 (fiscal 2007), the Compensation Committee reviewed and approved the base salary increase recommendations put forth by our pre-Acquisition Transaction CEO, Eric Schrier, for the executive officers in place at that time. Our U.S. salary increase budget for fiscal 2007 was 3% of all base salaries (as of June 1, 2006). This was determined using salary increase budget survey data for our geographical region and for the media/publishing industry, taking into consideration the increased cost to the company. Overall, the salary increases for the executive officers, including the Named Executive Officers, did not exceed our salary increase budget of 3.0%. Mr. Schrier did not receive a salary increase for fiscal 2007 because he was promoted to the CEO position in January 2006. Our pre-Acquisition Transaction Chairman, Thomas Ryder, did not receive a salary increase because of his impending retirement.

Named Executive Officer	Fiscal 2006 Salary	Percent Increase	Fiscal 2007 Salary
T. Ryder	$820,000	0%	$820,000
E. Schrier	$700,000	0%	$700,000
T. Gardner	$550,000	1.8%	$560,000
M. Geltzeiler	$450,000	2.2%	$460,000
M. Brizel	$325,000	4.6%	$340,000
D. Zier	$330,000	3.0%	$340,000
A. Perruzza	$350,000	3.0%	$360,500

Ms. Berner was hired as our CEO upon the consummation of the Acquisition Transaction. Ms. Berner's fiscal 2007 salary is $500,000 (prorated), in accordance with the terms of her Employment Agreement, dated March 1, 2007.

Annual Bonus

In line with our strategy of rewarding performance, a meaningful part of our executive compensation philosophy is the payment of cash bonuses to our executive officers based on an annual evaluation of company, unit and individual performance. Generally, annual incentive bonuses for our executive officers are awarded under our Management Incentive Compensation Plan and Senior Management Incentive Plan (collectively referred to as the "MIP"). Annual incentives are designed to reinforce our risk/reward orientation, and to focus participants on achieving key performance objectives that support our business strategy. For pool funding purposes, the upside potential – up to 200% of aggregate incentive targets – can be attained if performance goals are substantially outperformed. The downside risk is that no bonuses will be funded if threshold goals are not achieved. Individual awards are discretionary, can range from 0% - 200% of targeted levels and are determined based upon a review of individual performance against annual goals, which include financial, operational and strategic management objectives. The sum of all awards must be within the limitations of the pool.

In July or August each year the Compensation Committee approves the MIP design for the current fiscal year and establishes the performance goal and pool funding scale(s), as applicable. The Compensation Committee also approves each executive officer's target bonus under the MIP or other annual incentive plan, which is the amount each executive may receive if performance goals and objectives are met. The target bonuses are intended to create an incentive for our executive officers to achieve the objectives established by the Compensation Committee. After the completion of the fiscal year, generally in August, the Compensation Committee approves the funding of the bonus pool(s) under the MIP, thereby approving the total amount paid out under the MIP. Also in August, the Compensation Committee approves the actual awards for the executive officers.

Each Named Executive Officer has a target annual cash bonus amount that is deemed commensurate with his or her position and level of responsibility with us. Based on these criteria, the Named Executive Officers' (other than our current and former CEO and the former Chairman) target annual bonuses ranged from 57% to 80% of base salary, and the target annual bonuses for the former CEO (Mr. Schrier) and former Chairman (Mr. Ryder) were 120% and 122% of salary, respectively, for fiscal 2007. The former CEO's and Chairman's targets were a higher percentage of salary because the majority of their total direct compensation was at risk and based on company performance. For Ms. Berner, our current CEO, her bonus opportunity of up to 400% of base salary was set in accordance with the terms of her Employment Agreement. Prorated changes to an executive's annual target bonus level can occur during the year if there are changes in the executive's salary grade level that warrant a target change.

To incentivize and reward results within the direct control of the executives managing business units, for fiscal 2007, the vast majority of each business unit's bonus pool funding was based on business unit performance. Although we want to incentivize and reward results within the direct control of executives, we are ultimately one company with businesses that are interlinked, and therefore, we believe it is important to tie a portion of funding to overall company performance. Each business unit's bonus pool funding was determined using a formulaic approach that took into account a combination of company operating income results and business unit operating income results versus budgeted goals, with the remainder of each business unit's pool determined based on the CEO's assessment of business unit performance against relevant strategic goals. Business unit strategic goals included quantitative revenue and cash flow goals and other measurable strategic imperatives that we believe are indicative of the future success of the business. The strategic goals were agreed to by the CEO and the business unit leader in the first quarter of the fiscal year.

For corporate staff functions, the vast majority of each staff function's fiscal 2007 bonus pool was based on company operating income results versus the budgeted goal (and applying the formula), with the remainder of each staff function's pool determined based on the CEO's assessment of each function's overall performance and results against strategic goals. Corporate staff function strategic goals were defined as measurable strategic priorities for the function that were agreed to by the CEO and the functional leader in the first quarter of the fiscal year.

Actual pool funding for business unit executive officers was based 40% on achievement of the company operating profit goal and 60% on business unit performance. For corporate staff function executive officers, 60% of the pool was funded based on company operating profit achievement and 40% on the function's strategic goal achievement.

In August of 2006, the Compensation Committee approved the company's fiscal 2007 operating profit goal of $179 million and pool funding scale, and each business unit's operating profit goal and pool funding scale. The threshold varied by unit, but was generally in the range of 80%-90% of goal with a corresponding funding of approximately 30% of the pool. Business unit operating profit goals were set based on difficult yet achievable goals. Each business unit's operating profit goal was above the prior year's actual operating profit achievement. The increase in each unit's goal varied depending on the life stage of the business. Over the prior five fiscal years, achievement of the company operating income goal ranged from 75% to 100% and the corresponding company pool funding ranged from 46% to 100%, with an average pool funding of 71%.

Under the MIP for fiscal 2007, "Operating Income" was defined as reported operating income excluding foreign exchange variations between actual and budget (currency neutral), special charges or any other extraordinary items approved by the Committee, non-cash impairment of goodwill or intangibles not contemplated in the budget and acquisitions and divestitures not contemplated at the time of budget.

At the end of the fiscal year, after reviewing performance for fiscal 2007 against the established objectives, the post-Acquisition Compensation Committee approved the funding of each business unit's and corporate staff function's bonus pool between the threshold and target levels provided for under the MIP. Unit funding varied depending on actual unit performance. Overall, we paid out 47% of the total MIP bonus pool at target. The below target funding is due to the shortfalls in a number of our businesses.

In August 2007, Ms. Berner recommended an award for each executive officer consistent with the pool funding of his or her unit, and the Compensation Committee approved the CEO's recommended awards for each executive officer. These awards varied significantly by individual due to the different levels of performance across businesses and functions.

For fiscal 2007, the post-transaction Compensation Committee authorized additional money totaling approximately $900,000 to be paid to specified individuals to recognize outstanding work on key corporate priorities on top of regular job responsibilities. Only one Named Executive Officer, Mr. Perruzza, received an additional bonus in the amount of $69,300 for his contribution in fiscal 2007.

For fiscal 2008, our MIP has been modified to more closely align it with our new corporate strategy and direction. Under the new plan, a single bonus pool for the company will be funded based on actual company EBITDA results considering qualitative factors related to how those EBITDA results were achieved. This corporate bonus pool will be allocated to business units based on an assessment of business unit actual EBIT results and the quality of those results, and for corporate staff functions, based on how each function contributed to the corporate EBITDA results.

Following the Acquisition Transaction, Mary Berner was appointed CEO. In accordance with her Employment Agreement, she is eligible for an annual guaranteed bonus in the amount of $500,000, which for fiscal 2007 was prorated (for the period from November 1, 2006 through June 30, 2007). She is also eligible for an annual performance bonus in an amount of up to 400% of base salary based on overall company EBITDA performance. For fiscal 2007, actual company EBITDA performance was below the $287 million target. As a result, Ms. Berner was paid $666,667, the minimum amount guaranteed for fiscal 2007 under her Employment Agreement.

Long-Term Incentives

Our long-term incentive program is designed to drive company performance in the long-term and to provide a vital link between the long-term results achieved for our shareholders and the rewards provided to our executive officers. Those members of our management whom we deem to be instrumental for effectuating the vision for our future and implementing our strategy are eligible to participate in our long-term incentive program.

The principal vehicles that we used to distribute long-term incentive compensation to our officers prior to the Acquisition Transaction consisted of stock options and performance-based restricted stock units (PBRSUs). For executive officers, the long-term incentive award opportunity was targeted at approximately the 65th percentile of competitive levels discussed below. The program supported aligning executives' interests with shareholders by delivering potential value to the executive through stock options while the PBRSUs delivered cash to executives to reward multi-year earnings per share performance. Executive officers only realized value through stock options if there was stock price appreciation, and through PBRSUs based on the extent to which the company achieved its earnings per share targets. Generally, we grant our long-term incentives in August of each year, following the release of our full-year financial results for the previous year.

In April 2006, prior to the start of fiscal 2007, incentive target guidelines for stock options and PBRSUs, based on level or position, were established for each executive officer using a blend of salary band data from two survey sources, the Towers Perrin Media Executive Compensation Survey and the Mercer Long-Term Incentive and Equity Survey. Prior to the Acquisition Transaction, the targeted incentive value awarded through the long-term incentive program was delivered 50% in stock options and 50% in PBRSUs.

Stock options had always been a core element of the long-term incentive program as they align executive interests with shareholder interests. The options were scheduled to vest 25% per year over four years and had a ten-year term. If an executive voluntarily left the company, all unexercised options were forfeited, except in the case of retirement where options outstanding more than one year became vested and the individual had three years from retirement to exercise his or her options. In the case of involuntary termination, the individual had three months from the date of termination to exercise his or her vested options.

The PBRSUs were a multi-year incentive tied to the achievement of our earnings per share goal and the value of our Common Stock. Each PBRSU represented the right to receive the cash value of one share of our common stock at the end of a pre-determined performance cycle. The number of PBRSUs delivered to an executive was equal to the incentive target divided by the average closing stock price of our common stock for the 20 trading days prior to the beginning of such performance cycle.

In fiscal 2007, we began the 2007-2009 cycle. One half of the PBRSUs granted for the 2007-2009 cycle were scheduled to be earned based upon our performance against a two-year cumulative earnings per share goal of $1.99 based on a 9.5% compound annual growth rate, and one half of the PBRSUs were scheduled to be earned based on our performance against a three-year cumulative earnings per share goal of $3.13 based on a 9.3% CAGR. The number of PBRSUs earned by participants could range from 0% - 175% of target, depending on actual earnings per share results versus the two-and three-year cumulative earnings per share goals. Actual awards were scheduled to be paid in cash based on the average closing price of a share of our Common Stock on the New York Stock Exchange over the last year of the performance period and amounts could not exceed 200% of the grant date value of the PBRSUs. In the event an individual was terminated, all outstanding PBRSUs were forfeited and cancelled.

For purposes of the PBRSUs, "earnings per share" was defined as reported earnings per share excluding special charges or any extraordinary items approved by the Committee, non-cash impairment of goodwill or intangibles not contemplated in the budget, and acquisitions and divestitures not completed at the time of budget.

Eric Schrier, our CEO prior to the consummation of the Acquisition Transaction, recommended the actual 2007 stock option and 2007-2009 PBRSU target awards for each executive officer (other than for himself and Chairman Ryder). Using the target guideline for each executive officer, a stock option pool and a PBRSU pool were created for Mr. Schrier to allocate to the executive officers. Generally the Named Executive Officers received an award in line with their guideline. For stock options, the awards ranged from 98% to 117% of target guideline, and for the PBRSUs, the awards ranged from 93% to 106% of target guideline. Mr. Schrier also recommended a special one-time time-based restricted stock unit award for six executive officers to retain and motivate his new senior management team.

On August 11, 2006, the Compensation Committee approved Mr. Schrier's recommended awards for the executive officers, determined the stock option and PBRSU awards for Chairman Ryder and CEO Schrier and in addition approved a 70% increase to each participant's 2007-2009 PBRSU target to address retention concerns related to the fact that there was no probability of a payout under the outstanding 2006-2008 PBRSU cycle and the 2005-2007 PBRSU cycle was projected to payout significantly below target. The Compensation Committee also granted time-based restricted stock units to CEO Schrier to motivate, retain and align his interests with those of his senior management team. The strike price for the stock options granted was the Fair Market Value (defined as the average of the high and low stock price) of the stock price on August 11, 2006, the date of grant.

Equity Awards – Terms and Conditions

The terms and conditions of outstanding awards of stock options and restricted stock granted to Named Executive Officers prior to August 2006 provide generally that those awards become immediately vested upon a change-in-control. In August 2006, the Compensation Committee approved terms and conditions for the fiscal 2007 awards whereby such awards would no longer immediately vest upon a change-in-control, but a second event would need to occur in order for vesting to accelerate. The following summarizes the terms and conditions of the awards granted in fiscal 2007.

The terms and conditions of the stock options and time-based restricted stock units granted to Named Executive Officers in August 2006 provide generally that those awards vest following both a change-in-control of Reader's Digest and the occurrence of any of the applicable triggering events within two years after the change-in-control.

The terms and conditions of outstanding PBRSUs granted in August 2006 to Named Executive Officers provide generally that, following a change-in-control of Reader's Digest and upon the occurrence of any of the applicable triggering events within two years after a change-in-control, those awards will vest (100% of the units will vest in the case of the 2005-2007 and 2006-2008 cycles and 59% of units for the 2007-2009 cycle) as follows: (a) as if the applicable performance goals had been achieved at target (100%), with the payment prorated for the number of months completed in the performance period at the time of the triggering event or (b) in such greater amount as the

Compensation and Nominating Committee shall determine if at least half of the performance period will have been completed at the time of the triggering event.

The applicable triggering events are (a) a termination of employment by Reader's Digest, a designated subsidiary of Reader's Digest or the surviving entity without cause, (b) a termination of employment by the participant with good reason or (c) any failure by Reader's Digest (or the surviving entity) to replace the outstanding award with an award of substantially the same type that also has equivalent value and terms and conditions (except for certain equitable adjustments to reflect changes in the underlying Reader's Digest Common Stock) where the shares of Reader's Digest (or the surviving entity) underlying the replacement award are shares of common stock traded on a national securities exchange or on the over-the-counter market as reported on NASDAQ.

The Acquisition Transaction was considered a change-in-control under the terms of all outstanding equity awards and, for the August 2006 grants, also constituted a triggering event, which resulted in the accelerated vesting of all stock options, restricted stock, time-based restricted stock units and PBRSUs in accordance with the terms and conditions of each award. Generally, individuals received cash for their stock options with an exercise price below $17.015 (all other stock options were cancelled), for each restricted share and time-based restricted stock unit at $17.00 and for each PBRSU at $17.00 with the payment prorated for the number of months completed in the cycle. See the Option Exercises and Stock Vested table for detail of the payouts received by each named Executive Officer as a result of the change-in-control.

Grants of long-term incentive awards delivered in the form of stock options, restricted stock and a multi-year cash incentive plan were made in fiscal 2008. These grants will be reported in the fiscal 2008 Compensation Discussion and Analysis.

Other Compensation and Benefits

The following briefly describes the principal compensation and benefits, other than salary and annual and long-term incentive compensation that the executive officers are entitled to receive.

Retirement Benefits

In addition to being eligible to participate in Reader's Digest's 401(k) plan, the Executive officers participate in the Qualified Retirement Plan, the Excess Benefit Retirement Plan (which provides benefits in excess of the limits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code")) and, where eligible, the retiree health care program. These plans are available to executive officers on the same terms that are offered to all other eligible company employees in the U.S.

Effective July 1, 1992, Reader's Digest adopted The Reader's Digest Executive Retirement Plan (the "1992 Executive Retirement Plan"). Mr. Ryder was the last remaining active participant in the 1992 Executive Retirement Plan. Mr. Ryder will commence receiving the benefits that he is eligible for in accordance with this plan in October of 2007 as a result of his retirement from the company on March 2, 2007.

Effective October 1, 1999, Reader's Digest adopted The Reader's Digest Association, Inc. Executive Cash Balance Retirement Plan (the "1999 Executive Retirement Plan"). Mr. Geltzeiler is the last remaining active participant in the 1999 Executive Retirement Plan. Mr. Schrier and Mr. Gardner ceased employment with the company during fiscal 2007 and will commence receiving the benefits that they are eligible for in accordance with the terms of the 1999 Executive Retirement Plan in January of 2008.

Both plans were established to help the company recruit and retain key talent. Benefit levels for the 1999 Executive Retirement Plan were set based on benchmark data from specific media/publishing industry companies, general industry data from the William M. Mercer Survey on Non-Qualified Executive Retirement Plans as well as a survey prepared by Buck Consultants indicating prevalence and income replacement levels of benefit of non-qualified executive pension arrangements. No new participants have entered the plans since the Acquisition Transaction on March 2, 2007.

Mr. Perruzza has a supplemental executive retirement plan agreement ("SERP") that was entered into in the 1980s. Under this arrangement, Mr. Perruzza agreed to defer a portion of his annual bonuses for up to 5 years in exchange for specified retirement benefits for a guaranteed 15 year period.

Additional details on the retirement plans are found in the footnotes to the Pension Benefits and Deferred Compensation tables.

Other Employee Benefits

Executive officers are eligible for our medical, dental, life insurance and disability plans on the same terms as all other employees.

Deferred Compensation

The company offers certain U.S. executives the opportunity to defer all or a portion of their bonus under the Reader's Digest Deferred Compensation Plan. The company does not contribute to the deferred compensation plan, which was established to enable executives to defer receipt of payment and thus taxes on bonuses earned.

Under the deferred compensation plan, executive officers are eligible to defer receipt of any annual incentive bonus payment under the MIP and the payment of any PBRSU award. Under the deferred compensation plan, executive officers can defer payments until January of a designated year not later than attainment of age 50, or until the January following the year of retirement or other termination of employment. Awards deferred under the deferred compensation plan remain part of the general assets of Reader's Digest and are not segregated into separate accounts or trusts. Interest is accrued at the prime rate of leading banks, as reported in *The Wall Street Journal* for the last day of each calendar quarter and is compounded each September 30.

Eligible individuals were allowed to make deferral elections for the 2007 annual bonus and the 2007-2009 PBRSU cycle that would only take effect if the merger was not completed.

Each participant in the deferred compensation plan had, to the extent permitted under Code Section 409A, the option to elect prior to December 31, 2006 to receive his or her account balance in a lump sum payment upon the later of June 30, 2007 or completion of the merger, in either case, provided that the merger was completed. Five of the current (and past) executive officers elected to receive such lump sum payment. Only one Named Executive Officer, Mr. Perruzza, elected to receive such payment. These payments were made on July 13, 2007.

Perquisites

The executive officers are eligible for financial planning benefits and services provided by an outside service provider, and a flexible perquisite account under Reader's Digest's "FlexNet Program." These benefits are designed to support senior executives in the areas of financial fitness, health and personal fitness, family life and education. The calendar year financial planning benefits range in annual value from $5,650 to $17,500, and the value of the annual, calendar year, flexible perquisite accounts range from $12,500 to $33,500, depending on the executive's level of responsibility. The FlexNet Program allows for reimbursement of various types of expenses, examples of which include, but are not limited to, health club membership, personal computer, will and estate planning services. Amounts associated with perquisites are footnoted in the Summary Compensation Table.

Ms. Berner is also entitled to the use of a car service when traveling between New York, NY and our Pleasantville, NY office.

Severance Arrangements

We provide severance benefits to our executive officers because we believe that such benefits are essential to recruiting and retaining qualified executive officers. We believe the right to severance benefits provides our executive officers the assurance of security if their employment is terminated for reasons beyond their control. Most of our executive officers are entitled to severance benefits in the event of termination of employment under specified circumstances.

Certain executive officers participate in our Income Continuation Plans. These plans provide financial and other benefits to executives who are terminated as a result of a change-in-control. When a change-in-control is contemplated, executive officers may face an uncertain future with us after the change-in-control. We believe that change-in-control severance benefits alleviate the anxiety created by this uncertainty and allow our executive officers to provide the most effective management during a period when a change-in-control is contemplated without being distracted by these attendant anxieties. No new participants have become participants in the Plans since the Acquisition Transaction on March 2, 2007.

The material terms of our severance benefits for our named executive officers are described in the narrative section under the caption "Potential Payments upon Termination or Change-in-Control" in this Annual Report.

Employment and Related Agreements

Mary Berner - Employment Agreement

In order to induce her to accept the position of CEO and in connection with the consummation of the Acquisition Transaction, we entered into an employment agreement with Ms. Berner dated as of March 1, 2007. This agreement details the terms of Ms. Berner's employment with us, including compensation-related matters and termination payments. The agreement is in effect for a five-year period beginning March 1, 2007, and automatically renews for successive one-year terms unless either Ms. Berner or we provide 60 days advance notice of her or our intention not to renew.

The agreement provides that Ms. Berner is eligible for a $500,000 initial base salary which is subject to review by the Board for increases. She is also eligible for an annual guaranteed bonus of $500,000 and an annual performance bonus in an amount up to 400% of her base salary, based on performance against specified objective performance criteria. These bonuses are paid at the time that bonuses are paid to our other senior executives.

Pursuant to the agreement, in fiscal 2008, Ms. Berner was granted three percent of the outstanding shares of common stock of RDA Holding Company at an exercise price equal to the fair market value on the date of grant and restricted stock units with an initial value of $2,000,000.

Ms. Berner is entitled to participate in our benefit plans and programs available to senior management and to the use of a car service when traveling between New York, NY and our Pleasantville, NY office. In addition, we are obligated to pay legal fees in conjunction with the negotiation and any revisions of Ms. Berner's employment agreement.

The employment agreement also provides for severance in the event Ms. Berner's employment is terminated prior to the expiration of the agreement by her for "good reason" or by us except for "cause". The severance benefits are detailed in the Termination Table footnotes.

Payment of the severance benefits are contingent upon a one-year non-competition and non-solicitation agreement during the one-year period following termination and nondisclosure of confidential information. In the event Ms Berner's employment terminates due to the expiration of the term, we must pay Ms. Berner $1,000,000 for the one year non-competition and non-solicitation agreement.

Mr. Geltzeiler - Waiver and Non-Competition Agreement

Following the Acquisition Transaction, we entered into an agreement with Michael Geltzeiler dated March 20, 2007, in order to induce him to remain with our company in the role of President of our School & Educational Services segment. In accordance with the terms of the agreement, Mr. Geltzeiler received a $1,200,000 payment in consideration for his waiver of participation in the 2001 and 2006 Income Continuation Plans and any other company severance plans, and cancellation of his Termination Agreement.

In addition, Mr. Geltzeiler received a $240,000 credit to his Executive Retirement Plan account along with nine years of additional service credit for purposes of determining vesting, and a $1,300,000 payment in exchange for his entering into a non-competition and non-solicitation agreement.

Management and the Compensation Committee believe it was in our best interest to enter into the 24-month (following termination) non-competition agreement which protects us against Mr. Geltzeiler working for any one of 14 companies which are deemed to be competitors of at least one of our major business segments. We believe that as our former CFO, Mr. Geltzeiler's knowledge of the intricacies of each of our businesses, if used to compete, could be detrimental to us during this crucial time. The amounts that Mr. Geltzeiler received are reflected in the applicable compensation tables herein.

Stock Ownership / Retention Guidelines

Prior to the Acquisition Transaction, our Board of Directors believed that our executive officers should have a significant financial stake in the company so that their interests would be aligned with those of our stockholders. To that end, the Board adopted stock ownership guidelines that stated the Board's expectation that each executive officer should own, within five years of becoming an executive officer, shares of our common stock having an aggregate value that meets or exceeds a specified multiple of the executive's base salary. The guidelines provided for an ownership multiple of five times base salary for the CEO; one and one half or two times base salary for the other Named Executive Officers depending on grade level; and similar or lower ownership multiples for other executive officers.

All but three executive officers employed prior to the Acquisition Transaction owned stock having the aggregate value required under the stock ownership guidelines. Two Named Executive Officers, Mr. Schrier and Ms. Zier, and one other executive officer did not meet the stock ownership requirements. Each of these executive officers had until 2011 to comply with the stock ownership requirement. Following the Acquisition Transaction, these stock ownership guidelines no longer apply.

Tax and Accounting Implications

The pre-Acquisition Transaction Compensation Committee believed that it was desirable for executive compensation to be deductible for federal income tax purposes, but only to the extent that achieving deductibility was practicable, consistent with Reader's Digest's overall compensation objectives, and in the best interests of Reader's Digest and its shareholders. Accordingly, the Compensation Committee retained the discretion to provide non-deductible compensation. Following the Acquisition Transaction, we are no longer subject to Internal Revenue Code Section 162(m), since it applies only to publicly traded companies.

Beginning on July 1, 2006, we began accounting for stock-based payments in accordance with the requirements of FASB Statement 123(R).

To satisfy Regulation 409A of the Internal Revenue Code, all affected plans, agreements and policies will be modified in order to comply with the new regulation by December 31, 2008. We have been acting in good faith and administering our plans, agreements and policies to comply with the regulation.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussion with management, the Compensation Committee recommended to the Board of Directors, and the Board has approved, that the Compensation Discussion and Analysis be included in this Annual Report.

Submitted by
The Compensation Committee of The Reader's Digest Association, Inc.
Harvey Golub, Chairperson
Timothy C. Collins
Andrew R. Lack

Summary Compensation

The following Summary Compensation Table sets forth the cash and non-cash compensation awarded to, earned by, or paid to our Chief Executive Officer and the Named Executive Officers for the fiscal year ended June 30, 2007.

2007 Summary Compensation Table

Name and Principal Position	**Year**	**Salary ($)[5]**	**Bonus ($)**	**Stock Awards ($)[8]**	**Option Awards ($)[8]**	**Non-Equity Incentive Plan Compens-ation ($)**	**Change in Pension Value and Deferred Compensa tion ($)[11]**	**All Other Compensatio n ($)**	**Total ($)**
Mary Berner President & CEO[1]	2007	$173,076	$333,333[6]	-	-	$666,667[9]	-	$92,559[12]	$1,265,635
Michael Geltzeiler SVP, CFO & President School & Educational Services[2]	2007	$458,846		$1,507,904	$559,733	$262,000[10]	$64,712	$2,927,640[13]	$5,780,835
Thomas Gardner[3] EVP, President International	2007	$548,077		$1,778,397	$740,753		$149,100	$5,996,446[14]	$9,212,773
Dawn Zier President, NA Consumer Marketing	2007	$338,846		$627,859	$245,099	$92,600[10]	$51,652	$20,934[15]	$1,376,990
Albert Perruzza SVP, Global Operations & Business Redesign	2007	$359,288	$69,300[7]	$560,827	$138,698	$161,700[10]	$235,490	$32,516[16]	$1,557,819
Eric Schrier Former President & CEO[4]	2007	$484,615		$3,282,162	$1,527,171		$114,530	$9,334,690[17]	$14,743,169
Thomas Ryder Former Chairman	2007	$404,615		$2,710,795	$99,897	$255,000[10]	$188,004	$4,101,473[18]	$7,759,784
Michael Brizel Former SVP, General Counsel	2007	$240,192		$849,383	$250,591		$105,730	$2,879,277[19]	$4,325,173

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(1) Appointed President & CEO of the Company on March 2, 2007.
(2) Appointed President of our School & Educational Services segment on March 30, 2007.
(3) Ceased employment with the Company effective July 1, 2007.
(4) Served as President & CEO of the Company through March 1, 2007.
(5) Compensation is reviewed in the first quarter of each fiscal year and salary increases, if any, are subject to approval by our Compensation Committee. Salary amounts in this table reflect the actual base salary payments made in fiscal 2007.
(6) Reflects guaranteed bonus (prorated for November 2006 through June 2007).

(7) Reflects additional bonus awarded to Mr. Perruzza to recognize the work done on key corporate priorities in addition to his regular job responsibilities.

(8) Stock, Stock-Based and Option Awards reflect PBRSUs, time-based restricted stock units, restricted stock and stock option grants, for which Reader's Digest recorded compensation expense in 2007. In accordance with SFAS No. 123R, "Share-Based Payment", the compensation expense reflected is for stock, stock-based or option grants made in fiscal 2007 and prior. The 2007 compensation expense for stock, stock-based and option awards also includes expense associated with the acceleration of these awards in connection with change-in-control provisions of our compensation plans on March 2, 2007.

(9) Reflects annual performance bonus earned for 2007 performance in accordance with Ms. Berner's Employment Agreement with the Company dated as of March 1, 2007.

(10) Reflects compensation earned for 2007 performance under the annual Management Incentive Plan (discussed in the annual bonus portion of this Compensation Discussion and Analysis section).

(11) Represents the annual increase in the actuarial present value of accumulated pension benefits and above-market earnings on non-qualified deferred compensation.

(12) The following is included in All Other Compensation for Ms. Berner:
- (a) 401(k) company matching contribution.
- (b) Reimbursement for car service between home and office.
- (c) Payment of Ms. Berner's legal fees in connection the negotiation of her Employment Agreement, in accordance with the terms of her Employment Agreement, of $82,511.

(13) The following is included in All Other Compensation for Mr. Geltzeiler:
- (a) Flexible perquisite account ("FlexNet") reimbursement of $25,804 (the FlexNet Program allows for reimbursement of various types of expenses, examples of which include, but are not limited to, health club membership, personal computer, and will and estate planning services).
- (b) Payment of $1,200,000, in consideration and exchange for waiving all rights to any future severance payments or other benefits under any severance agreement (including the 2001 and 2006 Income Continuation Plan and Termination Agreement) or policy.
- (c) Payment of $1,300,000, in exchange for a 24-month non-compete agreement and a 12-month non-solicitation agreement following termination of employment.
- (d) 401(k) company matching contribution.
- (e) Executive Cash Balance Plan company contribution of $395,236.

(14) The following is included in All Other Compensation for Mr. Gardner:
- (a) FlexNet reimbursement of $21,315.
- (b) Financial planning benefit of $10,242.
- (c) General Insurance credit.
- (d) Payments made in accordance with his termination under the 2001 Income Continuation Plan (made in July 2007): Lump sum severance payment in the amount of $3,783,000, lump sum payment in lieu of medical and dental benefits of $38,712 and gross-up payment in the amount of $2,006,364.
- (e) 401(k) company matching contribution.
- (f) Executive Cash Balance Plan company contribution of $128,200.

(15) The following is included in All Other Compensation for Ms. Zier:
- (a) FlexNet reimbursement of $16,232.
- (b) 401(k) company matching contribution.

(16) The following is included in All Other Compensation for Mr. Perruzza:
- (a) FlexNet reimbursement of $25,403.
- (b) 401(k) company matching contribution.
- (c) Company paid expense for executive physical.

(17) The following is included in All Other Compensation for Mr. Schrier:
- (a) FlexNet reimbursement of $37,278.
- (b) Financial planning benefit of $10,297.
- (c) Payments made in accordance with his termination under the 2001 Income Continuation Plan (made in July 2007): Lump sum severance payment in the amount of $5,678,055, lump sum payment in lieu of medical and dental benefits of $38,712 and gross-up payment in the amount of $3,408,217.01.
- (d) 401(k) company matching contribution.
- (e) Executive Cash Balance Plan company contribution of $155,532.

(18) The following is included in All Other Compensation for Mr. Ryder:
- (a) FlexNet reimbursement of $67,000.
- (b) Financial planning benefit of $17,780.
- (c) Severance payments made in accordance with the third amendment to his Employment Agreement in the amount of $4,000,000 (actual payment made September 4, 2007 in accordance with IRS Section 409A).
- (d) 401(k) company matching contribution.
- (e) Company paid expense for executive physical.

(f) General insurance credit of $8,593.

(19) The following is included in All Other Compensation for Mr. Brizel:

(a) FlexNet reimbursement of $21,759.

(b) Financial planning benefit.

(c) Payments made in accordance with his termination under the 2001 Income Continuation Plan (made in July 2007): Lump sum severance payment in the amount of $1,835,397, lump sum payment in lieu of medical and dental benefits of $37,731 and gross-up payment in the amount of $969,360.

(d) 401(k) company matching contribution.

Grants of Plan-Based Awards

The following table provides information about the equity and non-equity awards granted to our Named Executive Officers in 2007. The non-equity awards section depicts the annual bonus plan (SMIP); the equity awards section outlines the performance-based RSUs (PBRSUs), the time-based restricted stock units and the stock options granted in 2007.

As described in the Option Exercises and Stock Vested Table, all of the awards detailed below were cashed out upon the consummation of the Acquisition Transaction.

Grants of Plan-Based Awards Table

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards [1]			Estimated Future Payouts Under Equity Incentive Plan Awards [2]			All Other Stock Awards: Number of Shares of Stock or Units (#)[3]	All Other Option Awards: Number of Securities Underlying Options (#)[4]	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**				
Mary Berner		666,667	-	1,400,000	-	-	-	-	-	-	-
Michael Geltzeiler	8/11/2006	0	350,000	700,000	34,325	68,649	120,136				826,877
	8/11/2006							33,000			397,485
	8/11/2006								65,000	12.045	$221,994
Thomas Gardner	8/11/2006	0	450,000	900,000	37,445	74,890	131,058				902,050
	8/11/2006							40,000			481,800
	8/11/2006								80,000	12.045	273,223
Dawn Zier	8/11/2006	0	193,000	386,000	14,666	29,332	51,331				353,304
	8/11/2006							24,000			289,080
	8/11/2006								25,000	12.045	85,382
Albert Perruzza	8/11/2006	0	231,000	462,000	18,723	37,445	65,529				451,025
	8/11/2006								35,000	12.045	119,535
Eric Schrier	8/11/2006	0	840,000	1,680,000	106,094	212,188	371,329				2,555,804
	8/11/2006							60,000			722,700
	8/11/2006								230,000	12.045	785,517
Thomas Ryder	8/11/2006	0	500,000	1,000,000	18,723	37,445	65,529				451,025
Michael Brizel	8/11/2006	0	205,000	410,000	15,602	31,204	54,607				375,852
	8/11/2006							24,000			289,080
	8/11/2006								30,000	12.045	102,459

(1) With the exception of Ms. Berner, these columns reflect the possible value of the payout for each named executive officer under the 2007 Senior Management Incentive Program ("SMIP") if threshold, target or maximum goals are achieved. The SMIP performance goals are comprised of a combination of corporate and operating unit goals. These awards are 100% performance driven and are completely at-risk. As shown in the Summary Compensation Table, the awards ranged from 48% of target to 75% of target. Ms. Berner's 2007 bonus was determined in accordance with her employment agreement (See "Compensation Discussion and Analysis - Employment and Related Agreements - Mary Berner - Employment Agreement" for additional information regarding Ms. Berner's employment agreement.) Her bonus was based on EBITDA performance for 2007 versus established goals.

(2) These columns show the PBRSUs granted to each named executive officer under the 2005 Key Employee Long-Term Incentive Plan. The number of units earned is based 50% on cumulative EPS over the fiscal 2007-2008 period and 50% based on cumulative EPS over the fiscal 2007-2009 period. Payout is then determined by the average closing stock price over the last year of the performance period (2009). Payout can range from 0 - 175% of target.

(3) This column represents the number of time-based restricted stock units (RSUs) granted to each Named Executive Officer. The vesting schedule for these RSUs was 50% after 2 years and 50% after 3 years.

(4) This column depicts the number of non performance-based stock options granted to each Named Executive Officer. The vesting schedule is 25% per year and the exercise price is the Fair Market Value on the grant date defined as the average of high and low stock price on the grant date (which was higher than the closing price on that date). The grant date was the date the Compensation Committee approved the option grants.

Outstanding Equity Awards at Fiscal Year-End

As a result of the automatic vesting and tender of all equity awards in connection with the consummation of the Acquisition Transaction, there were no equity awards outstanding at the end of fiscal year 2007.

Option Exercises and Stock Vested

The following table sets forth the number of shares acquired and value received upon option exercises during fiscal year 2007 and the value of other stock awards that vested during fiscal year 2007. Upon the consummation of the Acquisition Transaction, which was deemed a change-in-control and constituted a triggering event under the terms and conditions of our equity plans, the following occurred: (1) all outstanding stock options vested, and those with an exercise price above $17.015 were cashed out (an individual received the difference between the strike price of his option and $17.015); (2) all restricted shares vested and were cashed out at $17.00 per share; (3) all PBRSUs granted for the 2005-2007 and 2006-2008 cycles vested as if the applicable performance goals had been achieved at target (100%), with the payment prorated for the number of months completed in the performance period and based on a $17.00 stock price; and (4) 59% of the PBRSUs granted for the 2007-2009 cycles vested as if the applicable performance goals had been achieved at target (100%), with the payment prorated for the number of months completed in the performance period and based on a $17.00 stock price.

Option Exercises and Stock Vesting Table

Name	Option Awards: Number of Shares Acquired on Exercise [1](#)	Option Awards: Value Realized on Exercise ($)(1)	Stock Awards(3): Number of Shares Acquired on Vesting (#)	Stock Awards(3): Value Realized on Vesting ($)
Mary Berner	-	-	-	-
Michael Geltzeiler [2]	237,000	641,340	74,101 15,000 33,000 36,394	1,259,714 255,000 561,000 499,924
Thomas Gardner [3]	310,100	849,291	84,215 21,666 40,000 41,394	1,431,649 368,322 680,000 569,549
Dawn Zier [4]	106,500	271,855	11,989 9,666 24,000 13,593	203,811 164,322 408,000 187,395
Albert Perruzza [5]	170,000	429,150	43,106 11,666 34,728	732,799 198,322 476,725
Eric Schrier [6]	576,200	1,801,592	176,294 26,666 60,000 51,327	2,997,002 453,322 1,020,000 706,150
Thomas Ryder [7]	804,000	1,465,630	238,366 71,666 115,985	4,052,214 1,218,322 1,597,935
Michael Brizel [8]	120,000	318,988	34,074 8,667 24,000 25,962	579,258 147,339 408,000 356,374

(1) Reflects the number of stock options that were cashed out upon the completion of the Acquisition Transaction in March 2007 and the cash value received. There were no other stock option exercises by executive officers.

(2) Mr. Geltzeiler received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled) for his outstanding 15,000 restricted shares and for his outstanding 33,000 RSUs. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 31,238 targets units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $531,046; for the 2006-2008 cycle, all 31,612 units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $537,404; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 11,251 units vested for a payment of $191,264. He also had 36,394 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(3) Mr. Gardner received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled) for his outstanding 21,666 restricted shares and for his outstanding 40,000 RSUs. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 36,686 targets units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $623,662; for the 2006-2008 cycle, all 35,255 units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $599,335; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 12,274 units vested for a payment of $208,652. He also had 41,394 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(4) Ms. Zier received cash upon the merger for her stock options with an exercise price below $17.015 (any options above this price were cancelled) for her outstanding 9,666 restricted shares and for her outstanding 24,000 RSUs. She received cash for her outstanding PBRSUs; for the 2006-2008 cycle, the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 7,182 units vested for a payment of $122,088; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 4,807 units vested for a payment of $81,722. She also had 13,593 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(5) Mr. Perruzza received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled) and for his outstanding 11,666 restricted shares. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 19,342 targets units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $328,814; for the 2006-2008 cycle, all 17,627 units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $299,659; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 6,137 units vested for a payment of $104,326. He also had 34,728 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(6) Mr. Schrier received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled), for his outstanding 26,666 restricted shares and for his outstanding 60,000 RSUs. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 63,959 targets units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $1,807,303; for the 2006-2008 cycle, all 77,560 units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $1,318,520; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 34,775 units vested for a payment of $591,179. He also had 51,327 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(7) Mr. Ryder received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled) and for his outstanding 71,666 restricted shares. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 113,153 targets units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $1,923,601; for the 2006-2008 cycle, all 103,120 units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $1,753,040; for the 2007-2009 cycle, 59% of the units vested resulting in 22,093 units vested (in accordance with the terms and conditions of the award) for a payment of $375,573. He also had 115,985 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

(8) Mr. Brizel received cash upon the merger for his stock options with an exercise price below $17.015 (any options above this price were cancelled), for his outstanding 8,667 restricted shares and for his outstanding 24,000 RSUs. He received cash for his outstanding PBRSUs; for the 2005-2007 cycle, all 15,152 targets units vested (in accordance with the 2001 Income Continuation Plan) and were cashed out at $17.00 for a total of $257,584; for the 2006-2008 cycle, all 13,808 units vested (in accordance with the 2001 Income continuation Plan) and were cashed out at $17.00 for a total of $234,736; for the 2007-2009 cycle, 59% of the units vested and the payment was prorated for the number of months completed in the cycle (in accordance with the terms and conditions of the award) resulting in 5,114 units vested for a payment of $86,938. He also had 25,962 restricted shares vest in July of 2006 in accordance with their regular vesting schedule.

Pension Benefits

Name	Plan Name	Number of Years of Credited Service ($)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Mary Berner				
Michael Geltzeiler	Retirement Plan Excess Plan Total	5.75 5.75	$88,843 $83,681 $172,524	
Thomas Gardner	Retirement Plan Excess Plan Total	15.33 15.33	232,486 217,358 449,844	
Dawn Zier	Retirement Plan Excess Plan Total	15.33 15.33	121,489 21,506 142,995	
Albert Perruzza	Retirement Plan Excess Plan SERP Total	34.67 34.67 n/a	$972,479 499,836 635,602 2,107,917	
Eric Schrier	Retirement Plan Excess Plan Total	7.17 7.17	156,784 0 156,784	 213,542 213,542
Thomas Ryder	Retirement Plan Excess Plan Executive Retention Plan Total	8.92 8.67 8.67	0 792,569 5,952,439 6,745,008	251,270 0 0 251,270
Michael Brizel	Retirement Plan Excess Plan Total	17.67 17.67	0 0 0	275,216 81,621 356,837

Retirement Plan and Excess Plan. The following describes our Retirement Plan and Excess Plan as the provisions relate to a majority of employees, including all of the Named Executive Officers. Different provisions may apply to employees of other locations of the Company.

The Retirement Plan is a tax-qualified cash balance plan for our employees. The Excess Plan is a nonqualified cash balance plan that provides for the benefit that would have applied in the Retirement Plan if the IRS pay and benefit limitations for tax-qualified plans did not apply. The IRS pay limit for tax-qualified plans was $220,000 for 2006.

The cash balance formula was established on July 1, 1999. Participants in the plans on July 1, 1999 were credited with an opening balance based on the present value of their prior plan accrued benefit, plus an enhancement for participants age 39 and older. Participants are credited monthly with a base credit equal to their monthly base pay times the following percentages for the majority of cash balance participants, including all of the Named Executive Officers:

Age	% of Base Pay
<30	3%
30-34	4%
35-39	5%
40-44	6%
45-49	8%
50-54	10%
55+	12%

Accounts grow monthly with interest credits that are based on the yield for 1-year treasury securities plus 1%. Participants are vested in their entire account balance after 5 years of service. Participants as of June 30, 2003 are 100% vested in their June 30, 2003 accrued benefit.

Upon termination, participants in the Retirement Plan can receive either their full account balance, or the balance can remain in the plan where it will continue to grow with interest credits until retirement. Participants may elect to receive their Retirement Plan as an annuity or lump sum payment. The lump sum payment is based on their account balance. At termination, if the participant is over age 55 and meets the Rule of 70 (age plus service is 70 or more), then the participant's annuity is increased by 30% at age 55, grading down 3% at age 64. Mr. Perruzza is the only Named Executive Officer with a Retirement Plan account balance on June 30, 2007 that is over age 55 and meets the Rule of 70.

Participants in the Excess Plan receive a full lump sum distribution of their vested benefit following termination.

SERP. SERP agreements were made with certain executives in the 1980's to pay individually specified retirement benefits for a guaranteed 15 year period. In most agreements, the executives agreed to defer a portion of their annual bonuses for up to 5 years in exchange for the retirement benefits. Mr. Perruzza's agreement will provide him with $85,200 per year at age 65 for 15 years.

The executive is vested in his benefits when he has deferred the agreed upon bonuses. Executives can retire as early as age 55. The benefits are reduced by 3% for each year by which retirement precedes age 65. Mr. Perruzza is eligible for early retirement. On death in service, the lump sum death benefit is $750,000.

Executive Retirement Plan. As of June 30, 2007, Mr. Ryder was the only Named Executive Officer eligible for the Executive Retirement Plan. No new executives are eligible for the plan.

Under this plan, a participant retiring on or after his normal retirement date is entitled to an annual pension determined as:

(1) 3% of Retirement Salary for each of the first 15 years of credited service, plus 1% of Retirement Salary for each of the next 20 years of credited service less
(2) (a) Reader’s Digest Retirement Plan Benefit;
(b) Reader’s Digest Excess Plan Benefit;
(c) SERP Agreement Benefit to the extent provided by Employer Contributions; and
(d) Annualized benefit from company’s contribution to the qualified profit sharing plan in excess of 6% of Retirement Salary, accumulated at 8%.

Retirement Salary is the average of the highest three consecutive years out of the last ten years of base salary and management incentive bonus.

Credited Service is defined in the Retirement Plan. Participants at grade level 21 and higher earn an additional year of credited service for each year of service after 4 full years of credited service to the extent the participant’s age at date of hire exceeds 45 and only to the extent credited service is less than 20 years.

A participant is eligible for normal retirement after attainment of age 65. No benefits are provided upon termination prior to meeting the eligibility for early retirement. Early retirement is permitted if the participant has attained age 55, and the participant’s age plus years of service equals at least 65. Early retirement benefits are reduced 5% for each year retirement precedes age 62. Mr. Ryder is eligible for early retirement.

Nonqualified Defined Contribution and Other Nonqualified Deferred Compensation Plans

The table below outlines each Named Executive Officer's non-qualified deferred compensation.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals / Distributions ($)	Aggregate Balance at Last Fiscal Year End ($)
Mary Berner	0	0	0	0	0
Michael Geltzeiler	0	395,236 [1]	52,220 [2]	0	450,456 [3]
Thomas Gardner	0	128,200 [1]	348,969 [4]	0	3,341,206 [5]
Dawn Zier	0	0	0	0	0
Albert Perruzza	0	0	49,970 [6]	0	655,130 [7]
Eric Schrier	0	155,532 [1]	136,747 [2]	0	845,051 [3]
Thomas Ryder	0	0	0	0	0
Michael Brizel	0	0	2,815 [6]	71,721 [8]	0

(1) Reflects employer contributions to the Executive Cash Balance Plan.
(2) Reflects Executive Cash Balance Plan earnings.
(3) Reflects Executive Cash Balance Plan account balance at fiscal year end.
(4) Reflects Executive Cash Balance Plan earnings and interest earned on account balance under the Deferred Compensation Plan. Under the Deferred Compensation Plan, interest is accrued at the prime rate of leading banks, as reported in The Wall Street Journal for the last day of each calendar quarter and is compounded each September 30.
(5) Mr. Gardner ceased employment on July 1, 2007. He will begin to receive payments in January 2008 of his account balance under the Deferred Compensation Plan, in accordance with elections made under the plan, and under the Executive Cash Balance Plan.
(6) Reflects interest earned on account balance under the Deferred Compensation Plan. Under the Deferred Compensation Plan, interest is accrued at the prime rate of leading banks, as reported in The Wall Street Journal for the last day of each calendar quarter and is compounded each September 30.
(7) Mr. Perruzza received payment in July 2007 of his account balance under the Deferred Compensation Plan. Prior to December 31, 2006, he elected to receive his account balance in a lump sum payment upon the later of June 30, 2007 or completion of the merger, in either case, provided that the merger was completed.
(8) Mr. Brizel received payment in January 2007, in accordance with elections made under the Deferred Compensation Plan.

Executive Cash Balance Plan

The Executive Cash Balance Plan is a nonqualified defined contribution plan established on October 1, 1999 for executives at grade levels 21 and higher, subject to the approval by the CEO. An opening balance as of October 1, 1999 was credited to the participants who had been in the Executive Retirement Plan based on the present value of their Executive Retirement Plan benefits, enhanced if the participant was age 39 or older but younger than 55 as of October 1, 1999. Our Board of Directors may, at its discretion, provide a new participant with an opening balance.

The plan will contribute to a participant's account an annual base credit equal to 20% of earnings less the annual credit they receive from the Retirement Plan and Excess Plan. Earnings for this plan include base pay and any Management Incentive Bonus earned for a year. Accounts grow based on the return of a hypothetical investment portfolio directed by the participant. Participants can allocate their investment portfolio among the mutual funds available under the Reader's Digest Association 401(k) plan. Prior to the sale of Reader's Digest, 50% of the participant's account balance was invested in Reader's Digest stock. Participants can change their allocation monthly to be effective as of the first day of the following month.

Our common stock had a 24% return from July 1, 2006 until the Acquisition Transaction. The available mutual funds had rates of return from July 1, 2006 to June 30, 2007 as follows:

Explorer	17%
International Growth	29%
Prime Money Market	5%
PrimeCap	21%
Total Bond Market	6%
Vanguard S&P 500 Index	20%
Wellington	18%
Windsor II	24%

Participants are vested in their account balance according to a graded schedule, where they are 50% vested after 5 years of service and are vested an additional 10% for each year of service until 10 years, when they are 100% vested. Upon termination, participants will receive their vested account balance payable over a 10-year period. Their balance will continue to grow with interest until it is fully distributed. The Plan does not permit employee deferrals.

Potential Payments upon Termination or Change-in-Control

The tables below reflect the amount of compensation payable to each of the Named Executive Officers, excluding Messrs. Schrier, Gardner, Brizel, and Ryder, in the event of termination of such executive's employment under various termination scenarios. The amounts shown assume that such termination was effective as of June 30, 2007, and thus includes amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination. The actual amounts to be paid out, if any, can only be determined at the time of such executive's separation from the Company.

For Messrs. Schrier, Gardner, Brizel, and Ryder, the amounts shown in each of their respective tables reflect the actual severance payment made by the Company in connection with their termination of employment.

Mary Berner, President and Chief Executive Officer

Termination Payment	Voluntary Resignation/ Retirement [1]	Death	Disability[8]	Termination for Cause[9]	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control[10]	Termination Without Cause or for Good Reason in Connection with a Change-in-Control[10]
Severance	$0	$0	$0	$0	$2,000,000[4]	$2,000,000[4]
Bonus	$0	$666,667[3]	$666,667[3]	$0	$666,667[5]	$666,667[5]
Qualified Retirement Plan[2]	$0	$0	$0	$0	$0	$0
Excess Plan[2]	$0	$0	$0	$0	$0	$0
Other Benefits	$0	$0	$0	$0	$12,905[6]	$12,905[6]
Gross-Up on Excise Taxes	n/a	n/a	n/a	$0	n/a	$544,893[7]
Payment of Equity	$0	$0	$0	$0	$0	$0
Total Value of Payments	**$0**	**$666,667**	**$666,667**	**$0**	**$2,679,572**	**$3,224,465**

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[1] Ms. Berner is not currently eligible for retirement. The amounts shown reflect a voluntary resignation.
[2] As of June 30, 2007, Ms. Berner was not a participant in the Qualified Retirement Plan or the Excess Plan. She will become a participant upon completion of one year's service.
[3] Under the terms of her Employment Agreement, Ms. Berner is entitled to receive a pro-rata annual bonus for the year of termination based on the Company's actual results, paid when annual bonuses are ordinarily paid. As of June 30, 2007, Ms. Berner was eligible for an annual performance bonus of up to 400% of her salary. The amount shown reflects Ms. Berner's actual fiscal 2007 performance bonus.
[4] Under the terms of her employment agreement, Ms. Berner is entitled to receive a severance payment equal to two times the sum of her (a) base salary and (b) guaranteed bonus, paid in a lump sum.
[5] Under the terms of her employment agreement, Ms. Berner is entitled to receive a pro-rata bonus.
[6] Reflects the value of additional benefits under the terms of Ms Berner's employment agreement. Ms. Berner would receive $12,905, equal to the Company-paid portion of medical, dental and life insurance benefits for one year following the date of termination, paid in a lump sum.
[7] Ms. Berner's employment agreement provides that in the event it is determined that (a) any payment, benefit or distribution by us for the benefit of Ms. Berner would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code (which relates to payments that are contingent on a change in ownership or effective control of, or the ownership of a substantial portion of the assets of, a corporation) or (b) any interest or penalties are incurred by Ms. Berner with respect to such excise tax, Ms. Berner shall be entitled to receive an additional gross-up payment in an amount equal to the sum of the excise tax on

any payment and the gross-up payment. Ms. Berner's employment agreement also provides that in the event it is determined that any cash payment, benefit or distribution by us for the benefit of Ms. Berner would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, the cash amounts payable upon termination will be reduced by the amount necessary so that the receipt of the cash payment would not give rise to any excise tax, so long as the reduced payment would not be less that 90% of the original cash payment. This provision would not result in any tax reimbursement payment to Ms. Berner. As of June 30, 2007, we were a privately held company and, therefore, in accordance with her employment agreement, Ms. Berner would be entitled to a limited gross-up on the excise tax only. This amount is reflected in the termination table.

[8] Under the terms of Ms. Berner's employment agreement, "Disability" is defined as being physically or mentally incapable for six consecutive months to perform the material duties under the employment agreement. Any disagreement as to whether a Disability exists will be determined in writing by a qualified independent physician mutually acceptable to Ms. Berner and us.

[9] Under the terms of Ms. Berner's employment agreement, "Cause" is defined as: (a) Ms. Berner's willful failure to substantially perform her duties under her employment agreement (other than due to physical or mental illness) after written notice of such failure; (b) her conviction of, or plea of guilty or nolo contendere to a felony (or the equivalent of a felony in a jurisdiction other than the United States) other than, in any case, vicarious liability or traffic violations; (c) her willful material breach of certain provisions of her employment agreement if uncured promptly following her receipt of written notice of such breach; (d) her willful material violation of our material written policies that has a detrimental impact on us and that, to the extent curable, is uncured by Ms. Berner promptly following her receipt of written notice of such breach; (e) her fraud or embezzlement with respect to us; (f) her misappropriation or misuse of funds or property belonging to us that is done in bad faith and is more than de minimis in nature; (g) her use of illegal drugs that interferes with the performance of her duties under her employment agreement; or (h) her gross misconduct, whether or not done in connection with employment, other than an act done in the good faith belief that it was in our best interests, that materially adversely affects our business or reputation, our subsidiaries or affiliates.

[10] Under the terms of Ms. Berner's employment agreement, "Good Reason" is defined as (A) any diminution in Ms. Berner's title or position or a material diminution in her duties, authorities or responsibilities; (B) the assignment to Ms. Berner of duties inconsistent with her position; (C) our material and uncured breach of Ms. Berner's employment agreement; (D) any reduction of Ms. Berner's base salary, guaranteed bonus or annual bonus opportunity; (E) the transfer or relocation of Ms. Berner's principal place of employment to a location further in miles and/or travel time from New York, New York than is Pleasantville, New York; (F) any failure to re-elect Ms. Berner to our board of directors (if we are not public) or to nominate her for election to our board (if we are public), or (G) our failure to effectively assign Ms. Berner's employment agreement, as applicable, upon our sale or merger.

Michael Geltzeiler, Former Chief Financial Officer and President, School & Educational Services

Termination Payment	Voluntary Resignation/ Retirement [1]	Death	Disability[7]	Termination for Cause	Termination Without Cause Not in Connection with a Change-in-Control	Termination Without Cause in Connection with a Change-in-Control
Severance	$0	$0	$0	$0	$0[5]	$0[5]
Bonus	$0	$262,500[4]	$262,500[4]	$0	$0[5]	$0[5]
Qualified Retirement Plan[2]	$96,186	$96,186	$96,186	$96,186	$96,186	$96,186
Excess Plan[2]	$88,261	$88,261	$88,261	$88,261	$88,261	$88,261
Executive Cash Balance Plan[3]	$447,249	$447,249	$447,249	$0	$447,249	$447,249
Other Benefits	$0	$0	$0	$0	$0[5]	$0[5]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$0[5]
Payment of Equity	$0	$0	$0	$0	$0	$0[6]
Total Value of Payments	**$631,696**	**$894,196**	**$894,196**	**$184,447**	**$631,696**	**$631,696**

[1] Mr. Geltzeiler is not currently eligible for retirement. The amounts shown reflect a voluntary resignation.

[2] Reflects account balance as of June 30, 2007. Mr. Geltzeiler is fully vested.

[3] Reflects account balance as of June 30, 2007. Pursuant to the terms of an agreement between Mr. Geltzeiler and us dated March 20, 2007, a contribution of $240,000 was made to his Executive Cash Balance Plan account as of March 31, 2007, and he became 100% vested in his March 31, 2007 Executive Cash Balance Plan account balance. Mr. Geltzeiler would forfeit his Executive Cash Balance Plan Account if he is terminated for Cause in the future.

[4] Under the terms of our Management Incentive Plan ("MIP"), Mr. Geltzeiler would be eligible for a pro-rata bonus. The amount shown reflects Mr. Geltzeiler's actual fiscal 2007 MIP bonus award.

[5] Mr. Geltzeiler waived all rights to any future severance and other benefits under the 2001 and 2006 Income Continuation Plans, his Termination Agreement and any of our other policies or plans in exchange for a $1,200,000 payment made in March 2007 in accordance with the terms of an agreement between Mr. Geltzeiler and us dated March 20, 2007.

[6] Accelerated payments of $2,539,209 were made on March 13, 2007, in connection with the change-in-control resulting from the consummation of the Acquisition Transaction, of $463,495 for stock options, $255,000 for restricted stock, $1,259,714 for PBRSUs and $561,000 for time-based RSUs.

[7] Disability generally is defined as an illness, injury or disease, including mental or emotional illness, that prevents the employee from performing his or her occupation, or any comparable occupation for which he or she is reasonably qualified, for a period of six months. Accrual of retirement benefits would continue, and retirement payments would be made, following 30 months of Disability.

Dawn Zier, President, North American Consumer Marketing

Termination Payment	Voluntary Resignation/ Retirement [1]	Death	Disability[12]	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control[13]	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control[14]
Severance	$0	$0	$0	$0	$533,000[4]	$1,066,000[7]
Bonus	$0	$92,600[3]	$92,600[3]	$0	$193,000[5]	$193,000[8]
Qualified Retirement Plan[2]	$132,644	$132,644	$132,644	$132,644	$132,644	$132,644
Excess Plan[2]	$23,163	$23,163	$23,163	$23,163	$23,163	$23,163
Other Benefits	$0	$0	$0	$0	$47,568[6]	$60,137[9]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$604,904[10]
Payment of Equity	$0	$0	$0	$0	$0	$0[11]
Total Value of Payments	**$155,807**	**$248,407**	**$248,407**	**$155,807**	**$929,375**	**$2,079,848**

[1] Ms. Zier is not currently eligible for retirement. The amounts shown reflect a voluntary resignation.

[2] Reflects account balance as of June 30, 2007. Ms. Zier is fully vested.

[3] Under the terms of our MIP, Ms. Zier would be eligible for a pro-rata bonus. The amount shown reflects Ms. Zier’s actual fiscal 2007 MIP bonus award.

[4] Under the terms of Ms. Zier's Termination Agreement, she would receive the following payments for the one-year period following the date of termination: (a) her highest annual base salary in effect at any time during the 12-month period immediately prior to the date of termination, plus (b) the higher of (i) the highest amount paid to her under the Annual Incentive Plan during the three plan years most recently ended prior to the date of termination or (ii) her annual target bonus award, if any, under the Annual Incentive Plan for the fiscal year in which the date of termination occurs. These payments would be made in equal installments on a bi-weekly basis, commencing upon the date of termination.

[5] Under the terms of Ms. Zier's Termination Agreement, she would receive a pro-rata target bonus paid in a lump sum following the date of termination.

[6] Reflects the value of additional benefits under Ms. Zier's Termination Agreement. Ms. Zier would receive $12,568, equal to the Company-paid portion of medical, dental and life insurance benefits for the one-year severance period paid in a lump sum following the date of termination and the value of outplacement benefit of $35,000.

[7] Under the terms of our 2006 Income Continuation Plan, Ms. Zier would receive severance in an amount equal to two times her annual base salary plus a Severance Bonus Amount, paid in a lump sum. The "Severance Bonus Amount" is defined as the higher of (A) Ms. Zier’s annual target bonus under the Incentive Compensation Plan in the fiscal year in which her termination date occurs and (B) the average of the three (3) annual cash bonuses earned by Ms. Zier under the Incentive Compensation Plan during the five-year period immediately preceding the fiscal year in which her termination date occurs.

[8] Under the terms of the 2006 Income Continuation Plan, Ms. Zier would receive a pro-rata Severance Bonus Amount which, on June 30, 2007, would equal her target bonus for fiscal 2007, paid in a lump sum.

[9] Reflects the value of additional benefits under the 2006 Income Continuation Plan. Ms. Zier would receive $25,137, which equals the Company-paid portion of medical, dental and life insurance benefits for the two year severance period following the date of termination, paid in a lump sum, plus the value of outplacement benefit of $35,000.

[10] Reflects estimated gross-up payment related to the Internal Revenue Code Section 280G excise tax that would be made to tax authorities on behalf of Ms. Zier under the terms of the 2006 Income Continuation Plan.

[11] Accelerated payments of $969,953 were made on March 13, 2007 of $193,820 for stock options,

$164,322 for restricted stock, $203,811 for PBRSUs and $408,000 for time-based RSUs in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

[12] Disability is defined as set forth in footnote 7 to Mr. Geltzeiler's termination table.

[13] With respect to Ms. Zier, "Good Reason" under the 2006 Income Continuation Plan is defined as the occurrence of either of the following without her express written consent: (a) our reduction of Ms. Zier's annual base salary or annual target bonus opportunity under our MIP or SMIP, as applicable (each, as applicable, the "Annual Incentive Plan"), unless such reduction is part of and consistent with a management-wide or Company-wide cost cutting program, and then only if the percentage of such reduction is no greater than that of the other management personnel; or (b) a relocation to an office located anywhere other than within seventy-five (75) miles of Ms. Zier's current primary office, except for required travel on Company business to an extent substantially consistent with her then current business travel obligations.

[14] With respect to Ms. Zier, "Constructive Termination" under the 2006 Income Continuation Plan is defined as the occurrence of any of the following events, without the written consent of Ms. Zier: (a) the assignment of any duties inconsistent in any respect with her position, duties, responsibilities and authority immediately prior to the change-in-control, or an adverse and material change or a substantial diminution in her authority, reporting responsibilities, titles or offices as in effect immediately prior to the change-in-control, or the removal from or failure to re-elect Ms. Zier to any such position or office; provided that termination of her employment for Cause (as defined in note 13), death, Total Disability (as defined in our Long-term Disability Plan) or mandatory retirement pursuant to our retirement policy does not constitute a Constructive Termination event; (b) a reduction in Ms. Zier's base salary; (c) a reduction in Ms. Zier's target incentive opportunities under our MIP or SMIP, as applicable, or our 1994, 2002 and 2005 Key Employee Long-term Incentive Plans (the "KELTIPs"); (d) our relocation of Ms. Zier to an office located anywhere other than within seventy-five (75) miles of her primary office immediately prior to the change-in-control, except for required business travel to an extent substantially consistent with her business travel obligations immediately prior to the Change-in-control; (e) our failure to continue in effect any of our employee benefit plans or fringe benefit programs in which Ms. Zier participates that, by itself or in the aggregate, is material to a participant's total compensation and benefits, unless there shall have been instituted a replacement or substitute plan or fringe benefit program providing comparable benefits or compensation providing comparable value; (f) our failure to permit Ms. Zier to participate in any new or additional compensation, incentive, employee benefit or fringe benefit plan or program that is made generally available to our senior management, if such plan or program would be material to her total compensation and benefits.

Albert Perruzza, Senior Vice President, Global Operations & Business Redesign

Termination Payment	Voluntary Resignation/ Retirement [1]	Death	Disability[13]	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control[14]	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control[15]
Severance	$0	$0	$0	$0	$1,183,000[5]	$1,774,500[8]
Bonus	$161,700[4]	$161,700[4]	$161,700[4]	$0	$231,000[6]	$231,000[9]
Qualified Retirement Plan[2]	$1,014,918	$1,014,918	$1,014,918	$1,014,918	$1,014,918	$1,014,918
Excess Plan[2]	$508,193	$508,193	$508,193	$508,193	$508,193	$508,193
SERP[3]	$733,101	$750,000	$733,101	$733,101	$733,101	$733,101
Other Benefits	$0	$0	$0	$0	$60,154[7]	$137,621[10]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$949,895[11]
Payment of Equity	$0	$0	$0	$0	$0	$0[12]
Total Value of Payments	**$2,417,912**	**$2,434,811**	**$2,417,912**	**$2,256,212**	**$3,730,366**	**$5,349,228**

[1] Mr. Perruzza is currently eligible for retirement. The amounts shown reflect retirement.

[2] Reflects account balance as of June 30, 2007. Mr. Perruzza is fully vested.

[3] For termination other than death, the amount shown above is the present value of Mr. Perruzza's SERP benefit commencing July 1, 2007 and payable for 15 years. The SERP death benefit is a single sum payment of $750,000.

[4] Under the terms of our MIP, Mr. Perruzza would be eligible for a pro-rata bonus. The amount shown is Mr. Perruzza's actual fiscal 2007 MIP bonus award.

[5] Under the terms of Mr. Perruzza's Termination Agreement, he would receive for the two-year period following the date of termination, similar payments as those described for Ms. Zier.

[6] Under the terms of Mr. Perruzza's Termination Agreement, he would receive a pro-rata target bonus paid in a lump sum following the date of termination.

[7] Reflects the value of additional benefits under Mr. Perruzza's Termination Agreement. Mr. Perruzza would receive $25,154, equal to the Company-paid portion of medical, dental and life insurance benefits for the two year severance period paid in a lump sum following the date of termination and the value of outplacement benefit of $35,000.

[8] Under the terms of our 2001 Income Continuation Plan, Mr. Perruzza would receive severance in an amount equal to three times his annual base salary plus a Severance Bonus Amount (as defined in footnote 7 to Ms. Zier's termination table), paid in a lump sum.

[9] Under the terms of the 2001 Income Continuation Plan, Mr. Perruzza would receive a pro-rata Severance Bonus Amount which, on June 30, 2007 would equal his target bonus for fiscal 2007, paid in a lump sum.

[10] Reflects the value of additional benefits under the 2001 Income Continuation Plan. Mr. Perruzza would receive a lump sum payment of $64,890 which represents 1.5 times the contribution credit that would have been made to Mr. Perruzza's Cash Balance account (assuming he would have remained an employee for one year and that his base salary and age were the same as of the date of termination), $37,731 equal to the Company-paid portion of medical, dental and life insurance benefits for the three year severance period, paid in a lump sum following the date of termination, and the value of outplacement benefit of $35,000.

[11] Reflects estimated gross-up payment related to the Internal Revenue Code Section 280G excise tax that would be made to tax authorities on behalf of Mr. Perruzza under the terms of the 2001 Income Continuation Plan.

[12] Accelerated payments of $931,121 were made on March 13, 2007, of $198,322 for restricted stock and

$732,799 for PBRSUs in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

[13] Disability is defined as set forth in footnote 7 to Mr. Geltzeiler's termination table.

[14] With respect to Mr. Perruzza, "Good Reason" under the 2001 Income Continuation Plan has a definition similar to that defined in footnote 13 to Ms. Zier's termination table.

[15] With respect to Mr. Perruzza, "Constructive Termination" under the 2001 Income Continuation Plan has a definition similar to that defined in footnote 14 to Ms. Zier's termination table.

Eric Schrier, Former President and Chief Executive Officer[1]

Termination Payment	Voluntary Resignation/ Retirement	Death	Disability	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control
Severance	n/a	n/a	n/a	n/a	n/a	$5,082,000[2]
Bonus	n/a	n/a	n/a	n/a	n/a	$596,055[3]
Qualified Retirement Plan	n/a	n/a	n/a	n/a	n/a	$156,784[4]
Excess Plan	n/a	n/a	n/a	n/a	n/a	$213,542[5]
Executive Cash Balance Plan	n/a	n/a	n/a	n/a	n/a	$845,051[6]
Other Benefits	n/a	n/a	n/a	n/a	n/a	$535,712[7]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$3,407,864[8]
Payment of Equity	n/a	n/a	n/a	n/a	n/a	$5,956,506[9]
Total Value of Payments	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$16,793,514**

[1] Mr. Schrier's termination date was March 16, 2007, and he received benefits in accordance with the terms of our 2001 Income Continuation Plan.

[2] Under the terms of the 2001 Income Continuation Plan, Mr. Schrier received severance in an amount equal to three times his annual base salary plus a Severance Bonus Amount (as defined in footnote 7 to Ms. Zier's termination table), paid in a lump sum.

[3] Under the terms of the 2001 Income Continuation Plan, Mr. Schrier received a pro-rata Severance Bonus Amount which was equal to his pro-rata target bonus for fiscal 2007, paid in a lump sum on March 26, 2007.

[4] Reflects the account balance as of June 30, 2007. Mr. Schrier received a lump sum payment in October 2007 based on his actual account balance at that time.

[5] Reflects the Excess Plan payment that was paid to Mr. Schrier in April 2007 as a single lump sum payment.

[6] The Executive Cash Balance Plan benefit shown above represents Mr. Schrier's account balance as of June 30, 2007. The balance will be paid out in 10 annual installments beginning in January 2008. Mr. Schrier became 100% vested in March 2007 under the terms of the 2001 Income Continuation Plan.

[7] Reflects actual payments of additional benefits under the 2001 Income Continuation Plan. Mr. Schrier received a lump sum payment of $462,000 on March 26, 2007, which represents 1.5 times the contribution credits that would have been made to Mr. Schrier's Executive Cash Balance Plan account, a lump sum payment on March 26, 2007 of $38,712 equal to the Company-paid portion of medical, dental and life insurance benefits for the three year severance period; and the value of outplacement benefit of $35,000.

[8] Reflects actual gross-up payment related to the Internal Revenue Code Section 280G excise tax made to tax authorities on behalf of Mr. Schrier under the terms of the 2001 Income Continuation Plan.

[9] Reflects accelerated payments made on March 13, 2007 of $1,486,182 for stock options, $455,322 for

restricted stock, $2,997,002 for PBRSUs and $1,020,000 for time-based RSUs, in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

Thomas Gardner, Former Executive Vice President and President, International[1]

Termination Payment	Voluntary Resignation/ Retirement	Death	Disability	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control
Severance	n/a	n/a	n/a	n/a	n/a	$3,030,000[2]
Bonus	n/a	n/a	n/a	n/a	n/a	$450,000[3]
Qualified Retirement Plan	n/a	n/a	n/a	n/a	n/a	$232,486[4]
Excess Plan	n/a	n/a	n/a	n/a	n/a	$217,358[5]
Executive Cash Balance Plan	n/a	n/a	n/a	n/a	n/a	$893,298[6]
Other Benefits	n/a	n/a	n/a	n/a	n/a	$376,712[7]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$2,006,364[8]
Payment of Equity	n/a	n/a	n/a	n/a	n/a	$3,076,464[9]
Total Value of Payments	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$10,282,682**

[1] Mr. Gardner's termination date was June 30, 2007, and he received benefits in accordance with the 2001 Income Continuation Plan.

[2] Under the terms of the 2001 Income Continuation Plan, Mr. Gardner received severance in an amount equal to three times his annual base salary plus a Severance Bonus Amount (as defined in footnote 7 to Ms. Zier's termination table), paid in a lump sum.

[3] Under the terms of the 2001 Income Continuation Plan, Mr. Gardner received a pro-rata Severance Bonus Amount which was equal to his pro-rata target bonus for fiscal 2007, paid in a lump sum on July 10, 2007.

[4] Reflects the account balance as of June 30, 2007. Mr. Gardner received a lump sum payment in September 2007 based on his actual account balance at that time.

[5] Reflects the Excess Plan payment that was paid to Mr. Gardner in July 2007 as a single lump sum payment.

[6] The Executive Cash Balance Plan benefit shown above represents Mr. Gardner's account balance as of June 30, 2007. The balance will be paid out in 10 annual installments beginning in January 2008. Mr. Gardner became 100% vested in this benefit upon his termination under the 2001 Income Continuation Plan.

[7] Reflects actual payments of additional benefits under the 2001 Income Continuation Plan. Mr. Gardner received a lump sum payment of $303,000 on July 10, 2007, which represents 1.5 times the contribution credits that would have been made to Mr. Gardner's Executive Cash Balance Plan account, a lump sum payment on July 10, 2007 of $38,712 equal to the Company-paid portion of medical, dental and life insurance benefits for the three year severance, and the value of outplacement benefit of $35,000.

[8] Reflects actual gross-up payment related to the Internal Revenue Code Section 280G excise tax made to tax authorities on behalf of Mr. Gardner under the terms of the 2001 Income Continuation Plan.

[9] Reflects accelerated payments made on March 13, 2007 of $596,493 for stock options, $368,322 for restricted stock, $1,431,649 for PBRSUs and $680,000 for time-based RSUs, in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

Michael Brizel, Former Senior Vice President and General Counsel[1]

Termination Payment	Voluntary Resignation/ Retirement	Death	Disability	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control
Severance	n/a	n/a	n/a	n/a	n/a	$1,686,000[2]
Bonus	n/a	n/a	n/a	n/a	n/a	$149,397[3]
Qualified Retirement Plan	n/a	n/a	n/a	n/a	n/a	$275,216[4]
Excess Plan	n/a	n/a	n/a	n/a	n/a	$81,621[4]
Other Benefits	n/a	n/a	n/a	n/a	n/a	$123,731[5]
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$969,231[6]
Payment of Equity	n/a	n/a	n/a	n/a	n/a	$1.348.609[7]
Total Value of Payments	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$4,633,805**

[1] Mr. Brizel's termination date was March 23, 2007, and he received benefits in accordance with the 2001 Income Continuation Plan.

[2] Under the terms of the 2001 Income Continuation Plan, Mr. Brizel received severance in an amount equal to three times his annual base salary plus a Severance Bonus Amount (as defined in footnote 7 to Ms. Zier's termination table), paid in a lump sum.

[3] Under the terms of the 2001 Income Continuation Plan, Mr. Brizel received a pro-rata Severance Bonus Amount which was equal to his pro-rata target bonus for the fiscal 2007, paid in a lump sum on April 2, 2007.

[4] Reflects the Qualified Retirement Plan and Excess Plan payments that were paid to Mr. Brizel in June 2007 in separate lump sum payments.

[5] Reflects actual payments of additional benefits under the 2001 Income Continuation Plan. Mr. Brizel received a lump sum payment of $51,000 on April 2, 2007, which represents 1.5 times the credit that would have been made to Mr. Brizel's Cash Balance account, a lump sum payment on April 2, 2007 of $37,731 equal to the Company-paid portion of medical, dental and life insurance benefits for the three year severance period, and the value of outplacement benefit of $35,000.

[6] Reflects actual gross-up payment related to the Internal Revenue Code Section 280G excise tax made to tax authorities on behalf of Mr. Brizel under the terms of the 2001 Income Continuation Plan.

[7] Reflects accelerated payments made on March 13, 2007 of $214,013 for stock options, $147,339 for restricted stock, $579, 258 for PBRSUs and $408,000 for time-based RSUs, in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

Thomas Ryder, Former Chairman[1]

Termination Payment	Voluntary Resignation/ Retirement	Death	Disability	Termination for Cause	Termination Without Cause or for Good Reason Not in Connection with a Change-in-Control	Termination Without Cause or Constructive Termination in Connection with a Change-in-Control
Severance	n/a	n/a	n/a	n/a	n/a	$4,000,000[2]
Bonus	n/a	n/a	n/a	n/a	n/a	$255,000[3]
Qualified Retirement Plan	n/a	n/a	n/a	n/a	n/a	$251,270[4]
Excess Plan	n/a	n/a	n/a	n/a	n/a	$792,569[5]
Executive Retirement Plan	n/a	n/a	n/a	n/a	n/a	$5,952,439[6]
Other Benefits	n/a	n/a	n/a	n/a	n/a	$0
Gross-Up on Excise Taxes	n/a	n/a	n/a	n/a	n/a	$0
Payment of Equity	n/a	n/a	n/a	n/a	n/a	$4,052,214[7]
Total Value of Payments	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**$15,303,492**

[1] Mr. Ryder's termination date was March 2, 2007 and he received benefits in accordance with the Third Amendment to his Employment Agreement dated November 15, 2006. The Third Amendment provided that changes in the terms of Mr. Ryder's employment related to changes in employment status will not constitute "Good Reason" or termination without "Cause" under that Employment Agreement. The Third Amendment specified the following compensation and benefits for Mr. Ryder:

- Base Salary - $5,000 per month;
- Annual Incentive Compensation - Fiscal 2007 target opportunity of $500,000, (for the first six months of fiscal 2007, i.e. through December 31, 2006);
- Other Incentive Compensation - Mr. Ryder is not eligible for new incentive awards, annual, long-term or otherwise, provided, however, that he will continue to vest in any outstanding awards during his employment term;
- Severance Payment - $4,000,000 if a change-in-control of RDA occurs prior to June 30, 2007; conditioned upon Mr. Ryder's executing a release of claims against us;
- Benefits - Continuation of current health and welfare benefits through the employment term. Mr. Ryder will be entitled to receive his retirement benefits, as provided in his employment agreement.

[2] Under the terms of the Third Amendment to Mr. Ryder's Employment Agreement, he received a lump sum severance payment of $4,000,000 on September 4, 2007.

[3] Under the terms of the Third Amendment to Mr. Ryder's Employment Agreement, he was eligible for an annual bonus payment under the MIP. Mr. Ryder received a lump sum payment of $255,000 on August 31, 2007 based on the overall corporate results for fiscal 2007.

[4] Reflects the Qualified Retirement Plan benefit that was paid to Mr. Ryder in June 2007 as a single lump sum payment.

[5] Reflects the Excess Plan benefit that was paid to Mr. Ryder in October 2007 as a lump sum payment.

[6] Amount shown represents the present value of Mr. Ryder's retirement benefit, which was paid in October 2007 as a 50% Joint & Survivor annuity of $497,781 per year. Mr. Ryder also received a one-time payment of $252,335 representing annuity payments retroactive to April 2007.

[7] Reflects accelerated payments made on March 13, 2007 of $4,052,214 for PBRSUs, in connection with the change-in-control resulting from the consummation of the Acquisition Transaction.

Director Compensation

Upon consummation of the Acquisition Transaction, all of our directors then in office resigned from the Board and were replaced by seven directors who are appointed by the Sponsors. In March 2007, our new Chief Executive Officer, Mary G. Berner, joined the Board.

The general policy of the Board prior to the consummation of the Acquisition Transaction was that compensation program for non-employee directors should be composed of a mix of cash and equity-based compensation. We do not pay employee directors for Board service in addition to their regular employee compensation. Our director compensation program is administered on a calendar year basis, and therefore fiscal 2007 director compensation represents one-half of calendar year 2006 compensation and one-half of calendar year 2007 compensation. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation. The Board reviews the Compensation Committee's recommendations and determines the amount of director compensation.

During calendar year 2006, the directors were compensated pursuant to the following schedule:

Annual Retainer …………………………………………….	$18,000 (for Directors whose term began prior to April 1, 1998)
	$40,000 (for Directors whose term began on or after April 1, 1998)
Committee Chairman fee per year:	
1. Audit Committee Chair ………………………………..	$20,000
2. All other Committee Chairs ……………………………	$15,000
Audit Committee Member fee per year …………………….	$10,000
Other Committee Member fee per year (excluding Audit and Corporate Governance Committees) …………………..	$5,000
Common Stock per year ……………………………………	Equivalent to $20,000
Deferred Common Stock[1] ………………………………….	Equivalent to $50,000 (for Directors whose term began prior to April 1, 1998)
	Equivalent to $60,000 (for Directors whose term began on or after April 1, 1998)

[1] Deferred Common Stock is the right to receive shares of our common stock on the first trading day of the calendar year after termination of the Director's service on the Board or in annual installments thereafter, as elected by the Director.

In addition, each individual who became a non-employee Director prior to April 1, 1998 and who serves as a non-employee Director for more than five years will, upon retirement from the Board, continue to receive annual compensation in the amount of $32,000.

Under our Deferred Compensation Plan for Non-Employee Directors, non-employee Directors are eligible to defer payment of 50%, 75% or 100% of their cash, stock and deferred stock compensation for certain established deferral periods. Deferred cash compensation is credited to an unfunded account for each participant, on which interest accrues at a rate determined by a committee of Directors. Payment of the deferred cash amounts or deferred stock will be made, at the election of the participant, in a lump sum or in annual installments of from one to 10 years. We expect to amend the plan as appropriate to comply with Section 409A of the Internal Revenue Code.

Effective as of February 12, 2007, our director compensation program was amended to provide that, with respect to the first calendar quarter of 2007, (A) all non-employee directors whose term began prior to April 1, 1998, would receive a grant of shares of common stock valued at $17,500, and (B) all non-employee directors whose term began after April 1, 1998, would receive a grant of shares of common stock valued at $20,000. In addition, for the 2007 calendar year, we did not make grants of deferred stock to our non-employee directors.

Effective upon the consummation of the Acquisition Transaction, all prior Director compensation arrangements were terminated. Commencing March 2, 2007, our Directors are no longer compensated for their services as members of our Board of Directors, except that each of Messrs. Knight and Lack (1) are entitled to an annual cash retainer of $100,000, payable quarterly in arrears, and (2) received an initial grant of options to acquire 50,000 shares of RDA Holding Co. common stock, at an exercise price of $10 per share, with such options to vest as to 12,500 shares on each of the first four anniversaries of March 2, 2007, subject to their continued services as our directors as of the vesting date. We do not pay director fees to our employee directors, who currently consist of Mary A. Berner.

The following table shows the total compensation paid to our non-employee directors in fiscal 2007.

Director Summary Compensation

Pre-Acquisition Transaction Directors

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Jonathan B. Bulkeley	45,000	59,5779[(2)(3)]	0	0	0	0	104,577
Herman Cain	33,750	59,577[(2)(3)]	0	0	0	0	93,327
Lee Caudill	33,750	59,577[(2)(4)]	0	0	0	0	93,327
Walter Isaacson	33,750	59,577[(2)(3)]	0	0	0	0	93,327
William E. Mayer	37,500	59,577[(2)(3)]	0	0	0	100,000[(6)]	197,077
John T. Reid	37,500	59,577[(2)(3)]	0	0	0	0	97,077
Lawrence R. Ricciardi	47,500	59,577[(2)(3)]	0	0	0	100,000[(6)]	207,077
William J. White	32,250	52,130[(2)(5)]	0	0	0[(7)]	8,000	92,380
Ed Zschau	43,750	59,577[(2)(3)]	0	0	0	0	103,327

[1] Represents the total cash delivered or earned by each Director in fiscal 2007. Since our director

compensation program is administered on a calendar year basis, the fiscal 2007 fees earned represent one-half of the calendar year 2006 annual cash retainer and any other chairperson/committee member fees (paid quarterly), as well as the cash retainer and any other chairperson/committee member fees paid in calendar year 2007. Each of these individuals ceased to be a member of our Board of Directors in March 2007 following the consummation of the Acquisition Transaction.

[2] Represents the total stock expense accrued in fiscal 2007. Since our director compensation program is administered on a calendar year basis, the fiscal 2007 expense consists of one half of the calendar year 2006 stock grant expense (granted on January 3, 2006) and one half of the calendar year deferred stock grant expense (granted on January 3, 2006) for each Director, as well as the accelerated expense accrued related to the calendar year 2007 stock grant (granted in February 2007).

[3] Reflects expense recognized relating to 50% of the 2006 calendar year stock grant (1,300 shares granted on 1/3/2006), 50% of the 2006 calendar year deferred stock grant (3,900 shares granted on 1/3/2006), and 100% of the 2007 calendar year stock grant (1,200 shares granted on 2/13/2007).

[4] Reflects expense recognized relating to 50% of the 2006 calendar year deferred stock grant (5,200 shares granted on 1/3/2006), and 100% of the 2007 calendar year stock grant (1,200 shares granted on 2/13/2007).

[5] Reflects expense recognized relating to 50% of the 2006 calendar year stock grant (1,300 shares granted on 1/3/2006), 50% of the 2006 calendar year deferred stock grant (3,250 shares granted on 1/3/2006), and 100% of the 2007 calendar year stock grant (1,050 shares granted on 2/13/2007).

[6] Reflects a cash award approved by our Board of Directors on November 15, 2006, as compensation for the devotion of significant time and the provision of significant services in connection with the evaluation of the Acquisition Transaction and other potential business combinations, and the negotiation of the RDA Merger Agreement and related documents.

[7] The change in the present value of Mr. White's pension benefit is ($7,946).

Post-Acquisition Transaction Directors

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Timothy C. Collins	0	0	0	0	0	0	0
Harvey Golub	0	0	0	0	0	0	0
Andrew S. B. Knight	33,333	0	0	0	0	0	33,333
Andrew R. Lack	33,333	0	0	0	0	0	33,333
Eric Schrier	0	0	0	0	0	0	0
Stephen T. Shapiro	0	0	0	0	0	0	0
Harris Williams	0	0	0	0	0	0	0

Compensation Committee Interlocks and Insider Participation

Our Compensation Committee is currently comprised of Messrs. Collins, Golub and Lack, who were each appointed to the Compensation Committee in May 2007 in connection with the Acquisition Transaction. None of these individuals has been at any time an officer or employee of our Company. During 2007, we had no compensation committee "interlocks"—meaning that it was not the case that an executive officer of ours served as a director or member of the compensation committee of another entity and an executive officer of the other entity served as a director or member of our Compensation Committee.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

There are no compensation plans under which our common stock is authorized for issuance. The following table contains certain information as of June 30, 2007 with respect to our 2007 Management Incentive Plan under which shares of common stock in RDA Holding Co. are authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price Of Outstanding Options, Warrants And Rights	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected In Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	0	0	0
Equity compensation plans not approved by security holders	0	0	0
Total	0	0	0

Security Ownership of Certain Beneficial Owners and Management

All of our outstanding common stock is directly owned by RDA Holding Co., and no other person has a direct beneficial ownership interest in our common stock The following table presents information regarding beneficial ownership of the equity securities of RDA Holding Co. as of June 30, 2007 by each person who is known by us to beneficially own more than 5% of the equity securities of RDA Holding Co., by each of our directors, by each of the Named Executive Officers, and by all of our directors and executive officers as a group. The percentage of beneficial ownership for these stockholders is calculated based on 59,640,620 shares of common stock of RDA Holding Co. outstanding as of June 30, 2007. Other than beneficial ownership information relating to our executive officers, the beneficial ownership information set forth below was provided by or on behalf of our directors and our Sponsors, and we have not independently verified the accuracy or completeness of the information so provided. Notwithstanding the beneficial ownership of the common stock of RDA Holding Co. presented below, the Stockholders' Agreement of RDA Holding Co. governs the exercise of our stockholders' voting and other rights. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE − Stockholders' Agreement.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Principal Stockholders		
Affiliates of Ripplewood Holdings L.L.C.(2)	59,640,620	100
C.V. Starr & Co., Inc.(3)	4,000,000	6.7
Golden Tree Asset Management, LP and related funds(4)	7,000,000	11.7
J. Rothschild Group (Guernsey) Ltd.(5)	6,000,000	10.1
Current Directors		
Mary G. Berner, Chief Executive Officer and Director	0	−
Timothy C. Collins, Director(6)	0	−
Harvey Golub, Chairman of the Board(7)	0	−
Andrew S. B. Knight, Director(5)	0	−
Andrew R. Lack, Director	0	−
Eric Schrier, Director	0	−
Stephen T. Shapiro, Director and Former Executive Officer(4)	0	−
Harris Williams, Director(8)	0	−
Named Executive Officers Who Are Not Directors(9)		
Michael Geltzeiler, President, School of Educational Services	0	−
Thomas Gardner, Former Executive Officer	0	−
Dawn Zier, President, North American Consumer Marketing	0	−
Albert Perruzza, SVP Global Operations & Business Redesign	0	−
Thomas Ryder, Former Executive Officer	0	−
Michael Brizel, Former Executive Officer	0	−
All directors and executive officers as a group (24 persons)(6)(7)(8)(10)	0	−

(1) Except as otherwise noted below, we believe that all shares are owned beneficially by the individual listed with sole voting and/or investment power. Pursuant to Rule 13d−3 under the Securities Exchange Act of 1934, as amended, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. The percentage of beneficial ownership by a person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days. Unless otherwise indicated, the number of shares shown includes outstanding shares of common stock owned as of June 30, 2007 by the person indicated. There are no outstanding rights to acquire securities or voting and/or investment power.

(2) Includes (i) 10,827,681 shares of common stock of RDA Holding Co. held by RDA Investors I, LLC, whose sole member is Ripplewood Partners II, L.P.; (ii) 5,962,419 shares of common stock of RDA Holding Co. held by RDA Investors II, LLC, whose manager is Ripplewood Partners II GP, L.P.; (iii) 6,200,100 shares of common stock of RDA Holding Co. held by RDA Investors III, LLC, whose manager is Ripplewood Partners II GP, L.P.; (iv) 3,546,468 shares of common stock of RDA Holding Co. held by LVC Acquisition, L.L.C., whose sole member is Ripplewood Partners II, L.P.; (v) 1,464,946 shares of common stock of RDA Holding Co. held by LVC Acquisition II, L.L.C., whose members are Ripplewood Partners II Parallel Fund, L.P., Ripplewood Partners II Offshore Parallel Fund, L.P., and RP II RHJ Co-Investment Fund, L.P.; and (vi) 4,928,896 shares of common stock of RDA Holding Co. held by EAC III, L.L.C., whose managing member is EAC IV, L.L.C. The amounts listed above in this note represent in the aggregate 55.3% of the shares of common stock of RDA Holding Co. In addition, pursuant to the Stockholders' Agreement of RDA Holding Co., Ripplewood has the power to vote the common stock of all of the other stockholders of RDA Holding Co. under certain circumstances, including the remaining 44.7% of the shares of common stock of RDA Holding Co. not held by the affiliates of Ripplewood listed above. See "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE − Stockholders' Agreement." Thus, pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, Ripplewood may be deemed to beneficially own 100% of the common stock of RDA Holding Co. Messrs. Collins and Golub may be deemed to share beneficial ownership of any shares beneficially owned or deemed to be beneficially owned by Ripplewood, but expressly disclaim all such beneficial ownership. Mr. Williams is a Managing Director of Ripplewood, but does not have investment or voting control over the shares beneficially owned by Ripplewood. For a description of

material relationships between Ripplewood and us over the last three years, see "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE." The address of each of the Ripplewood investment funds is c/o Ripplewood Holdings, LLC, 1 Rockefeller Plaza, 32nd Floor, New York, NY 10020.

(3) The address of C.V. Starr & Co., Inc. is 399 Park Avenue, New York, NY 10022.

(4) Mr. Shapiro, our director, is a founding partner and a director of GoldenTree Asset Management, LP. The beneficial ownership of GoldenTree Asset Management, LP includes (i) 3,885,935 shares of common stock of RDA Holding Co. held by GoldenTree Master Fund, Ltd., for whom investment and voting decisions are made by GoldenTree Asset Management, LP; (ii) 949,360 shares of common stock of RDA Holding Co. held by GoldenTree Master Fund II, Ltd., for whom investment and voting decisions are made by GoldenTree Asset Management, LP; (iii) 203,940 shares of common stock of RDA Holding Co. held by Citi GoldenTree, Ltd., for whom investment and voting decisions are made by GoldenTree Asset Management, LP; (iv) 151,665 shares of common stock of RDA Holding Co. held by GPC LVII, LLC, for whom investment and voting decisions are made by GoldenTree Asset Management, LP; (v) 950,175 shares of common stock of RDA Holding Co. held by GoldenTree Credit Opportunities Financing I, Ltd., for whom investment and voting decisions are made by GoldenTree Asset Management, LP; (vi) 702,100 shares of common stock of RDA Holding Co. held by GoldenTree MultiStrategy Financing, Ltd., for whom investment and voting decisions are made by GoldenTree Asset Management, LP; and (vii) 156,825 shares of common stock of RDA Holding Co. held by GoldenTree European Select Opportunities Master, LP, for whom investment and voting decisions are made by GoldenTree Asset Management UK LLP. The address of each of the GoldenTree investment funds is c/o GoldenTree Asset Management, LP 300 Park Avenue, 21st Floor, New York, NY 10022.

(5) Mr. Knight, our director, is a director of J. Rothschild Group (Guernsey) Ltd. The address of J. Rothschild Group (Guernsey) Ltd. is 15 St. James' Place, London, SW1A 1NP, England.

(6) Mr. Collins, our director, is the Founder, CEO and Senior Managing Director of Ripplewood. Amounts disclosed for Mr. Collins do not include the amounts disclosed in the table next to "Affiliates of Ripplewood Holdings L.L.C." Mr. Collins expressly disclaims beneficial ownership of any shares of common stock owned directly or indirectly by the Ripplewood investment funds.

(7) Mr. Golub, our Chairman of the Board, is the Executive Chairman of Ripplewood. Amounts disclosed for Mr. Golub do not include the amounts disclosed in the table next to "Affiliates of Ripplewood Holdings L.L.C." Mr. Golub expressly disclaims beneficial ownership of any shares of common stock owned directly or indirectly by the Ripplewood investment funds.

(8) Mr. Williams, our director, is a Managing Director of Ripplewood. Amounts disclosed for Mr. Williams do not include the amounts disclosed in the table next to "Affiliates of Ripplewood Holdings L.L.C." Mr. Williams expressly disclaims beneficial ownership of any shares of common stock owned directly or indirectly by the Ripplewood investment funds.

(9) Unless otherwise indicated, the beneficial ownership of any named person does not exceed, in the aggregate, one percent of the outstanding equity securities of RDA Holding Co. on June 30, 2007.

(10) Excluding shares beneficially owned by Messrs. Collins, Golub and Williams, there were no shares of RDA Holding Co. common stock beneficially owned by all 24 directors and officers as a group. See notes (6), (7) and (8).

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review and Approval of Related Party Transactions

Pursuant to our Ethical, Legal and Business Conduct Policies, our employees (including our Named Executive Officers) who have any financial interests in other entities where such involvement is or may appear to cause a conflict of interest situation are required to report to us the conflict. If the conflict is considered material, the situation will be reviewed by the Audit Committee to determine whether a conflict exists or will exist, and if so, what action should be taken to resolve the conflict or potential conflict. We do not have any written standards for approving related party transactions.

Relationship with Ripplewood

The Sponsors beneficially own 100% of our common equity. We entered into the following agreements with affiliates of Ripplewood:

Stockholders' Agreement

On January 23, 2007, RDA Holding Co. entered into a Stockholders' Agreement with RDA Investors I, LLC, RDA Investors II, LLC, RDA Investors III LLC (together with RDA Investors I, LLC and RDA Investors II, LLC, the "Ripplewood Funds" or "Ripplewood"), J. Rothschild Group (Guernsey) Ltd., GoldenTree Asset Management, LP. and the other stockholders of RDA Holding Co. The Stockholders' Agreement contains, among other items:

- restrictions on the transfer of shares of common stock by any stockholder without Ripplewood's consent;
- rights of first offer granted to Ripplewood to purchase our common stock, which any stockholder proposes to transfer, at the price and under all other material terms and conditions on which that stockholder first proposed to transfer its common stock;
- preemptive rights granted to the stockholders to purchase equity securities issued by RDA Holding Co. or its affiliates in the amounts required to maintain their percentage ownership;
- rights of the stockholders to participate in certain transfers of common stock by any stockholder;
- rights of the stockholders to receive financial information; and
- rights of Ripplewood to vote by irrevocable proxy all stockholder common stock (other than in connection with certain significant corporate actions or affiliate transactions).

In addition, under the terms of the Stockholders' Agreement, Ripplewood sets the size of our board of directors as it deems appropriate, and is entitled to propose the appointment of all of our directors, including the Chairman of the Board and independent directors. Ripplewood has agreed that one director shall be designated by J. Rothschild Group (Guernsey) Ltd. and one director shall be designated by Golden Tree Asset Management, LP, subject to continuing stock ownership requirements. The Stockholders' Agreement requires that at least one director be "independent" for purposes of Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended. Each party to the Stockholders' Agreement agrees to take all action necessary to effect the appointment to the board of each director appointee of Ripplewood.

Management Services Agreement

On January 23, 2007, in connection with the Acquisition Transaction, we entered into a management services agreement (the "Management Services Agreement") with RDA Holding Co., and the Ripplewood Funds, J. Rothschild Group (Guernsey) Ltd., and GoldenTree Asset Management, LP, pursuant to which the Ripplewood Funds, J. Rothschild Group (Guernsey) Ltd., and GoldenTree Asset Management, LP (together the "Service Providers"), will be entitled to receive a management fee of $7.5 million (the "Management Fee") paid quarterly each January 1, April 1, July 1 and October 1, commencing April 1, 2007, paid pro rata in accordance with the percentage listed for each Service Provider in the management services agreement.

The Management Services Agreement has a term of seven years. Upon a public offering of RDA Holding Co. or a change of control of RDA Holding Co., the Management Services Agreement will terminate, and the Service Providers will be entitled to the net present value of the remaining payments under the Management Services Agreement. In addition to the Management Fee, RDA Holding Co. will pay (or cause us to pay) directly, or reimburse, the Service Providers for their out-of-pocket expenses, which include reasonable out-of-pocket costs and expenses incurred by the Service Providers in connection with the services rendered under the Management Services Agreement.

The Management Services Agreement also provides that, to the extent that RDA Holding Co. requests services other than management services from a Service Provider, RDA Holding Co. and such Service Provider may negotiate mutually agreed upon fees and expenses to be paid by RDA Holding Co. for such other services, and such other services will be deemed to be provided under the Management Services Agreement. The Management Services Agreement will include customary exculpatory and indemnification provisions in favor of the Service Providers.

During the fiscal year ended June 30, 2007, we incurred management fees of $2.5 million from the Service Providers under the Management Services Agreement.

Transaction Fee Agreement

Upon consummation of the Acquisition Transaction on March 2, 2007, RDA Holding Co. entered into a transaction fee agreement with Ripplewood pursuant to which Ripplewood received an aggregate transaction fee of $25.0 million in cash.

PIK preferred stock

In connection with the Acquisition Transaction, certain of the Sponsors also acquired preferred stock in our parent company, RDA Holding Co.   RDA Holding Co. was the issuer of these securities.

The WRC Media and Direct Holdings Acquisitions

As discussed under “BUSINESS – The Acquisition Transactions” above, concurrent with the closing of Acquisition Transaction on March 2, 2007, RDA Holding Co. contributed all of the outstanding shares of WRC Media and Direct Holdings to us.

Director Independence

We are not a listed issuer, but have evaluated the independence of our Board of Directors and committee members using the independence standards of the New York Stock Exchange. Our Board has determined that Timothy C. Collins, Harvey Golub, Andrew Knight, Andrew Lack, Steven T. Shapiro and Harris Williams are independent directors within the meaning of the rules of the New York Stock Exchange.

Messrs. Knight, Lack, Shapiro and Williams are members of our Audit Committee. Messrs. Shapiro and Williams are not independent for purposes of Audit Committee membership within the meaning of the rules of the New York Stock Exchange because of their affiliations with the Sponsors.

PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees and Expenses

The table below presents fees for professional audit services rendered by Ernst &Young LLP, our independent auditor, incurred to audit our fiscal 2007 combined consolidated financial statements and the fees for other services rendered by Ernst & Young LLP. The table below also presents audit fees incurred by KPMG LLP to audit the combined financial statements of WRC Media and Direct Holdings for the years then ended June 30, 2006 and 2005 that are contained in this Annual Report.

Professional fees for the separate fiscal 2006 and fiscal 2005 audits of Direct Holdings and WRC Media that were performed by KPMG LLP and Grant Thornton LLP, respectively, are not included in the table. In addition, because the combined financial statements of WRC Media and Direct Holdings for the years ended June 30, 2006 and 2005 do not include the operating results of The Readers' Digest Association, Inc. and subsidiaries for such periods, the Ernst & Young LLP professional fees for fiscal 2006 have not been disclosed.

	June 30, 2007
Audit Fees – Ernst & Young LLP (1)	$ 6.4
Audit Fees – KPMG LLP	2.5
Audit-Related Fees(2)	0.7
Tax Fees(3)	1.9
Total Fees	$ 11.5

(1) Audit Fees include all services performed to comply with generally accepted auditing standards and services that generally only the Independent Accountants can provide. These fees include audit services, and as required, various subsidiaries, quarterly reviews, statutory audits, actuarial and attest services required by applicable law.

(2) Audit Related Fees include assurance and related services rendered by Ernst & Young for the audit of our U.S. defined pension plan, our 401(k) plan and accounting consultations and comfort letters in connection with the Acquisition Transaction.

(3) Tax Fees include all services performed by professional staff in the Independent Accountants' tax division for tax consultation and compliance services, except for those services related to the audit.

Pre-Approval Policies and Procedures

Pursuant to its charter, the Audit Committee pre-approves all audit and permissible non-audit services provided by our independent auditor, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, all of which are approved by the Audit Committee prior to the completion of the audit. These services may include audit services, audit-related services, tax services and other services. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis.

The Audit Committee has adopted a formal policy for the pre-approval of services provided by its independent auditors. Under the policy, pre-approval is detailed as to the particular service or category of services to be provided. The Audit Committee may delegate pre-approval authority to one or more of its members. Such member or members must report any decision to the Audit Committee at its next scheduled meeting.

PART IV

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents in (a)(1) and (a)(2) are included in this Annual Report:

(1) Financial Statements

See Index to Consolidated Financial Statements on Page F-1 of this Annual Report.

(2) Financial Statement Schedules

None.

(3) Exhibits

2.1	Agreement and Plan of Merger dated November 16, 2006 among The Reader's Digest Association, Inc., RDA Holding Co. and Doctor Acquisition Co. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 1-10434) dated November 16, 2006, and incorporated by reference herein).
3.1	Certificate of Incorporation of The Reader's Digest Association, Inc., effective March 2, 2007 (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 1-10434) dated March 8, 2007, and incorporated by reference herein).
3.2	Amended and Restated By-Laws of The Reader's Digest Association, Inc., effective May 22, 2007 (filed as an Exhibit to the Company's Current Report dated June 11, 2007, and incorporated by reference herein).
4.1	Indenture dated as of March 2, 2007 among The Reader's Digest Association, Inc., the Guarantors named therein and The Bank of New York, as Trustee, relating to The Reader's Digest Association, Inc.'s 9% Senior Subordinated Notes due 2017 (filed as Exhibit 4.1 to the Company's Quarterly Report for the period ended March 31, 2007, and incorporated by reference herein).
4.2	Registration Rights Agreement dated as of March 2, 2007 by and among The Reader's Digest Association, Inc., the guarantors listed therein, and J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Greenwich CapitalMarkets, Inc. as the Initial Purchasers of The Reader's Digest Association, Inc.'s 9% Senior Subordinated Notes due 2017 (filed as Exhibit 10.2 to the Company's Quarterly Report for the period ended March 31, 2007, and incorporated by reference herein).
10.1	Credit Agreement dated as of March 2, 2007 among Doctor Acquisition Co., RDA Holding Co., The Reader's Digest Association, Inc. and the Overseas Borrowers, the Lenders, the Administrative Agent, the Co-Syndication Agents and the Documentation Agent party thereto (filed as Exhibit 10.1 to the Company's Quarterly Report for the period ended March 31, 2007, and incorporated by reference herein).
10.3	The Reader's Digest Association, Inc. Management Incentive Compensation Plan (Amendment and Restatement as of July 1, 1994), filed as Exhibit 10.1 to our Annual Report on Form 10-K for the year ended June 30, 1994, is incorporated herein by reference.
10.4	Amendment No. 1 to The Reader's Digest Association, Inc. Management Incentive Compensation Plan (effective as of April 11, 1996) filed as Exhibit 10.1.1 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, is incorporated herein by reference.
10.5	The Reader's Digest Association, Inc. Deferred Compensation Plan (Amendment and Restatement as of July 8, 1994) filed as Exhibit 10.4 to our Annual Report on Form 10-K for the year ended June 30, 1994, is incorporated herein by reference.
10.6	Excess Benefit Retirement Plan of The Reader's Digest Association, Inc. (Amendment and

	Restatement as of July 1, 1994), filed as Exhibit 10.7 to our Annual Report on Form 10-K for the year ended June 30, 1994, is incorporated herein by reference.
10.7	The Reader's Digest 1992 Executive Retirement Plan (Amendment and Restatement as of October 10, 1996), filed as Exhibit 10.12 to our Annual Report on Form 10-K for the year ended June 30, 1997, is incorporated herein by reference.
10.8	The Reader's Digest Association, Inc. Deferred Compensation Plan for Directors, amended and restated as of January 1, 2003 filed as Exhibit 10.10 to our Annual Report on Form 10-K for the year ended June 30, 2003, is incorporated herein by reference.
10.9	The Reader's Digest Association, Inc. 2001 Income Continuation Plan for Senior Management, filed as Exhibit 10.21 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001, is incorporated herein by reference.
10.10	The Reader's Digest Association, Inc. Senior Management Incentive Plan, filed as Exhibit 10.27 to our Annual Report on Form 10-K for the year ended June 30, 1999, is incorporated herein by reference.
10.11	Assurance of Voluntary Compliance or Discontinuance dated February 26, 2001, by and among the State Attorneys General and the registrant, filed as Exhibit 99.2 to our Current Report on Form 8-K dated March 9, 2001, is incorporated herein by reference.
10.12	Form of Indemnification Agreement between The Reader's Digest Association, Inc. and individual directors and Named Executive Officers of The Reader's Digest Association, Inc., filed as Exhibit 10.27 to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, is incorporated herein by reference.
10.13	FlexNet Program summary description filed as Exhibit 10.28 to our Annual Report on Form 10-K for the year ended June 30, 2003, is incorporated herein by reference.
10.14	Amended and Restated Sale Purchase Agreement between The Reader's Digest Association, Inc. and GAP III Properties LLC and Summit Development, LLC dated as of November 18, 2004, but effective as of September 10, 2004, filed as Exhibit 10.35 to our Current Report on Form 8-K dated November 18, 2004, is incorporated herein by reference.
10.15	Contribution Agreement dated as of March 2, 2007, by and between RDA Holding Co., a Delaware Company, and The Reader's Association, Inc., a Delaware corporation (filed as Exhibit 10.3 to the Company's Quarterly Report for the period ended March 31, 2007, and incorporated by reference herein).
21.1*	List of Subsidiaries.

* Filed or furnished herewith.

INDEX TO COMBINED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

Report of Independent Auditor

The Stockholders and Board of Directors
The Reader's Digest Association, Inc.

We have audited the accompanying consolidated balance sheet of The Reader's Digest Association, Inc. and subsidiaries as of June 30, 2007, and the related combined consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, of the corporations listed in Note 1. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Reader's Digest Association, Inc. and subsidiaries at June 30, 2007, and the combined consolidated results of their operations and their cash flows for the year ended June 30, 2007, of the corporations listed in Note 1, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
December 12, 2007

<u>Independent Auditors' Report</u>

The Board of Directors
WRC Media Inc.:

We have audited the accompanying combined balance sheet of WRC Media Inc. and subsidiaries ("the Company") as of June 30, 2006, and the related combined statements of operations, changes in stockholders' deficit, and cash flows for the years ended June 30, 2006 and 2005. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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 audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of WRC Media Inc. and subsidiaries as of June 30, 2006, and the results of its operations and its cash flows for the years ended June 30, 2006 and 2005 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

New York, New York
December 11, 2007

Combined Consolidated Statements of Operations for the Year Ended June 30, 2007 and Combined Statements of Operations for the Years Ended June 30, 2006 and 2005

In millions	Years ended June 30, 2007	2006	2005
Revenues	$ 1,076.4	$ 394.1	$ 442.5
Product, distribution and editorial expenses	(496.8)	(180.3)	(192.6)
Promotion, marketing and administrative expenses	(578.9)	(212.4)	(245.2)
Goodwill and intangible asset impairment	---	---	(70.1)
Other operating items, net	(36.2)	(14.5)	(20.6)
Operating loss	(35.5)	(13.1)	(86.0)
Interest expense, including amortization of deferred financing costs of $(6.5), $(8.8) and $(2.3), respectively	(78.9)	(25.2)	(58.7)
Gain on recapitalization at WRC Media, Inc.	18.5	38.0	---
Other (expense) income, net	0.5	(0.2)	0.1
Loss before (provision) benefit for income taxes, discontinued operations and extraordinary item	(95.4)	(0.5)	(144.6)
Income tax benefit (provision)	4.7	(2.5)	51.9
Loss from continuing operations	(90.7)	(3.0)	(92.7)
Income from discontinued operations			
WRC Media Inc. (including gain on sale of subsidiary of $92.2 net of taxes of $(39.2) in fiscal 2006)	---	55.1	8.4
Direct Holdings U.S. Corp.	---	---	8.5
Extraordinary gain from release of purchase contingency at Direct Holdings U.S. Corp.	---	7.3	---
Net (loss) income	$ (90.7)	$ 59.4	$ (75.8)

See accompanying Notes to Combined Consolidated and Combined Financial Statements.

Consolidated Balance Sheet as of June 30, 2007 and Combined Balance Sheet as of June 30, 2006

In millions, except share data	At June 30, 2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 50.2	$ 7.5
Accounts receivable, net	326.0	35.5
Inventories	188.1	24.6
Prepaid and deferred promotion costs	61.4	3.5
Prepaid expenses and other current assets	164.9	19.7
Total current assets	790.6	90.8
Property, plant and equipment, net	117.7	24.6
Goodwill	1,844.3	63.3
Other intangible assets, net	1,090.7	15.3
Prepaid pension assets	336.5	---
Other noncurrent assets	218.8	5.2
Total assets	$ 4,398.6	$ 199.2
Liabilities and stockholders' equity		
Current liabilities		
Short-term debt	$ 13.1	$ 164.9
Accounts payable	238.2	25.9
Accrued expenses	320.6	65.4
Income taxes payable	22.7	0.6
Unearned revenues	311.9	25.5
Other current liabilities	11.3	1.9
Total current liabilities	917.8	284.2
Long-term debt	1,981.4	17.9
Unearned revenues	102.2	1.7
Accrued pension	112.9	---
Postretirement and postemployment benefits other than pensions	61.1	---
Other noncurrent liabilities	536.7	10.5
Total liabilities	$ 3,712.1	$ 314.3
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock	20.7	---
Common stock (par value $1.00 per share, authorized and issued 1,000 shares at June 30, 2007; par value $0.01, authorized 400,300,000 shares on a combined basis, 309,380,484 issued and outstanding on a combined basis at June 30, 2006)	---	3.1
Paid-in capital	1,001.8	195.8
Accumulated deficit	(405.1)	(313.6)
Accumulated other comprehensive gain (loss)	69.1	(0.4)
Total stockholders' equity (deficit)	686.5	(115.1)
Total liabilities and stockholders' equity (deficit)	$ 4,398.6	$ 199.2

See accompanying Notes to Combined Consolidated and Combined Financial Statements.

The Reader's Digest Association, Inc. and Subsidiaries

Combined Consolidated Statements of Cash Flows for the Year Ended June 30, 2007 and Combined Statement of Cash Flows for the Years Ended June 30, 2006 and 2005

	Years ended June 30,		
In millions	2007	2006	2005
Cash flows from operating activities			
Net loss from continuing operations	$ (90.7)	$ (3.0)	$ (92.7)
Depreciation and amortization	36.7	15.0	20.0
Non-cash gain on recapitalization	(18.5)	(38.0)	---
Accrual of dividends on preferred stock	0.5	1.5	24.6
Accrual of payment in kind interest on long-term debt	---	---	0.5
Non-cash income tax benefit	---	0.5	(45.4)
Non-cash write-off of deferred financing fees	2.5	7.4	---
Impairment of prepaid fulfillment and distribution	---	11.8	18.3
Impairment of goodwill and intangibles	---	---	70.1
Amortization of debt issue costs	4.0	1.4	2.3
Stock-based compensation	2.0	(0.2)	0.2
Net gain on sales of long-term assets	0.2	---	---
Changes in assets and liabilities, net of effects of acquisitions and dispositions			
Accounts receivable, net	56.6	3.6	1.9
Inventories	31.3	1.7	2.4
Prepaid and deferred promotion costs	(17.4)	(2.5)	1.1
Other assets	(29.6)	(4.7)	(28.1)
Unearned revenues	19.1	0.4	2.0
Income and deferred taxes, net	(0.3)	(1.3)	0.1
Accounts payable and accrued expenses	(140.1)	9.4	(0.8)
Other liabilities	(31.9)	(3.3)	(7.7)
Net change in cash due to continuing operating activities	(175.6)	(0.3)	(31.2)
Net change in cash due to discontinued operating activities	---	1.1	24.6
Net change in cash due to operating activities	(175.6)	0.8	(6.6)
Cash flows from investing activities			
Payments for business acquisitions	---	(0.7)	---
Proceeds from sales of property, plant and equipment	14.4	---	---
Capital expenditures	(14.4)	(12.3)	(10.9)
Net change in cash due to continuing investing activities	---	(13.0)	(10.9)
Net change in cash due to discontinued investing activities	---	264.8	14.2
Net change in cash due to investing activities	---	251.8	3.3
Cash flows from financing activities			
Proceeds from borrowings	1,921.0	80.2	6.2
Debt payments	(895.8)	---	---
Proceeds from revolving credit line	---	36.5	20.0
Repayments of revolving credit line	---	(26.5)	(16.0)
Repayments of Subordinated Notes	---	(163.3)	(7.6)
Repayments of Second-Lien Term Loan	---	(146.5)	---
Short-term borrowings, net	85.2	---	---
Cash paid for financing fees	(65.2)	(4.3)	---
Proceeds from sale of issuance of common stock	---	26.0	---
Redemption of senior preferred stock	---	(55.4)	---
Redemption fees of junior preferred stock	---	(0.2)	---
Distribution to RDA Holding Co., net of cash acquired in the acquisition transaction	(1,553.1)	---	---
Capital contribution from RDA Holding Co.	725.1	---	---
Other, net	(0.4)	(1.5)	---
Net change in cash due to continuing financing activities	216.8	(255.0)	2.6
Net change in cash due to discontinued financing activities	---	---	---
Net change in cash due to financing activities	216.8	(255.0)	2.6
Effect of exchange rate fluctuations on cash and cash equivalents	1.5	0.3	0.2
Net change in cash and cash equivalents	42.7	(2.1)	(0.5)
Cash and cash equivalents at beginning of year	7.5	9.6	10.1
Cash and cash equivalents at end of year	$ 50.2	$ 7.5	$ 9.6
Supplemental information			
Cash paid for interest	$ 31.6	$ 14.6	$ 33.0
Cash paid for income taxes	$ 14.5	$ 4.2	$ 1.3

See accompanying Notes to Combined Consolidated and Combined Financial Statements.

Combined Consolidated Statement of Changes in Stockholders' Equity (Deficit) for the year ended June 30, 2007 and
Combined Statement of Changes in Stockholders' Equity (Deficit) for the years ended June 30, 2006 and 2005

In millions	Preferred Stock	Common Stock	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at June 30, 2004	$ 23.9	$ 0.1	$131.8	$ (282.3)	$ (2.2)	$ (128.7)
Prior period adjustment				(7.8)		(7.8)
Comprehensive loss						
Net loss				(75.8)		(75.8)
Other comprehensive loss:						
Translation gain					0.9	0.9
Minimum pension liability					0.1	0.1
Total comprehensive loss						$ (74.8)
Stock compensation			0.2			0.2
18% junior preferred stock dividends	4.6			(4.6)		---
Balance at June 30, 2005	$ 28.5	$ 0.1	$ 132.0	$ (370.5)	$ (1.2)	$ (211.1)
Comprehensive income						
Net income				59.4		59.4
Other comprehensive income:						
Translation gain					(1.1)	(1.1)
Unrealized gain on derivative contract					0.1	0.1
Minimum pension liability				(1.8)	1.8	---
Total comprehensive income						$ 58.4
Issuance of common stock		2.1	23.9			26.0
Elimination of common stock subject to redemption			0.9			0.9
Redemption of 15% senior preferred stock classified as debt		0.9	10.6			11.5
Redemption of 18% junior preferred stock	(28.8)		28.6			(0.2)
Stock compensation			(0.2)			(0.2)
Due from Lillian Vernon Corporation				(0.4)		(0.4)
18% junior preferred stock dividends	0.3			(0.3)		---
Balance at June 30, 2006	$ ---	$ 3.1	$ 195.8	$ (313.6)	$ (0.4)	$ (115.1)
Comprehensive loss						
Net loss				(90.7)		(90.7)
Other comprehensive income:						
Translation gain, net of deferred tax liability of $(0.2)					1.7	1.7
Unrealized gain on derivatives, net of deferred taxes of $(4.0)					6.8	6.8
Deferred pension liabilities and other retirement benefits, net of deferred taxes of $(31.9)					61.0	61.0
Total comprehensive loss						$ (21.2)
Reader's Digest Association Inc. preferred stock assumed in purchase accounting	20.7					20.7
WRC Media Inc. Common Stock (see Note 2, Entities under Common Control for further information)		(3.1)	3.1			---
RDA Holding Co. capital contribution			725.1			725.1
Distribution to RDA Holding Co.			(3.9)			(3.9)
Adjustment of historically carrying amounts (38.5% for WRC Media, Inc. and 15.6% for Direct Holdings U.S. Corp. of fair value of assets acquired and liabilities assumed (see Note 2, Entities under Common Control for further information)			80.2			80.2
Assumption of Direct Holdings Worldwide Corp. liabilities			(1.4)			(1.4)
Stock-based compensation expense			2.9			2.9
Preferred stock dividends				(0.8)		(0.8)
Balance at June 30, 2007	$ 20.7	$ ---	$1,001.8	$ (405.1)	$ 69.1	$ 686.5

Accumulated Other Comprehensive Loss, net of tax, is comprised of foreign currency translation adjustments of $1.3, $(0.5) and $0.6 at June 30, 2007, 2006 and 2005 respectively; deferred pension liabilities and other retirement benefits of $61.0 and ($1.8) at June 30, 2007 and 2005, respectively; and unrealized gains on derivatives of $6.8 and $0.1 at June 30, 2007 and 2006.
See accompanying Notes to Combined Consolidated and Combined Financial Statements.

Subsequent to March 2, 2007 and unless indicated otherwise, references in Notes to Combined Consolidated and Combined Financial Statements to "we," "us" and "our" are to The Reader's Digest Association, Inc. and subsidiaries, WRC Media Inc. and Direct Holdings U.S. Corp. Prior to March 2, 2007, these references are to the combined operations of WRC Media Inc. and Direct Holdings U.S. Corp. All references to 2007, 2006 and 2005, unless otherwise indicated, are to fiscal 2007, fiscal 2006 and fiscal 2005, respectively. Our fiscal year is the period from July 1 through June 30. Dollars are presented in millions, except for share and per share data.

Note 1 Organization and Summary of Significant Accounting Policies

Description of Our Business

We are a diverse multimedia publisher and a provider of information, entertainment and education through published magazines, books, educational products, recorded music collections and home video products. We sell these and other products worldwide through direct marketing and direct sales channels. Our best known trademark is our flagship brand, *Reader's Digest*. Our business for 2007 is organized and reports across three primary business segments: Reader's Digest North America, Reader's Digest International, and School & Educational Services (formerly known as Consumer Business Services). For fiscal 2007, we also had two additional reportable segments, WRC Media Inc. ("WRC Media"), and Direct Holdings U.S. Corp. ("Direct Holdings"), business that have not yet been fully integrated into our three primary reportable segments. For further commentary regarding these segments, see Management's Discussion and Analysis and Note 15, Segments.

Basis of Presentation and Use of Estimates

The accompanying combined consolidated financial statements as of June 30, 2007 and for the year then ended include the accounts of The Reader's Digest Association, Inc. and its majority-owned subsidiaries as of March 2, 2007 and the predecessor entities WRC Media and Direct Holdings for the full year. The Reader's Digest Association, Inc. and its majority owned subsidiaries are owned by RDA Holding Co., with the ultimate parent being Ripplewood Holdings L.L.C. The accompanying combined financial statements as of June 30, 2006 and for the years ended June 30, 2006 and 2005 include only the accounts of WRC Media and Direct Holdings. Accordingly, comparability of the year ended June 30, 2007 to the years ended June 30, 2006 and 2005 is limited. See Note 3, Acquisitions and Divestitures, for the pro-forma results as though the acquisition took place at the beginning of the periods presented.

On January 23, 2007, RDA Holding Co. (a Ripplewood Holdings L.L.C. ("Ripplewood") controlled entity), WRC Acquisition Co. (a subsidiary of RDA Holding Co.) and WRC Media entered into a merger agreement that provided for WRC Acquisition Co. to merge with and into WRC Media, with WRC Media being the surviving corporation (the "WRC Media Merger"). An investment fund affiliated with Ripplewood acquired its original interest in WRC Media in 1999 and had at the time of the WRC Media Merger approximately a 46% economic interest and a majority voting interest in WRC Media. The merger consideration of $100.7 paid to WRC Media's existing stockholders to acquire all the common stock of WRC Media at the closing of the WRC Merger on March 2, 2007 included a combination of RDA Holding Co. common stock ($80.6), RDA Holding Co. junior pay-in-kind preferred stock ($20.0) and cash ($0.1).

On January 23, 2007, RDA Holding Co. entered into a stock acquisition agreement to acquire all the common stock of Direct Holdings in exchange for shares of common stock of RDA Holding Co. and net cash totaling $56.7 (the "Direct Holdings Stock Acquisition"). An investment fund affiliated with Ripplewood acquired its original interest in Direct Holdings in December 2003 and had at the time of the Direct Holdings Stock Acquisition approximately an 84% voting and economic interest in Direct Holdings. The net consideration of $56.7 paid at the closing of the Direct Holdings Stock Acquisition on March 2, 2007 included a combination of RDA Holding Co. common stock ($50.1) and net cash ($6.6).

On March 2, 2007, RDA Holding Co. acquired The Reader's Digest Association, Inc. pursuant to a Merger Agreement dated November 16, 2006 among The Reader's Digest Association, Inc., RDA Holding Co. and Doctor Acquisition Co. (a wholly owned subsidiary of RDA Holding Co.) (the "RDA Merger Agreement"). Pursuant to the RDA Merger Agreement, Doctor Acquisition Co. was merged with and into The Reader's Digest Association, Inc., with The Reader's Digest Association, Inc. being the surviving corporation (the "Acquisition Transaction"). In the Acquisition Transaction, each outstanding share of common stock of The Reader's Digest Association, Inc. (except those held in treasury) was converted into the right to receive $17.00 in cash and each outstanding share of Doctor Acquisition Co. was converted into one share of common stock of The Reader's Digest Association, Inc., as the surviving corporation. Prior to the Acquisition Transaction, The Reader's Digest Association, Inc. was a publicly traded company listed on the New York Stock Exchange. Upon the closing of the Acquisition Transaction, RDA Holding Co. became the owner of all the issued and outstanding common stock of The Reader's Digest Association, Inc., as the surviving corporation of the Acquisition Transaction. Concurrently with the closing of The Reader's Digest Association, Inc. acquisition on March 2, 2007, RDA Holding Co. contributed all of the outstanding shares of WRC Media and Direct Holdings to The Reader's Digest Association, Inc.

Prior to the acquisition of The Reader's Digest Association, Inc., investment funds affiliated with Ripplewood controlled a majority of the voting rights in both WRC Media and Direct Holdings. WRC Media is treated as the predecessor company since Ripplewood acquired its controlling ownership position in WRC Media in 1999, prior to its ownership position in Direct Holdings and The Reader's Digest Association, Inc. The combination of WRC Media and Direct Holdings for the periods prior to March 2, 2007 was accounted for using the accounting method prescribed in Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," for a combination of entities under common control. See Note 2, Entities under Common Control, for additional information.

The acquisition of The Reader's Digest Association, Inc. by RDA Holding Co. was accounted for using the purchase method of accounting prescribed in SFAS No. 141. (See Note 3, Acquisition and Divestitures, for additional information.) Accordingly, the consolidated results of The Reader's Digest Association, Inc. are included in the combined consolidated financial statements from the acquisition date on March 2, 2007 and include the pushdown of purchase consideration from RDA Holding Co. As a result, the accompanying combined financial statements of The Reader's Digest Association, Inc. and subsidiaries consist exclusively of the combined results of WRC Media and Direct Holdings for all periods prior to March 2, 2007.

All significant intercompany accounts and transactions have been eliminated in consolidation and combination. These financial statements are prepared in conformity with U.S. generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of operating revenues and expenses during the reporting period. These estimates are based on management's knowledge of current events and actions that we may undertake in the future; however, actual results may ultimately differ from those estimates. The primary estimates underlying our combined consolidated and combined financial statements include the allocation of purchase consideration, allowances for returns and doubtful accounts, valuations of inventories, restructuring charges, recoverability of direct response advertising, recoverability of goodwill, intangible assets and long-lived assets, income taxes, estimates of pension, postemployment and postretirement benefits and valuations of stock-based compensation.

The Reader's Digest Association, Inc. reports on a fiscal year that begins July 1. The years ended June 30, 2007 and 2006 are fiscal 2007 and 2006, respectively. WRC Media and Direct Holdings previously reported on a fiscal year that ended on December 31 and on a fiscal year that ended on the last Saturday in June, respectively. Both WRC Media and Direct Holdings changed their respective fiscal year ends to June 30, which was retroactively applied to the 2006 and 2005 combined financial statements. Direct Holdings' 2006 fiscal year began on June 26, 2005 and ended on June 24, 2006 and its 2005 fiscal year began on June 24, 2004 and ended on June 25, 2005. The period from June 25, 2006 to June 30, 2006 and June 26, 2005 to June 30, 2005 is not material to the combined financial statements for 2006 and 2005, respectively.

Concentrations of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of trade accounts receivable and our interest rate swaps. We believe our concentrations of credit risk with respect to trade receivables are limited due to our large number of customers, their low individual dollar balances and their dispersion across many different geographic and economic environments. Our interest rate swap agreements are with a diverse group of large international banks. See Note 8, Financial Instruments for further information.

At June 30, 2006, a significant customer had an accounts receivable balance of approximately $5.0.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. The carrying amount approximates fair value based upon the short-term maturity of these investments.

Inventories

Inventories consist primarily of finished goods and raw materials (including paper) and are stated at the lower of cost or market value. Cost is determined using the weighted average cost method or the first-in, first-out (FIFO) method. We periodically assess our inventory for obsolescence and to ensure it is recorded at the lower of cost or market value.

Long-Lived Assets

Property, Plant and Equipment, Net

Assets that comprise property, plant and equipment, net are stated at cost less accumulated depreciation and amortization. Depreciation expense is generally calculated on a straight-line basis over the estimated useful lives of the assets: 10–40 years for buildings; 3–10 years for equipment, furniture and fixtures; and 3-5 years for software capitalized for internal use. Leasehold improvements are amortized on a straight-line basis over the initial term of the lease or the useful life of the improvement, whichever is shorter. Maintenance and repairs are expensed as incurred.

Capitalized Software to be Sold, Leased or Otherwise Marketed

We capitalize software cost to be sold, leased or otherwise marketed under SFAS 86, "Computer Software to be Sold, Leased, or Otherwise Marketed." Research and development costs are charged to expense when incurred. Additionally, we capitalize acquired and developed technologies that meet the provisions of SFAS 86. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors, including, but not limited to, anticipated future gross product revenues, estimated economic product lives and changes in software and hardware technology. Software development costs are amortized on a straight-line basis over the expected life of the product which is generally four years. We periodically evaluate the net realizable value of capitalized software development costs based on factors such as budgeted sales, product development cycles and management's market emphasis. Amortization of software to be sold of $(6.0), $(4.6) and $(3.4) for 2007, 2006 and 2005, respectively, is included in product, distribution and editorial expenses on the accompanying combined consolidated statement of operations.

Goodwill and Other Intangible Assets, Net

Goodwill represents the excess of costs over the fair value of net assets of acquired businesses. Other intangible assets, net comprises trade names, licensing agreements, customer relationships and databases, favorable lease commitments, technology and software. Acquired intangibles with finite lives are amortized, on a straight-line basis, over their estimated useful lives. See Note 2, Entities under Common Control, and Note 7, Goodwill and Other Intangible Assets, Net, for additional information.

Impairment of Long-Lived Assets

We review for recoverability, at least annually (in the fourth quarter), the carrying amount of goodwill and intangibles with indefinite lives. This assessment involves comparing the fair value of the reporting unit or asset, as applicable, to its carrying value. Recognition of the impairment, if any, is determined in accordance with the SFAS No. 142, "Goodwill and Other Intangible Assets." See Note 7, Goodwill and Other Intangible Assets, Net, for additional information.

Intangible assets with finite lives and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of that asset may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We assess recoverability by comparing the asset's carrying amount to the undiscounted future net cash flows expected to be generated by the asset. If we determine that the asset is impaired, the impairment recognized is the amount by which the carrying amount of the asset exceeds the fair value of the asset.

In accordance with SFAS 144, long-lived assets that management have committed to sell at fair market value, including establishing a program to locate a buyer within a year, and are available for sale in present condition are reported as assets held for sale. In addition, the results of operations of a component of an entity that has either been disposed of or classified as held for sale shall be reported in discontinued operations if the operations and cash flows of the component have been eliminated from the ongoing operations of the entity as a result of the disposal transaction and the entity will not have any significant continuing involvement in the operation of the component after the disposal transaction. See Note 3, Acquisitions and Divestitures, for further information.

Direct Holdings' Prepaid fulfillment and distribution services

Prior to August 31, 2007, Direct Holdings shared fulfillment and distribution, information services and other administrative functions with Lillian Vernon Corporation (LVC), a former related party. See Note 16, Related Party Transactions, for further information. As part of these shared services, Direct Holdings made payments to fund its share of costs associated with these services. In addition, Direct Holdings made other payments in advance of receiving these services. These were recorded as prepaid fulfillment services. As of June 30, 2007 and June 24, 2006, a net receivable (payable) of approximately $(1.2) and $0, respectively, was outstanding.

Due to the sale of LVC to an unrelated third party on May 26, 2006 (see Note 16, Related Party Transactions), certain LVC receivable balances related to prepaid fulfillment and distribution services were determined to be fully impaired since the third party purchaser of LVC did not assume the outstanding balance owed to Direct Holdings.

Debt Issuance Costs

Debt issuance costs consist of fees and expenses incurred in connection with borrowings of The Reader's Digest Association, Inc, WRC Media and Direct Holdings. These fees are amortized over the terms of the related debt agreements. Capitalized debt issuance costs are included in other noncurrent assets on the balance sheets. To the extent a significant portion of outstanding borrowings are retired, a proportionate amount of debt issue costs related to those borrowings is written off.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, *Share-Based Payment,* (SFAS No. 123R). This statement requires the use of fair-value recognition provisions when determining the value of stock based compensation. SFAS 123R was effective at the beginning of the first annual period beginning after December 15, 2005. WRC Media and Direct Holdings adopted this standard effective July 1, 2006 using the modified prospective transitional method. Disclosure is not presented because pro forma expense for stock based compensation is not material in all periods prior to adoption.

Prior to the adoption of SFAS 123R, stock-based compensation arrangements with employees were accounted for using the intrinsic value method in accordance with the provisions of APB 25, *Accounting for Stock Issued to Employees,* (APB No. 25). Under the guidelines of APB 25, compensation cost for stock based employee compensation plans is recognized based on the amount by which the fair value of the common stock on the date of grant exceeds the amount an employee must pay to acquire the stock. See Note 10, Equity Compensation Plans, for further information.

Financial Instruments

Due to the short-term maturities of cash, cash equivalents, receivables and payables, the carrying value of these financial instruments approximates their fair values. Based on current market prices as of June 30, 2007, the fair value of our $600 9% Senior Subordinated notes is approximately $564. Due to variable interest rates, the fair value of our $300 revolving credit facility and $1,310 term loan approximates the carrying values at June 30, 2007. At June 30, 2006, the fair value of WRC Media's borrowings under the First Lien Facility and Second Lien Term Loan and Direct Holdings' Amended CIT Credit Facility was estimated to approximate their carrying values due to the facilities' variable interest rates and the repayment of all outstanding borrowings in March 2007. See Note 12, Debt, for additional information on our debt instruments.

We entered into several interest rate swap agreements to reduce our exposure to interest rate volatility. These instruments qualify as hedges, therefore, changes in fair value are recorded in other comprehensive (loss) income. See Note 8, Financial Instruments, for further information.

Pensions and Postretirement Benefits Other Than Pensions

We account for our pension and postretirement benefits in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R)." As a result, we recognize the over or underfunded status of our defined benefit pension plans as an asset (overfunded) or liability (underfunded) in the consolidated statement of financial position. We recognize any changes in the funded or unfunded status through accumulated comprehensive (loss) income. Our projected benefit obligations are determined using actuarial models that incorporate estimates for employee turnover and mortality, increases in employee compensation and healthcare costs, and an employee's age at retirement. These estimates are reviewed annually with actuarial consultants to determine the reasonableness of our assumptions. While these models help determine the obligation, SFAS No. 158 attempts to match recognition of the obligation with the period over which our employees earn benefits. Because employees earn benefits over many years of service, the accounting rules require the recognition of certain events (including plan amendments and certain gains and losses) over multiple years rather than the year the event occurs. This principle also applies to recognition of the expected return on plan assets. Although the rate represents our expectation of the long-term performance of our asset portfolio, performance will likely vary in the short term. We amortize the difference between the actual and expected return on assets over a five-year period in our statement of operations. Income and expenses from our pension plans are included in promotion, marketing and administrative expenses on the statements of operations. WRC Media and Direct Holdings do not sponsor any defined benefit pension plans.

Revenues

Magazines

Sales of our magazine subscriptions, less estimated bad debt and return reserves, are deferred and recognized as revenues proportionately, on the first of each month, over the subscription period. Revenues from sales of magazines through the newsstand are recognized at the issue date, net of an allowance for returns. Advertising revenues are recorded as revenues at the time the advertisements are published, net of discounts and advertising agency commissions.

Sponsor Fundraising Programs

Our sponsor fundraising program business, QSP, Inc., receives its revenues net of amounts due to its sponsors. Accordingly, we present revenues net of sponsors' earnings. Sales of subscriptions to magazines published by other companies and sales of music products are recorded as revenues at the time orders are submitted to the publisher, net of bad debts and remittances to magazine and music publishers.

Books, Music, Video, DVD, Display Marketing and Other Products

Revenues are recorded when title passes, net of provisions for estimated returns and bad debts. Title passes at time of shipment or upon delivery. For our display marketing products, title passes either at the point of sale or at the time of shipment. In certain circumstances, our promotion entitles the customer to a preview period. Revenue generated by these promotions is recognized after the preview period lapses.

When we recognize revenues for most of our products, we also record an estimate of bad debts and returns. These estimates are based on historical data and the method of promotion. Reserve levels are adjusted as actual data is received. In the direct marketing business, returns and bad debts are tied to customer responses to our promotional efforts. Accordingly, we deduct estimates of returns and bad debts from gross revenue.

Software Products

We recognize revenues from the sale of our software products in accordance with the provisions of SOP 97-2, "Software Revenue Recognition," ("SOP 97-2") as amended by SOP 98-9, "Software Revenue Recognition, with Respect to Certain Transactions." Under SOP 97-2, we recognize revenue for software sales upon shipment of the product, provided collection of the receivable is probable, payment is due within one year and the fee is fixed or determinable. If an acceptance period is required, revenues are recognized upon the earlier of customer acceptance or the expiration of the acceptance period. If significant post-delivery obligations exist, revenues are deferred until no significant obligations remain. Revenue from service contracts, instructions and user training are recognized as the services are performed. Software hosting services and post-contract support is recognized ratably over the term of the related contract. Included in unearned revenues is our obligation to perform under signed contracts for which payment has been made.

In addition, SOP 97-2 generally requires that revenue from software arrangements involving multiple elements be allocated among each element of the arrangement based on the relative fair values of the elements, such as software licenses, installation, training and post-contract customer support. Furthermore, SOP 97-2 requires that revenue be recognized as each element is delivered and we have no significant performance obligations remaining. Our multiple element arrangements generally consist of a software license, installation, training and post-contract support. Certain of our multiple element arrangements also may include hosting of software licensed to the customer. Our multiple element arrangements containing hosting services provide the customer with the contractual right to take possession of the software at any time during the hosting period without significant penalty.

Software revenues are recognized using the residual method. We allocate the aggregate revenue from multiple element arrangements to each element based on vendor specific objective evidence. We have established vendor-specific objective evidence for installation, training and post-contract support, as we sell installation, training, subscriptions and post-contract customer support independent of multiple element agreements. Customers are charged the same price for installation, training, subscriptions and post-contract customer support, whether these items are sold as part of a multiple element agreement or sold separately.

If we enter into a multiple element agreement where vendor-specific objective evidence of fair value for each element of the arrangement does not exist, all revenue from the arrangement is deferred until all elements of the arrangement are delivered.

Lease Financing Arrangements

We enter into lease financing arrangements for our software products and services. These leases are immediately assigned to a third party with no recourse to us. We retain no risk in these arrangements and have no history of granting concessions related to the arrangements. Accordingly, we recognize revenue upon delivery of its products and services under these lease arrangements.

Shipping and Handling

Costs for shipping products to customers and the associated handling costs are expensed as incurred and are included in product, distribution and editorial expenses on the combined consolidated and combined statements of operations. In certain circumstances, shipping and handling costs are billed to the customer. These billings are recognized in revenue.

Promotion Costs

Non-direct advertising, including internal advertising costs, prepublication, editorial, market testing and fulfillment costs, is expensed as incurred.

Direct response advertising consists primarily of promotion costs incurred, such as paper and postage, in connection with the sale of magazine subscriptions, books and other products. We account for costs of direct response advertising under the American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 93-7, "Reporting on Advertising Costs." Under SOP 93-7, costs associated with direct response advertising that can be directly linked to eliciting sales and result in probable future benefits are capitalized on a cost-pool-by-cost-pool basis. Books and home entertainment advertising costs are amortized over a period that is generally less than one year. We assess the carrying amount of our capitalized direct response advertising costs for recoverability on a periodic basis. Magazine related direct response advertising costs are expensed when the related promotion is mailed.

Promotion expense, which consists of both amortization of promotion costs and costs expensed as incurred, included in the combined consolidated and combined statements of operations totaled $(290.6) in 2007; $(134.6) in 2006 and $(119.9) in 2005. Prepaid and deferred promotion costs included on the combined consolidated and combined statements of financial position were $61.4 and $3.5 as of June 30, 2007 and 2006, respectively.

Commissions earned by agents for new magazine subscribers are included in promotion, marketing and administrative expenses in the combined consolidated statement of operations. These costs are deferred and amortized over the related subscription term, typically one to three years. Amounts deferred and included in prepaid expenses and other current assets on the balance sheets were $27.1 as of June 30, 2007. Amounts included in other noncurrent assets on the balance sheets were $22.7 as of June 30, 2007. WRC Media and Direct Holdings do not have any deferred agent commissions.

Income Taxes

Income taxes are accounted for in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires that deferred tax assets and liabilities be recognized, using enacted tax rates, for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. Deferred tax assets, including net operating losses, are reduced by a valuation allowance if it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

We are subject to tax in a number of locations, including many state and foreign jurisdictions. As might be expected, significant judgment is required when calculating our world-wide provision for income taxes. Because of this uncertainty, we establish consolidated tax liabilities based on an estimate of whether it is likely that additional taxes and interest will be due. In some cases, many years may elapse before an audit is completed with respect to items for which a reserve has been established. As settlements are reached, we adjust the corresponding accruals, if required, in the period in which the final determination is made.

Foreign Currency Translation

The functional currency for our foreign operations is the local currency. Revenues and expenses denominated in foreign currencies are translated at average monthly exchange rates prevailing during the year. The assets and liabilities of international subsidiaries are translated into U.S. dollars at the rates of exchange in effect at the balance sheet date. The resulting translation adjustment is reflected as a separate component of combined consolidated and combined stockholders' equity (deficit) in accumulated other comprehensive (loss) income.

Prior period adjustment

During 2006, we reassessed our accounting for direct response advertising to ensure it appropriately met the criteria of AICPA Statement of Position 93-7, "Reporting on Advertising Costs". Previously, we capitalized product promotional mailing and subscription related promotion costs, which were then amortized over the estimated period of future benefit using a ratio of current period revenues to total current and estimated future period revenues. In connection with the Acquisition Transaction, we determined that there was not a satisfactory linkage of the direct response costs capitalized to the related direct response revenues. Therefore, we recorded an opening retained earnings adjustment as of June 30, 2004, the earliest period presented, of $7.8. We also recorded adjustments which increased operating income by $0.3 and $1.1 for the years ended June 30, 2006 and 2005, respectively.

Recent Accounting Standards

In June 2006, the FASB issued FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of SFAS 109" (FIN 48). FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition and measurement of tax positions. Disclosure requirements under this guidance will include a rollforward of the beginning and ending unrecognized tax benefits as well as specific detail related to tax uncertainties for which it is reasonably possible the amount of unrecognized tax benefit will significantly increase or decrease within a year. FIN 48 is effective for fiscal years beginning after December 15, 2006 for public companies and for fiscal years beginning after December 15, 2007 for non-public companies. We are currently evaluating the impact of this standard on our consolidated financial statements and the impact is not expected to be material. We plan on adopting FIN 48 during fiscal year 2008.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (SFAS No. 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are evaluating the impact of this standard on our consolidated financial statements and the impact is not expected to be material.

Also in September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R)" (SFAS No. 158). The objectives of this Statement are for an employer to: (1) recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur; and (2) measure the plan status as of the date of its year-end statement of financial position. SFAS No. 158 is effective for the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position will be effective for fiscal years ending after December 15, 2008. We adopted this statement effective March 2, 2007. See Note 9, Benefit Plans, for additional information.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to voluntarily choose to measure many financial assets and financial liabilities at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, the adoption will have on our consolidated financial statements.

Note 2 Entities under Common Control

In accordance with SFAS No. 141, the purchase price paid to the holders of the common stock of WRC Media and Direct Holdings not owned by investment funds affiliated with Ripplewood (38.5% in the case of WRC Media and 15.6% in the case of Direct Holdings) in the WRC Media Merger and the Direct Holdings Stock Acquisition (see Note 1, Organization and Summary of Significant Accounting Policies) was accounted for using the purchase method of accounting and resulted in goodwill of $15.5 at WRC Media, which is non-deductible for tax purposes. Accordingly, only 38.5%, in the case of WRC Media, and 15.6%, in the case of Direct Holdings, of assets acquired and liabilities assumed have been adjusted to their fair market value, with the remaining percentage recorded at historical carrying amounts. These adjustments are given effect as of the acquisition date of March 2, 2007. The amount allocated to goodwill is reflective of the benefit RDA Holding Co. expects to realize from expected cost savings and growth initiatives.

The following table represents the historical carrying amounts adjusted for 38.5% (WRC Media) and 15.6 % (Direct Holdings) of fair values of assets acquired and liabilities assumed at the date of acquisition:

	WRC Media	Direct Holdings
Current assets	$ 34.9	$ 62.6
Plant and equipment	6.4	3.9
Capitalized software	14.8	---
Identified intangible assets	14.7	---
Goodwill	63.3	---
Other noncurrent assets	12.1	0.5
Total historical assets acquired	146.2	67.0
Current liabilities	56.2	109.5
Debt	162.4	
Long-term liabilities	11.2	1.2
Net historical liabilities assumed	(83.6)	(43.7)
Adjustment for non-Ripplewood controlled ownership percentage (WRC Media (61.5%); Direct Holdings (84.4%))	51.4	36.9
Fair value adjustments, including deferred taxes and deferred revenue adjustments of $39.6 and $2.5, respectively, at WRC Media and deferred taxes of $10.9 at Direct Holdings	42.1	10.9
Identified intangible assets – fair value	17.9	5.1
Net assets assumed	27.8	9.2
Consideration paid by RDA Holding Co., including transaction costs	43.3	9.2
Goodwill allocation – fair value	15.5	---

The fair value adjustment to the intangible assets listed in the above table as of the acquisition date utilized are based on an independent third party appraisal and are as follows:

	WRC Media	Weighted Average Life	Direct Holdings	Weighted Average Life
Tradenames – indefinite-lived	$6.8	---	$ ---	---
Tradenames – definite-lived	2.8	10.0 years	---	---
Customer relationships	2.9	3.2 years	2.5	2.0 years
Developed technology	3.9	6.0 years	---	---
Licensing and technology support agreements	1.5	4.0 years	2.3	17.0 years
Other intangibles	---	---	0.3	4.1 years
	$17.9		$5.1	

Note 3 Acquisitions and Divestitures

Acquisition of The Reader's Digest Association, Inc.

On March 2, 2007, RDA Holding Co. acquired 100% of the outstanding common stock of The Reader's Digest Association, Inc. for $1,517.1, net of cash acquired of $119.6, plus capitalized transaction costs of $36.0. In connection with the Acquisition Transaction, RDA Holding Co. contributed cash of $725.1 to the Reader's Digest Association, Inc. for the issuance of 1,000 shares of common stock. The acquisition was accounted for using the purchase method of accounting and resulted in $1,764.9 of goodwill on the date of acquisition, a portion which is deductible for tax purposes. The amount allocated to goodwill is reflective of the benefit RDA Holding Co. expects to realize from expected cost savings and growth initiatives. The resulting purchase consideration was pushed down from RDA Holding Co. and was assigned to the following reporting units based on the following fair values: $866.0 (Reader's Digest North America); $695.4 (Reader's Digest International); and $203.5 (School & Educational Services). As a result of acquisition accounting described in Note 1, Organization and Summary of Significant Accounting Policies, the results of the historical business of The Reader's Digest Association, Inc. and subsidiaries are included in the accompanying combined consolidated financial statements only as of, and for periods ending after, March 2, 2007.

The cost of the Acquisition Transaction was used to establish a new accounting basis at The Reader's Digest Association, Inc. and subsidiaries, by allocating the cost of the assets acquired, including identified intangible assets and liabilities assumed at estimated fair values, which was determined using a number of factors, including the use of an independent appraisal. The excess of the cost of the acquisition over the amounts assigned to the net assets acquired is recorded to goodwill.

The following table below represents the allocations of the aggregate purchase price based on their fair values of assets acquired and liabilities assumed at the date of acquisition:

Current assets	$ 831.5
Property, plant and equipment	107.9
Identified intangible assets	1,077.6
Prepaid pension assets	275.6
Other noncurrent assets	58.2
Total assets acquired	2,350.8
Other current liabilities	659.8
Debt	716.5
Unearned revenues	363.3
Accrued pension and postretirement and postemployment benefits other than pensions	212.7
Other non-current liabilities	470.1
Preferred stock	20.6
Net liabilities assumed	(92.2)
Consideration paid by RDA Holding Co., including transaction costs	1,672.7
Goodwill	$ 1,764.9

The components of the intangible assets listed in the above table as of the acquisition date are as follows:

	Amount	Weighted Average Life
Reader's Digest tradename – indefinite-lived	$621.0	---
Other tradenames – indefinite-lived	143.0	---
Tradenames – definite-lived	12.0	6.3
Customer relationships	202.7	8.2
Database	89.2	7.0
Favorable lease commitments	4.4	14.8
Technology and software	4.2	6.7
Licensing agreements	0.9	3.0
Other intangible assets	0.2	3.2
	$1,077.6	7.8 years

The following table presents pro-forma results of operations as though the acquisition took place at July 1, 2005:

	2007	2006
Net revenues	$ 2,691.1	$ 2,622.9
Loss before discontinued operations and extraordinary items	(262.1)	(395.8)
Net loss	$ (262.1)	$ (333.4)

These pro forma results have been prepared for comparative purposes only and include certain adjustments, such as additional amortization expense for identified intangibles, increased interest expense from the incurrence of debt and other purchase accounting related adjustments. The unaudited pro forma financial information is not intended to be indicative of the results of operations that actually would have resulted had the acquisition occurred at the beginning of each period, or of future results of operations or financial condition of our consolidated entity.

Sale of American Guidance Services and Recapitalization of WRC Media

On July 22, 2005, WRC Media completed the sale of its American Guidance Service, Inc. ("AGS") subsidiary and recapitalization in a series of related transactions. AGS is a publisher of testing and assessment products and supplemental instructional materials. These transactions were undertaken to reduce WRC Media's financial leverage by redeeming its outstanding debt securities and converting its preferred stock into common shares. The specific transactions consummated were as follows:

1. The sale of the subsidiary's shares for $274.0 in cash resulted in a net gain of $53.0

   The gain was net of $143.9 of associated intangible assets, including $121.0 of goodwill. The gain, reported in income from discontinued operations, net, was calculated as follows:

	Amount
Sale price	$ 274.0
Net assets of subsidiary	(31.5)
Associated intangible assets	(143.9)
Transaction costs	(6.4)
Gain on sale	$ 92.2
Income tax provision on gain on sale	(39.2)
Net gain	$ 53.0

The accompanying combined financial statements reflect the operations of AGS as a discontinued operation. The operating results of AGS have been reported in the combined statements of operations as income from discontinued operations. Revenue and income from operations before income taxes and net income of AGS for the fiscal years ended June 30, 2006 and 2005 were as follows:

	June 30, 2006	June 30, 2005
Revenues	$ 5.8	$ 79.8
Income from operations before income taxes	3.7	27.8
Income tax provision on discontinued operations	(1.6)	(19.4)
Net income from discontinued operations	$ 2.1	$ 8.4

2. The redemption and repurchase of all the shares of WRC Media's 15% Senior Preferred Stock and the warrants to purchase common stock of two of WRC Media's subsidiaries.

   The consideration consisted of $55.0 in cash, $30.0 Second Lien Term Loans, and 92,754,145 shares of new WRC Media common stock valued at $0.12 per share resulting in a gain of $54.2, net of $28.6 in estimated future interest on the Second Lien Term Loans. The gain was calculated as follows:

	Amount
Preferred stock accreted value at July 22, 2005	$ 167.9
Warrants to purchase common stock of subsidiaries	11.8
Total liabilities	179.7
Cash paid at closing	55.0
Second lien term loans	58.6
Common stock	11.5
Transaction costs	0.4
Total consideration	125.5
Gain on redemption	$ 54.2

   The Second Lien Loans' stated value at June 30, 2006 includes $23.6, of estimated interest as discussed in Note 12, Debt.

3. The redemption and repurchase of all the shares of 18% Junior Participating Cumulative Convertible Preferred Stock of WRC Media for 721,105 shares of new WRC Media common stock.

   The holders of the 18% Junior Participating Cumulative Convertible Preferred Stock received 23,803,853 common shares of the 208,696,287 common shares that the controlling shareholder purchased from WRC Media.

4. The repayment of the $152.0 12 ¾% Senior Subordinated Notes due 2009 at 106.375% for a prepayment penalty of $9.7, plus $1.6 in net interest for 40 days subsequent to closing.

   The loss of $14.7includes the write-off of the unamortized discount of $3.4. In addition, the repayment of the $145.0 existing Second Lien at 101% resulted in a prepayment penalty of $1.5. The total loss from the debt repayments was calculated as follows:

	Amount
Prepayment penalty	$ 9.7
Unamortized discount	3.4
Interest through prepayment closing	1.6
Total loss on repayment subordinated debt	14.7
Second lien prepayment penalty	1.5
Total loss on extinguishment of debt	$ 16.2

5. The repayment of borrowings of $11.0 existing under the First Lien Revolver which had a total commitment of $30.0.

Funds for the above debt repayments were provided by WRC Media's sale of 208,696,287 shares of common stock to its controlling shareholder at $0.12 per share for total consideration of $26.0 and by borrowings under the Credit and Guaranty Agreement with new First Lien Term Loans of $82.5 divided between Tranche A of $37.5 and Tranche B of $45.0 and under the Credit and Guaranty Agreement

of $11.5 of the $25.0 commitment.

The gain on recapitalization was calculated as follows:

Net gain on redemption of 15% senior preferred stock	$	54.2
Loss on extinguishment of debt		(16.2)
	$	38.0

Acquisition of the Time Life Business

In December 2003, Direct Holdings was formed to acquire the assets and stock of the Time Life business contemplated for sale to Direct Holdings Worldwide L.L.C. (the Parent). On December 31, 2003, the formation of Direct Holdings was consummated from subsidiaries of Time Warner Inc. by the Parent and certain of its subsidiaries, acquiring 100% of the assets and stock representing the Time Life business for $1.00 plus potential additional consideration. The acquisition by the Parent of the Time Life businesses was pushed down to Direct Holdings.

The additional contingent consideration provided that Time Inc. (the Seller) would receive payments in the future if the business sold met certain performance targets (Earn Out Agreement). Specifically, the Seller would receive consideration equal to four times the amount by which the average annual earnings before interest, taxes, depreciation and amortization (EBITDA), subject to certain adjustments, for each of the two consecutive four fiscal quarter periods over a two-year period exceeded $10.0 commencing on July 1, 2004. As the fair value of the liabilities acquired exceeded the fair value of the assets acquired, Direct Holdings recorded an acquisition contingency of approximately $8.4. The amount of the acquisition contingency at June 25, 2005 was management's best estimate as of the balance sheet date regarding the expected liability. As of June 24, 2006, Direct Holdings did not exceed the $10 million minimum EBITDA under the Earn Out Agreement. As provided under SFAS No. 141, if the fair value of contingent consideration issued was less than the amount initially recognized as if it were a liability, the excess liability would be allocated to reduce proportionately the amounts assigned to assets acquired. Any unallocated negative goodwill would be recognized as an extraordinary gain in the period the contingent consideration provision was resolved. Accordingly, Direct Holdings released the acquisition contingency of $8.4 by writing off the remaining net book value of approximately $0.3 relating to fixed assets, and approximately $0.9 relating to intangible assets. The remaining balance of the acquisition contingency, which represented negative goodwill of approximately $7.3, was recognized as an extraordinary gain in the 2006 combined statement of operations.

Beginning January 1, 2005, Direct Holdings is obligated under a trademark licensing agreement for the Time Life tradename to make annual royalty payments for an initial term of 10 years to Time Warner for use of the Time Life logo and tradename. The royalty is based on net revenues as defined in the agreement to a maximum of $2.5 per calendar year. Upon the completion of the Acquisition Transaction, this agreement was modified and the royalty is based on net revenues as defined in the agreement to a maximum of $5.0 per calendar year. The royalty is payable annually based on calendar year sales. The trademark agreement can be renewed under certain conditions for an additional 10 years.

Direct Holdings has entered into various contractual relationships with Time Inc. and certain other subsidiaries of Time Warner Inc. These relationships include certain subleases in the U.S. and certain warehousing, distribution and administrative support functions in Europe and Australia.

Sale of Direct Holdings' Asia Unit

Direct Holdings entered into an active plan to sell its Asia business segment during Fiscal 2004 which included Direct Holdings' Asia unit, Educational Technologies Limited together with its subsidiaries (ETL). These assets were recorded at an amount not in excess of what management expected to receive upon sale less costs of disposal.

Direct Holdings entered into a share purchase agreement dated February 22, 2005 (the Share Purchase Agreement). In connection with the closing of the Share Purchase Agreement which occurred on March 1, 2005, Direct Holdings licensed certain rights to ETL. The proceeds from the sale of the business were approximately $14.8. The gain from the sale of the Asia business is recorded in the statement of operations for 2005 as gain on sale of discontinued operations of approximately $9.0.

Note 4 Other Operating Items, Net

Items included in Other Operating Items, Net consist of: 1) contractual charges related to the strategic repositioning of our businesses 2) asset impairments associated with restructuring charges and 3) restructuring charges, representing the streamlining of our organizational structure.

Contractual Charges

In 2007, we incurred charges of $(15.0) related to the restructuring of our agreement with World's Finest Chocolate, Inc. The agreement was restructured to reduce the length of the agreement and the annual minimum tonnage purchase requirements. In addition, the terms of exclusivity and employment of the sales force were modified. See Note 14, Contingencies and Commitments for further information.

We also incurred charges of $(4.4) in 2007 related to our contract with a supply chain consulting firm engaged to analyze cost reduction opportunities as part of our restructuring plan within Reader's Digest's supply chain and maintenance, repair and operations functions.

Asset Impairments

Asset impairments related to the carrying value of certain long-lived assets are calculated in accordance with the provisions of SFAS No. 144. In connection with the restructuring activities described below, we incurred asset impairments of $(1.9) at WRC Media and Direct Holdings in 2007. In addition, in connection with the write-off of prepaid fulfillment services from Lillian Vernon Corporation, Direct Holdings incurred charges of $(13.1) and $(18.4) in 2006 and 2005, respectively. See Note 15, Related Party Transactions for further information.

Restructuring Activities

We recorded restructuring charges on the combined consolidated and combined statements of operations of $(14.9), $(1.4) and $(2.2) in 2007, 2006 and 2005, respectively. In certain instances, circumstances arose that resulted in decisions to retain employees previously identified for termination, and in certain other instances the costs associated with actions identified were settled for less than originally anticipated. In these instances, the associated charges were reversed.

Restructuring charges are recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" or SFAS No. 112, "Employers' Accounting for Postemployment Benefits." Under SFAS No. 146, costs associated with restructuring actions, including one-time severance benefits, are only recorded once a liability has been incurred. However, the severance programs at Reader's Digest Association, Inc. generally do not qualify as one time benefits; therefore, we recognize severance amounts pursuant to SFAS No.112. Severance charges represent the cost to separate employees from our operations to streamline the organization. The separation is accomplished through a combination of voluntary and involuntary severance programs. As such, severance amounts are recorded when a termination plan is developed and approved, including the identification of positions to be separated, and when payment is probable and estimable. Other amounts related to restructuring actions, including charges to terminate contractual obligations in connection with streamlining activities, are recorded in accordance with SFAS No. 146.

In addition, as a result of the purchase method of accounting described in Note 3, Acquisitions and Divestitures, and in accordance with EITF Issue No. 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination," we recorded a restructuring liability of $(36.8) as of the date of the Acquisition Transaction. Approximately 8%, 74%, 10% and 8% of this liability relates to Reader's Digest North America, Reader's Digest International, School & Educational Services and Corporate, respectively. This represents actions to realign our cost structure in response to The Reader's Digest Association, Inc. acquisition, and primarily includes employee severance across all major functions and change of control payments to executive management. Severance charges represent the cost to separate employees from our operations to streamline the organization and lower our cost base. Additionally, in connection with purchase accounting, previously existing restructuring liabilities of $4.3 were assumed. These liabilities primarily relate to severance costs and contract terminations to lower our cost base commensurate with our current revenues and streamline our operations.

The table below outlines the activity related to the restructuring actions recorded in 2007 as well as charges recorded in previous periods for WRC Media and Direct Holdings:

	Severance	Contract Obligations	Other Costs	Total
Balance at June 30, 2004	**$ 7.7**	**$ 13.4**	**$ ---**	**$ 21.1**
Accruals (Reversals)	(0.2)	2.4	---	2.2
Spending	(7.3)	(4.1)	---	(11.4)
Balance at June 30, 2005	**0.2**	**11.7**	**---**	**11.9**
Accruals (Reversals)	2.0	(1.7)	1.1	1.4
Spending	(1.6)	(3.3)	(0.6)	(5.5)
Balance at June 30, 2006	**0.6**	**6.7**	**0.5**	**7.8**
Accruals (reversal)	1.7	(0.4)	1.0	2.3
Liabilities assumed in purchase of Reader's Digest Association, Inc.	40.0	0.7	0.4	41.1
Accruals recorded in connection with RDA Merger related to Direct Holdings and WRC Media	5.7	5.9	1.0	12.6
Spending	(7.6)	(3.0)	(2.6)	(13.2)
Balance at June 30, 2007	**$ 40.4**	**$ 9.9**	**$ 0.3**	**$ 50.6**

During 2007, restructuring activities comprised:

- Charges of $(2.3) primarily related to employee separation and contractual fees due to the closure of WRC Media's subsidiary operations and charges of $(0.4) related to the closure of Direct Holdings' Chicago, Illinois telemarketing office in the second quarter of 2007 and income of $0.4 related to an adjustment to a previously existing lease accrual.
- Charges in connection with the Acquisition Transaction for both Direct Holdings and WRC Media totaled $(5.7) for severance, $(5.9) for contract termination costs and $(1.0) of other costs. The charges associated with WRC Media relate to the transitioning of corporate functions to The Reader's Digest Association, Inc. headquarters and the consolidation of operations in Austin, Texas. The charges associated with Direct Holdings are attributable to the closing of certain offices, fulfillment contract terminations and transitioning corporate functions to The Reader's Digest Association, Inc. headquarters.

During 2006, restructuring activities comprised:

- Charges of $(2.6) related to WRC Media's February 2006 restructuring plan for the consolidation of CompassLearning. The plan was communicated in February 2006 and, accordingly, WRC Media incurred charges related to both a workforce reduction and the closure of two facilities. Pursuant to the restructuring, 64 positions were eliminated with severance and other benefit costs approximating $(1.2) related to their termination and $(0.4) related to other contract costs. Most of the workforce reductions and relocations involved technical and support personnel. The terminations and relocations were substantially complete by December 2006. There were no lease termination costs. Other costs of $(1.0) include excess rent fees, the cost of moving selected equipment to the new facility and other charges.

- Reversals of $2.2 at WRC Media related to previously established lease reserves. We review our restructuring plans periodically to determine the appropriateness of existing accruals in light of current circumstances. Accordingly we recorded these charges based upon the settlement of certain lease agreements and updated estimates of remaining lease termination obligations associated with facilities vacated during 2002.

- Charges of $(1.0) pertaining to the announcement by Direct Holdings in January 2006 of a restructuring plan affecting its European office. These costs were recorded in connection with a staff reduction, in an effort to eliminate redundancies within the European office as well as in Direct Holdings' other offices in the United States and Australia.

During 2005, restructuring activities comprised:

- Charges of $(2.6) at Weekly Reader related to a previously established reserve for lease terminations resulting from the updating of the assumptions used in determining the fair value of the remaining lease obligations associated with facilities vacated during 2002.
- Income of $0.4 at Direct Holdings related to accruals recorded in previous years. We review our restructuring plans periodically to determine the appropriateness of existing accruals in light of current circumstances. Accordingly, these reversals, were recorded because of the occurrence of events that affected our original plans.

Note 5 Other (Expense) Income, Net

	2007	2006	2005
Interest income	$ 2.3	$ 0.3	$ ---
Net gain on foreign exchange	0.3	---	---
Net loss on the sales of certain investments	---	(0.5)	---
Other (expense) income, net	(2.1)	---	0.1
Total other (expense) income, net	$ 0.5	$ (0.2)	$ 0.1

.

Note 6 Supplemental Balance Sheet Information

The components of certain balance sheet accounts as of June 30 are as follows:

Accounts Receivable, Net

	2007	2006
Gross accounts receivable, trade	$ 523.4	$ 49.2
Beginning reserve for returns	(6.6)	(8.8)
Reader's Digest reserve for returns assumed in purchase accounting	(67.9)	---
Additions to allowances[1]	(209.1)	(15.3)
Actual returns[2]	212.9	17.5
Ending reserve for returns	(70.7)	(6.6)
Beginning reserve for bad debts	(7.1)	(7.5)
Reader's Digest reserve for bad debts assumed in purchase accounting	(115.3)	---
Additions to allowances[1]	(49.1)	(13.9)
Actual bad debts[2]	44.8	14.3
Ending reserve for bad debts	(126.7)	(7.1)
Ending reserve for returns and bad debts	(197.4)	(13.7)
Accounts receivable, net	$ 326.0	$ 35.5

(1) Additions to allowances represent estimated reserves established at the time of revenue recognition for returns and bad debts in accordance with SFAS No. 48, "Revenue Recognition When Right of Return Exists." Amounts are recorded as an offset to revenues.

(2) Actual returns and bad debts include actual experience during the period and the effects of foreign currency translation.

Inventories

	2007	2006
Raw materials	$ 10.9	$ ---
Work in process	7.8	---
Finished goods	232.9	30.4
Gross inventory	251.6	30.4
Beginning inventory reserve	(5.8)	(6.4)
Reader's Digest inventory reserve assumed in purchase accounting	(52.5)	---
Additions to reserve	(10.6)	(1.2)
Inventory write-offs	5.4	1.8
Ending inventory reserve	(63.5)	(5.8)
Inventories, net	$ 188.1	$ 24.6

Property, Plant and Equipment, Net

	2007	2006
Land	$ 2.5	$ ---
Buildings and building improvements	26.4	---
Furniture, fixtures and equipment	105.3	15.0
Software for internal use	80.8	10.7
Software to be sold or leased	30.6	32.3
Leasehold improvements	35.6	5.2
Accumulated depreciation and amortization*	(163.5)	(38.6)
Total property, plant and equipment, net	$ 117.7	$ 24.6

**Depreciation and amortization expense related to property, plant and equipment amounted to $(16.0), $(8.6) and $(7.6) for the years ended June 30, 2007, 2006 and 2005, respectively. The depreciation and amortization expense for Direct Holdings excludes $0.3 of assets written off due to a reduction in the acquisition contingency in the year ended June 30, 2006.*

Other Noncurrent Assets

	2007	2006
Deferred tax assets	$ 102.5	$ 0.1
Deferred financing, net	63.0	3.3
Fair value of interest rate swaps	10.8	0.1
Other, principally operating assets	42.5	1.7
Total other noncurrent assets	$ 218.8	$ 5.2

Accrued Expenses

	2007	2006
Compensation and other employee benefits	$ 79.0	$ 5.6
Royalties and copyrights payable	28.6	19.1
Taxes, other than income taxes	1.3	4.1
Accrued interest	25.7	---
Restructuring accrual (see Note 4)	50.6	7.8
Other, principally operating expenses	135.4	28.8
Total accrued expenses	$ 320.6	$ 65.4

Other Noncurrent Liabilities

	2007	2006
Deferred tax liabilities	$ 466.8	$ 8.7
Other, principally operating liabilities	69.9	1.8
Total other noncurrent liabilities	$ 536.7	$ 10.5

Note 7 Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill by reportable segment for the fiscal year ended June 30, 2007 are as follows:

	WRC Media	Reader's Digest North America	Reader's Digest International	Schools and Educational Services	Total
Balance as of June 30, 2006	$ 63.3	$ ---	$ ---	$ ---	$ 63.3
Additions as a result of the WRC Media Merger, Direct Holdings Stock Acquisition and the Acquisition Transaction (see Note 3, Acquisitions and Divestitures)	15.5	866.0	695.4	203.5	1,780.4
Translation adjustments			0.6		0.6
Balance as of June 30, 2007	$ 78.8	$ 866.0	$ 696.0	$ 203.5	$ 1,844.3

At least annually (in the fourth quarter), we review the carrying amount of goodwill and other intangibles with indefinite lives in our reporting units for recoverability. During interim periods, we continually monitor changes in our businesses for indicators of impairment. Our reporting units were determined based on our principal operating segments for the current fiscal year. Our Reader's Digest North America unit includes Allrecipes.com and Reiman, while our Schools and Educational Services segment is composed of QSP and Books Are Fun. See Note 15, Segments, for further information.

The following categories of acquired intangible assets are included in other intangible assets, net as of June 30, 2007 and 2006:

	2007		2006	
	Gross	Net	Gross	Net
Intangible assets with indefinite lives:				
Reader's Digest Tradename - indefinite	$ 621.0	$ 621.0	$ ---	$ ---
Other Tradenames - indefinite	158.4	156.9	13.7	11.2
Intangible assets with finite lives:				
Tradenames	18.6	16.7	3.7	3.0
Customer relationships	228.9	194.2	20.8	0.4
Customer database	89.3	85.1	---	---
Licensing agreements and technical support agreements	4.7	4.4	---	---
Favorable lease commitments	4.5	4.2	---	---
Technology and software	16.5	7.6	8.4	---
Other intangibles	2.4	0.6	2.2	0.7
Total intangible assets	$1,144.3	$1,090.7	$48.8	$ 15.3

Amortization related to intangible assets with finite lives amounted to $(20.7), $(6.4) and $(12.4) for the years ended June 30, 2007, 2006 and 2005, respectively, excluding the write-off of the remaining intangible assets at Direct Holdings due to a reduction in the acquisition contingency of $(0.9) in 2006. The remaining weighted average amortization period of our intangible assets is 7.8 years. Estimated fiscal year amortization expense for intangible assets with finite lives is as follows: fiscal 2008 – $61.3; fiscal 2009 – $54.5; fiscal 2010 – $39.6; fiscal 2011 – $35.0 and fiscal 2012 – $31.0.

WRC Media performed an annual impairment test during the second quarter of fiscal 2006 and 2005. The calendar 2005 analysis indicated an impairment in the value of goodwill and intangibles at World Almanac and the Weekly Reader as a result of the then current trends and competitive environment in which those business units operate. Accordingly, goodwill and intangible impairment charges of $50.8 and $19.3, respectively were recorded in 2005.

WRC Media's measurement of fair value of goodwill and intangibles was based on evaluations utilizing both a discounted cash flow, as well as a market approach. These evaluations utilized the best information available in the circumstances, including reasonable and supportable assumptions and projections. Certain key assumptions utilized, including changes in revenue, operating expenses, working capital requirements and capital expenditures including prepublication costs, are based on estimates related to WRC Media's strategic initiatives and current market conditions. Such assumptions also are consistent with those utilized in WRC Media's annual planning process. WRC Media's discounted cash flow evaluation used a discount rate that corresponds to WRC Media's weighted-average cost of capital. This discount rate assumed was consistent with that used for investment decisions and takes into account the specific and detailed operating plans and strategies of WRC Media. The market data utilized represented valuations of comparable companies. Collectively, these evaluations were management's best estimate of projected future cash flows and market values.

In fiscal 2005, WRC Media goodwill was reduced by $6.2 as the tax benefit related to an acquired net operating loss was utilized.

Note 8 Financial Instruments

Risk Management and Objectives

The functional currency for our foreign operations is the local currency. In the normal course of business, substantially all of the transactions of our foreign operations occur in the local currency. We purchase forward contracts to minimize the effect of fluctuating currencies on specifically identifiable transactions. These transactions were minimal in 2007.

As a matter of policy, we do not speculate in financial markets and, therefore, we do not hold financial instruments for trading purposes. We continually monitor foreign currency risk and our use of derivative instruments.

Derivative Instruments

On April 19, 2007, we entered into interest rate swap agreements with a notional value totaling $750.0, involving the exchange of floating- for fixed-rate interest payments, to reduce interest rate volatility and to comply with the interest rate hedging provisions of our 2007 Credit Agreement. The transactions included $450.0 of 3-year interest rate swaps and $300.0 of 5-year interest rate swaps. In each case, we will receive floating-rate interest payments that offset the LIBOR component of the interest due on some of our floating-rate debt and make fixed-rate interest payments over the life of the respective interest rate swaps. The fixed interest rate under the 3-year swaps is 4.89% and the fixed interest rate under the 5-year swaps is 4.94%.

The LIBOR-based loans can be prepaid without penalty (other than accrued interest) at any time during the contractual term of the loans and the swaps are not by their terms cancellable, the hedging relationship does not qualify for the use of the shortcut method of assessing hedge effectiveness. However, we will evaluate the likelihood of whether we will continue to borrow using LIBOR-based loans based on our business plan, and whether the interest payments made on the outstanding loans being hedged will be sufficient to match the terms of the swaps during the life of the hedges (and therefore result in interest payments).

Since the (i) notional value of the swaps is the same as the principal value of the loans generating the hedged interest payments, (ii) floating-rate leg of the swaps and the hedged variable interest payments received on the loans are both based on 3-month LIBOR, (iii) interest rate reset dates applicable to both the floating-rate leg of the swaps and the hedged interest payments on the loans are the same, (iv) payment date on the loans and the settlement under the swaps occur on the same day each period, and (v) hedging relationship does not contain any other basis differences, except for the prepayment feature noted above, we will assess the effectiveness of our hedging strategy using the method described in Derivatives Implementation Group Statement 133 Implementation Issue No. G9, "Cash Flow Hedges: Assuming No Ineffectiveness When Critical Terms of the Hedging Instrument and the Hedged Transaction Match in a Cash Flow Hedge." Accordingly, changes in the fair values of the interest rate swap agreements are expected to be exactly offset by changes in the fair value of the underlying debt.

Additionally, we evaluate whether the creditworthiness of each swap counterparty is such that default on its obligations under the swap is not probable. We also assess whether the LIBOR-based interest payments are probable of being paid under the loans at the inception and, on an ongoing basis (no less than once each quarter), during the life of each hedging relationship.

As of June 30, 2007 the fair market value of our interest rate swaps increased, resulting in a gain of $10.8, which is recorded net of deferred taxes of $4.0. This change is reported in accumulated other comprehensive (loss) income, which is included in stockholders' equity on the balance sheets.

In addition, WRC Media used derivative financial instruments to reduce its exposure to interest rate volatility in 2006 and 2005. Pursuant to the terms of the First-Lien Facility and Second-Lien Term Loan Credit Agreements described in Note 12, Debt, WRC Media was required to enter into or maintain interest rate protection agreements (interest rate swaps, caps, collars or similar agreements) in a notional amount that, when taken together with the aggregate principal amount of total debt, as defined, subject to a fixed interest rate, was equal to at least 50% of the aggregate principal amount of total debt. In October 2005 WRC Media entered into a two-year interest rate cap agreement with a notional principal amount of $0.1, which caps the six-month LIBO rate, as defined, on $42.5 of the loans at 5.25%. The interest rate protection agreement qualified for hedge accounting treatment and, as such, WRC Media marked to market the contract at the end of each period. For those instruments that qualified as hedges, changes in fair value were recorded in other comprehensive (loss) income. The cost of derivative financial instruments was amortized over the contract life. At June 30, 2006, the market value of the interest rate cap was $0.1, which was recorded in other comprehensive (loss) income. In 2007, the interest rate cap was terminated in connection with the repayment of all WRC Media outstanding debt.

Note 9 Benefit Plans

Defined Benefit Pension Plans

We offer defined benefit plans to eligible employees in the United States and in several international markets. Contributions to these plans meet the minimum funding requirements in each respective market. Benefit payments are principally based on a combination of years of service and compensation.

Effective March 2, 2007, we adopted SFAS No. 158. As a result, we recognized the overfunded and underfunded status of our defined benefit pension plans as an asset (overfunded) or liability (underfunded) in the accompanying consolidated statement of financial position and have adopted a new measurement date (June 30) for our defined benefit pension plans. Due to the fact that the adoption of SFAS No. 158 on March 2, 2007 coincides with the Acquisition Transaction and related purchase method of accounting described in SFAS No. 141 there was no impact on accumulated other comprehensive (loss) upon adoption. The impact of the adoption of SFAS No. 158 recorded in purchase method of accounting on our statement of financial position is as follows for our significant defined benefit pension plans:

U.S. Plans:

	March 2, 2007	Adjustments	Adjusted Balance as of March 2, 2007
Prepaid pension assets	$306.5	(58.9)	$247.6
Accrued expenses and accrued pension	(80.5)	(4.2)	(84.7)
Deferred tax assets	1.8	(1.8)	---
Accrued expenses and postretirement benefit obligations other than pensions	(92.4)	26.7	(65.7)
Accumulated other comprehensive (loss) gain	(3.3)	3.3	---

International Plans:

	March 2, 2007	Adjustments	Adjusted Balance as of March 2, 2007
Prepaid pension assets	$27.9	(0.7)	$27.2
Accrued expenses and accrued pension	(36.7)	(41.2)	(77.9)
Deferred tax assets	14.6	(14.6)	
Postretirement benefit obligations other than pensions	(1.9)	(0.4)	(2.3)
Accumulated other comprehensive (loss) gain	(34.2)	34.2	---

U.S. Plans

In the U.S. we maintain funded and unfunded defined benefit plans. The Reader's Digest Association, Inc. Retirement Plan (Retirement Plan) is our largest plan and is over-funded. We have not made any contributions in 2007, nor do we expect to make any contributions in fiscal 2008.

Our unfunded plans were established for certain officers. Since these plans are only available to certain executives, they are not qualified under the Internal Revenue Code (IRC). We fund the benefit payments under these plans as they arise. We expect to make $9.8 of contributions to these plans in fiscal 2008.

In August 2006, the Pension Protection Act of 2006 was signed into law. This law changed the vesting requirement for cash balance pension plans, changed the interest rates used to calculate lump-sum benefit payments, established guidance for valuing pension assets and obligations related to the new minimum funding standards and changed the terms used to determine the plan's tax status. There is no material impact of this law on our U.S plans.

The overriding principle followed in managing our Retirement Plan assets is to obtain a reasonable rate of return in terms of both income and appreciation, consistent with the "Prudent Man" Rule of the Employee Retirement Income Security Act of 1974 (ERISA), while providing liquidity to satisfy short-term obligations.

The table below details our current and target asset allocation as of our June 30, 2007 measurement date.

Asset Class	Actual Allocation as of June 30, 2007	Target Allocation Range
Equities	66%	52% – 72%
Fixed income	23%	23% – 35%
Other	11%	0% – 19%
Total	100%	

Equities include companies with both large and small market capitalizations, as well as listed companies in international markets. Our allocation tends to be heavily weighted in favor of large capitalized companies. More than half of the Retirement Plan's funds are invested in equity markets because these investments tend to provide better returns and offer some protection from inflation. Fixed income securities are included in the portfolio to protect the Retirement Plan's assets from inflation and to preserve capital. Other assets, including private equity and real estate investments, are utilized to a small extent to take advantage of investments that provide higher returns. The Retirement Plan allows investment managers to invest in derivative instruments, provided that certain criteria specified in the plan's investment policy are satisfied.

The expected rate of return on plan assets is a significant driver in calculating our net pension (benefit) cost. In order to calculate our 2007 (benefit) cost, we used an expected return on plan assets of 8.50%. This rate was based on an analysis of historical returns generated by asset classes in which our funds are invested and on projected returns for portfolios with assets similar to ours.

Estimated benefit payments during the next 10 years are expected to be, by fiscal year: 2008 – $44.0; 2009 – $43.3; 2010 – $45.5; 2011 – $42.9; 2012 – $44.8 and from 2013 to 2017 – a total of $221.6.

International Plans

We also offer defined benefit pension plans in several markets outside the United States. For the significant plans, in fiscal 2008, we expect to contribute $9.6.

The table below reflects the actual allocation of assets held for our international plans and the allocation required pursuant to our most recent investment policy for these plans. These percentages have been calculated on a weighted average basis because the assets comprised several plans.

Asset Class	Actual Allocation as of June 30, 2007	Target Allocation
Equities	68%	67%
Fixed income	32%	33%
Total	100%	

Similar to the U.S. plans, the expected rate of return on plan assets is a significant driver in calculating the net pension (benefit) cost for our international plans. In order to calculate our 2007 expense, we used a return on plan assets of 7.05%. These rates were based on a methodology similar to that used to determine the rate of return for our Retirement Plan.

Estimated benefit payments during the next 10 years are expected to be, by fiscal year: 2008 – $15.1; 2009 – $14.1; 2010 – $14.8; 2011 – $15.3; 2012 – $15.9 and from 2013 to 2017 – a total of $90.5.

Assumptions

The table below outlines the weighted average assumptions used to determine our projected benefit obligation as of year-end and pension (benefit) cost for the period from March 2, 2007 to June 30, 2007 for:

	U.S. Plans	International Plans
Benefit obligation	2007	2007
Discount rate	6.25%	5.57%
Compensation increase rate	4.00%	3.94%
Pension (benefit) cost	2007	2007
Discount rate	5.50%	5.07%
Compensation increase rate	4.00%	3.94%
Long-term rate of return on plan assets	8.50%	7.05%

Components of net periodic pension (benefit) cost are as follows:

	U.S. Plans 2007	International Plans 2007
Service cost	$ 3.1	$ 2.7
Interest cost	9.7	6.0
Expected return on plan assets	(19.8)	(7.0)
Curtailment/Settlement (gains)	-	(1.3)
Net periodic pension (benefit) cost	$ (7.0)	$ 0.4

A reconciliation of the beginning and ending balances of benefit obligations and fair value of plan assets and the funded status of the defined benefit pension plans is as follows:

	U.S. Plans 2007	**International Plans** 2007
Change in benefit obligation:		
Benefit obligation at March 2, 2007	$ 553.2	$ 360.0
Service cost	3.1	2.7
Interest cost	9.7	6.0
Participant contributions	---	0.5
Actuarial (gain)	(30.9)	(32.9)
Exchange rate changes	---	11.1
Settlements/Curtailments	---	(1.3)
Other expenses		(0.4)
Benefits paid	(14.2)	(4.3)
Benefit obligation at end of year	520.9	341.4
Change in plan assets:		
Fair value at March 2, 2007	716.1	309.3
Actual return on plan assets	41.3	10.4
Employer contribution	3.0	2.7
Participant contributions	---	0.5
Exchange rate changes	---	12.3
Other expenses		(0.4)
Benefits paid	(14.2)	(4.3)
Fair value at end of year	746.2	330.5
Funded status	225.3	(10.9)
Items not yet recognized as a component of net periodic cost:		
Net actuarial gain (loss)	52.4	37.0

In fiscal 2008, we expect to recognize none of the actuarial gain in the United States Plan and a gain of $1.4 in our international plans.

The accumulated benefit obligation as of June 30, 2007 (the actuarial present value of benefits earned, excluding future compensation increase assumptions) for our U.S. plans and international plans was $508.8 and $307.5, respectively.

Other Postretirement Benefits

We provide medical and dental benefits to certain retired employees and their dependents of Reader's Digest. The plans that provide these benefits cover all of our eligible employees in the United States who were hired before July 1, 2005 and, to a lesser extent, employees in Canada.

The table below outlines the weighted average assumptions used to determine our postretirement benefit obligation as of year-end and our postretirement cost for the period from March 2, 2007 to June 30, 2007:

Postretirement benefit obligation	2007
Discount rate	6.25%
Healthcare cost trend rate assumed for next year	8.00%
Rate to which the cost trend rate is assumed to decline	5.00%
Number of years to ultimate trend rate	6

Postretirement cost	
Discount rate	5.50%
Healthcare cost trend rate assumed for next year	9.00%
Rate to which the cost trend rate is assumed to decline	5.00%
Number of years to ultimate trend rate	7

Components of net periodic postretirement (benefit) cost are as follows:

	2007
Service cost	$ 0.2
Interest cost	1.2
Net periodic postretirement (benefit) cost	$ 1.4

A reconciliation of the beginning and ending balances of benefit obligations and fair value of plan assets and the funded status of the plans is as follows:

	2007
Change in benefit obligation:	
Benefit obligation at beginning of year	$ 68.0
Service cost	0.2
Interest cost	1.2
Actuarial (gain)	(3.5)
Exchange rate	0.2
Benefits paid	(2.0)
Benefit obligation at end of year	64.1
Change in plan assets:	
Fair value at beginning of year	---
Employer contribution	2.0
Benefits paid	(2.0)
Fair value at end of year	----
Unfunded status	(64.1)
Items not yet recognized as a component of net period cost:	
Net actuarial gain (loss)	3.5

We do not expect to recognize any of the net actuarial gain in fiscal 2008.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for postretirement benefits. A one-percentage-point increase in assumed healthcare cost trend rates would increase the total of the service and interest cost components by $0.5 and the postretirement benefit obligation by $7.5 for the year ended June 30, 2007. A one-percentage-point decrease in assumed healthcare cost trend rates would decrease the total of the service and interest cost components by $(0.4) and the postretirement benefit obligation by $(6.3) for the year ended June 30, 2007.

Estimated benefit payments during the next 10 years are expected to be, by fiscal year: 2008 – $6.5; 2009 – $6.4; 2010 – $6.3; 2011 – $6.2; 2012 – $6.2; and from 2013 to 2017 – a total of $27.3. Estimated receipts pursuant to the Medicare Reform Act during the next 10 years are expected to be, by fiscal year: 2008 – $0.5; 2009 – $0.6; 2010 – $0.6; 2011 – $0.6; 2012 – $0.6; and from 2013 to 2017 – a total of $3.3.

Balance Sheet Classification

Amounts recognized on the balance sheets related to our significant pension and postretirement plans are as follows:

	Pension Benefits 2007	Other Benefits 2007
Prepaid pension assets	$ 336.5	$ ---
Accrued expenses	(10.9)	(6.4)
Accrued pension	(111.3)	---
Postretirement benefits other than pensions	---	(57.7)

Balances of pension plans with projected and accumulated benefit obligations in excess of the fair value of plan assets are as follows:

	Plans with Projected Benefit Obligations in Excess of Plan Assets 2007	Plans with Accumulated Benefit Obligations in Excess of Plan Assets 2007
Projected benefit obligation	$ 374.4	N/A
Accumulated benefit obligation	N/A	$ 345.7
Fair value of plan assets	$ 252.3	$ 252.3

WRC Media Defined Benefit Plan

A subsidiary of WRC Media, which was disposed of in July 2005, sponsored a pension plan for which the minimum pension liability adjustment was $1.8 at June 30, 2005 and was recorded as a component of other comprehensive income (loss) in the statement of stockholders' deficit. As part of the sale of the subsidiary, this amount was eliminated and is included in the gain on disposition as discussed in Note 3, Acquisitions and Divestitures.

Defined Contribution Plans

RDA Employee Ownership Plan and 401(k) Partnership (the 401(k) plan) – The 401(k) plan consists of both a profit-sharing plan and a savings plan under section 401(k) of the IRC. The savings plan component allows employees to make pre-tax contributions to their accounts, which may be invested in specified investment alternatives. We may match employee contributions to the extent determined by our Board of Directors. The matching contributions vest 20% per annum over a five-year period. Our contributions to the 401(k) plan, including matching contributions, were $1.1 for 2007.

WRC Media Defined Contribution Plan - Substantially all of WRC Media's employees are eligible to participate in a defined contribution plan (the "Plan"). Pursuant to the provisions of the Plan, WRC Media is obligated to match 33% of the employee's contribution to the Plan up to the first 6%

of the employee's compensation. The expensed recognized by WRC Media for its contributions to the plan was $1.1, $1.1 and $1.0 for fiscal 2007, 2006 and 2005, respectively.

Direct Holding Defined Contribution Plan - Direct Holdings offers to employees certain statutory and discretionary profit sharing plans.

Direct Holdings' 401(k) profit sharing plan includes an employee contribution and employer matching contribution feature. Eligible employees may make pre-tax contributions of up to 50% of their annual compensation under the 401(k) feature of the plan, subject to regulatory limitations. Employee contributions of up to 6% of compensation are currently matched by Direct Holdings at a rate of 50%. Employees are 100% vested in their pre-tax contributions at all times, and become fully vested in the employer matching contribution after two years of service. Direct Holdings' matching contributions to the plan for fiscal 2007, 2006 and 2005 were approximately $0.4, $0.5 and $0.6, respectively.

Note 10 Equity Compensation Plans

RDA Holding Co.

In July 2007 the Board of Directors of RDA Holding Co. (the Board) approved the RDA Holding Co. 2007 Omnibus Incentive Compensation Plan (the 2007 Plan). All prior existing employee incentive compensation plans at Reader's Digest Association, Inc. and WRC Media were terminated upon the completion of the Acquisition Transaction. Additionally, as of June 30, 2007, there were no stock options outstanding under the Direct Holdings 2004 Stock Incentive Plan.

Under the 2007 Plan, the Board may grant to eligible directors, employees and consultants stock options, stock appreciation rights, restricted stock, restricted stock units, and other equity-based or equity related awards that the Board determines are consistent with the purpose of the 2007 Plan and the interests of The Reader's Digest Association, Inc. and Subsidiaries. The Board may grant up to a maximum of 4,988,047 shares under the 2007 Plan. Since July 2007, the Board granted approximately 3.2 million options at an exercise price of $10 per share and 1.1 million shares of restricted stock and 0.4 million shares of restricted stock units with a fair value at $10 per share. In general, the vesting of these awards is contingent on the occurrence of certain liquidity events, as defined in the 2007 Plan and the recording of such awards is pushed down to RDA from RDA Holding Co.

WRC Media

In 2000, WRC Media adopted the WRC Media Inc. and Subsidiaries Year 2000 Stock Option Plan. Stock options are granted with exercise prices not less than the fair market value of the Common Stock at the time of the grant with an exercise term not to exceed 10 years. Generally, the options vest ratably over three to four years from the date of grant. In 2007, 2006 and 2005, WRC Media did not grant any stock options. In connection with the WRC Media Merger in 2007, all outstanding were stock options were terminated.

Stock options granted prior to 2000, as well as 2002 grants, were accounted for using variable plan accounting. This was attributable to the options cashless exercise provisions and the re-pricing of certain options in 2003.

In accordance with APB No. 25, no stock-based compensation was recognized in the statements of operations in 2007, 2006 and 2005 as the fair market value for these grants was less than the exercise price of the options. WRC Media did not issue any new stock-based awards or modify any existing awards during 2007, 2006 or 2005; therefore, there was no impact from the adoption of SFAS No. 123R using the modified- prospective method. In addition, there were no capitalized stock-based compensation costs at June 30, 2007.

The aggregate intrinsic value of options outstanding and exercisable at June 30, 2006 and 2005 is $0.

A summary of the WRC Media's option activity for the years ended June 30, 2006 and 2005 is as follows:

	Year ended June 30, 2006		Year ended June 30, 2005	
Employee Stock Options	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	588,969	27.52	609,039	27.32
Granted				
Exercised				
Cancelled	(283,010)	22.34	(16,367)	21.54
Forfeited	(9,164)	22.98	(3,703)	20.25
Outstanding, end of year	296,795	32.61	588,969	27.52
Options exercisable at year-end.	295,545	32.50	569,805	27.57
Options available for grant at year-end	31,756		22,592	
Options subject to variable accounting	213,762	34.61	418,056	26.79
Weighted-average fair value of options granted during the period. .	$---	$---		$---

Direct Holdings

In October 2004, Direct Holdings adopted the Direct Holdings 2004 Stock Incentive Plan (the 2004 Stock Plan). Under the 2004 Stock Plan, Direct Holdings may issue, among other forms of compensation, incentive or nonqualified stock options at the discretion of the Board of Directors. Stock options may be granted at the fair market value at the date of grant or at an exercise price less than fair market value at the date of grant. The 2004 Stock Plan reserved 20,000 shares of common stock available for grants. Options granted vest primarily at 25% per year beginning at the end of the first year and are fully exercisable at the end of four years. All options expire ten years from the date of grant unless otherwise terminated. Direct Holdings generally grants stock options with an exercise price equal to the market value of the common stock on the date of grant. In conjunction with the Plan and individual stock options agreements, Direct Holdings adopted a Management Shareholders Agreement which provides, among other things, that certain employee shareholders are obligated to vote shares with the majority shareholder.

In 2005, Direct Holdings granted approximately 6,500 options to certain key employees. All options had an exercise price of $162.50. The options generally vest over four years at 25% per year commencing in October 2005. At June 30, 2006, 3,244 options were exercisable at a weighted average exercise price of $162.50.

In January 2005, Direct Holdings granted an additional 8,000 options to a consultant who became the Chief Executive Officer (CEO) in May 2005. The exercise price of those options was $162.50 per share. The stock options vest commencing with the first anniversary date according the following schedule: 25% in January 2006 and 6.25% per quarter thereafter until December 2008. On July 1, 2006, Direct Holdings granted 6,014 additional options primarily to members of senior management at an exercise price of $162.50.

Under certain defined circumstances, Direct Holdings' had the ability to repurchase the options at either fair market value as determined or book value. Therefore, in accordance with APB No. 25, compensation income (expense) of $0.2 and $(0.2), respectively, was recognized in the combined statements of operations for 2006 and 2005, using variable accounting. (For Fiscal 2006, the fair market value of Direct Holdings outstanding options as of June 30, 2006, as calculated, resulted in a reversal of the prior year stock compensation charge.) As a result of accelerated vesting and exercise of all outstanding options in connection with the Direct Holdings' Stock Acquisition, the 2007 stock-based compensation expense was $2.0 ($1.3 net of tax).

The fair market value of the options as of June 30, 2006 and 2005 was $132.16 and $195.11, respectively. The Black-Scholes option pricing model was used to estimate fair value using the following assumptions:

	June 30, 2006	June 30, 2005
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	5.2%	4.1%
Expected volatility	40%	41%
Expected option term (years)	4	4
Exercise price	$162.50	$162.50

At March 2, 2007, all outstanding options (16,888) were exercised in connection with the Direct Holdings' Stock Acquisition at an exercise price of $162.50 and fair value of $279.39. The proceeds from the exercise of these options are $2.7. Changes in outstanding options are as follows:

	Options outstanding		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
Outstanding, June 30, 2004	—	—	$ —
Granted	14,474	10	162.50
Exercised	—	—	—
Forfeited/expired	(1,500)	—	162.50
Outstanding, June 30, 2005	12,974	—	162.50
Granted	—	—	—
Canceled	(450)	—	162.50
Forfeited/expired	(1,650)	—	162.50
Outstanding, June 30, 2006	10,874	9	$ 162.50
Granted	6,014	10	162.50
Exercised in connection with the Direct Holdings' Stock Acquisition	(16,888)	—	162.50
Outstanding, June 30, 2007	—	—	$ —

Note 11 Income Taxes

For domestic operations, we will file our U.S. tax return as part of the RDA Holding Co. consolidated tax return for the period March 3, 2007 through June 30, 2007. WRC Media and Direct Holdings have filed their tax returns as separate standalone entities in the past and will file separately through March 2, 2007. The income tax liability reported has been determined using the separate return method consistent with Staff Accounting Bulletin 55, "Allocation of Expenses and Related Disclosure of Financial Statements of Subsidiaries, Divisions or Lesser Business Components of Another Entity". Under this method, the current and deferred taxes are calculated as if each member were a separate taxpayer. There are no tax related amounts due to or from affiliates as of the date of each statement of financial position presented.

Loss before provision (benefit) for income taxes and discontinued operations is as follows:

	2007	2006	2005
United States	$ (106.4)	$ 2.3	$ (146.3)
International	11.0	(2.8)	1.7
Loss before provision for income taxes	$ (95.4)	$ (0.5)	$ (144.6)

Income tax benefit (expense) is allocated to the following items:

	2007	2006	2005
Continuing operations	$ 4.7	$ (2.5)	$ 51.9
Discontinued operations	---	(40.8)	(19.4)
Extraordinary item	---	---	---
Shareholders' equity	(36.1)	---	---
Total	$ (31.4)	$ (43.3)	$ 32.5

Components of the (provision) benefit for income taxes attributable to income from continuing operations are as follows:

	2007	2006	2005
Current			
U.S. federal	$ (2.8)	$ ---	$ 11.7
U.S. state and local	(0.2)	(0.2)	(0.7)
International	(12.3)	(1.0)	(0.8)
Total current	$ (15.3)	$ (1.2)	$ 10.2
Deferred			
U.S. federal	$ 23.2	$ (2.0)	41.6
U.S. state and local	(1.8)	--	--
International	(1.4)	0.7	0.1
Total deferred	$ 20.0	$ (1.3)	41.7
(Provision) benefit for income taxes	$ 4.7	$ (2.5)	$ 51.9

A reconciliation between the statutory U.S. federal income tax rate and the effective income tax rate is as follows:

	2007	2006	2005
U.S. statutory tax rate	35.0%	(3.0)%	34.8%
International operations	(8.1)	(314.0)	0.7
State taxes	(2.2)	280.1	1.9
Non-deductible loan write off		(2,340.7)	
Non-deductible amortization & impairments		--	(2.8)
Non-deductible preferred stock dividends		(127.9)	(6.0)
Changes in valuation allowance	(19.4)	(1,778.9)	7.3
Gain on recapitalization	---	4,212.3	--
Goodwill charge	---	--	--
Other operating items	(0.4)	--	--
Other	---	(485.9)	(0.1)
Effective tax rate	4.9%	(558.0)%	35.8%

Components of deferred tax assets and liabilities are as follows:

	2007	2006
Deferred compensation and other employee benefits	$56.2	$1.5
Accounts receivable and other allowances	75.7	8.9
Net operating loss carryforwards	113.6	60.0
Other operating items	15.7	12.3
Tax credit carryforwards	87.8	1.9
Deferred gain on sale of buildings	12.9	--
Other accrued items	28.1	5.0
Depreciation and amortization	13.7	32.0
Gross deferred tax assets	403.7	121.6
Valuation allowance	(200.8)	(117.3)
Total net assets	202.9	4.3
Deferred compensation and other employee benefits	(105.8)	--
Deferred promotion	(11.4)	--
Depreciation and amortization	(311.0)	(11.7)
Deferred agent commissions	(18.3)	--
Other	(90.1)	(0.2)
Total net liabilities	(536.6)	(11.9)
Net deferred taxes	$(333.7)	$(7.6)

Balance sheet classifications of deferred tax assets and liabilities are as follows:

	2007	2006
Prepaid expenses and other current assets	$ 34.1	$ 1.0
Other noncurrent assets	102.5	0.1
Other current liabilities	(3.5)	--
Other noncurrent liabilities	(466.8)	(8.7)
Net deferred taxes	$ (333.7)	$ (7.6)

Net operating loss carryforwards of $572.7 at June 30, 2007, are available to reduce future tax obligations of certain foreign and U.S. companies. The net operating loss carryforwards have various expiration dates, with $0.5 expiring in fiscal 2008, $543.5 expiring between 2009 and 2027 and $28.7 having indefinite carryforward periods. The Internal Revenue Service places a limitation on utilizing net operating loss carryforwards and certain "built-in losses" or deductions when an ownership change, as defined in the law, occurs. A portion of our net operating loss carryforwards are subject to these rules. In addition, foreign tax credit carryforwards of $54.3 and alternative minimum tax credit carryforwards of $12.1 and various non-US tax credit carryforwards of $4.8 are available as of June 30, 2007. Foreign tax credit carryforwards have various expiration dates beginning in fiscal 2012; alternative minimum tax credit carryforwards have an indefinite carryforward period and non-US tax credit carryforwards have various expiration dates beginning in fiscal 2013.

A valuation allowance has been recorded on certain deferred tax assets based on Management's assessment of their realizability on a more likely than not basis. Management has determined we are not more likely than not to realize certain deferred tax assets. As such, we have recorded a valuation allowance of $200.8 for these deferred tax assets. To the extent we generate income in future years, the tax provision will reflect the realization of such benefits. However, benefits attributable to acquired deferred tax assets, which were offset by a valuation allowance of $113.2, will reduce the excess purchase price over the net assets acquired and other noncurrent intangible assets.

A provision has not been recorded for U.S. income taxes and foreign withholding taxes that would be payable if the undistributed earnings of certain foreign subsidiaries, aggregating approximately $130.5 as of June 30, 2007, were distributed to the U.S. in the form of dividends because we intend to permanently reinvest such foreign earnings. A determination of the amount of the unrecognized deferred tax liability related to undistributed earnings is not practical. We have recorded the taxes on those earnings that are not permanently reinvested.

We are undergoing various federal, international, state and local audits. We have reasonably estimated and appropriately accrued for our known liabilities. There are no known potential adjustments that would have a material impact on the financial statements.

Note 12 Debt

The Reader's Digest Association, Inc.

2007 Credit Agreement

On March 2, 2007, we entered into a credit agreement providing for a six-year senior secured $300.0 revolving credit facility and a seven-year $1,310.0 term loan (the "2007 Credit Agreement"). At June 30, 2007, $85.2 was outstanding under the revolving credit facility and $1,309.3 under the term loan. The 2007 Credit Agreement term loan includes within the above-mentioned facilities a US$100.0 term loan tranche made available in an equivalent amount of euros to one of our German subsidiaries. Financing fees of $40.4 related to the 2007 Credit Agreement were deferred and are amortized on a straight-line basis over the life of the agreement.

Borrowings under the term loan bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate ("Base Rate") determined by reference to the higher of (1) the prime rate and (2) the federal funds rate plus 0.50% or (b) a Eurocurrency rate ("Eurocurrency Rate") determined by reference to the rate for Eurocurrency deposits for a period of one, two, three or six months or, subject to availability to the lenders, nine or twelve months, as selected by us. For Base Rate loans and Eurocurrency Rate loans, the applicable margin is 1.00% and 2.00%, respectively.

Borrowings under the revolving credit facility bear interest at a percentage per annum equal to, at our option, either (1) the Base Rate plus 1.25% for Base Rate loans or (2) the Eurocurrency Rate plus 2.25% for Eurocurrency Rate loans. Applicable margins with respect to revolving loans will be subject to reduction by up to 0.75% based on our consolidated leverage ratio from time to time.

We are required to pay a commitment fee for the revolving credit facility for the average daily unutilized commitments. The initial commitment fee rate is 0.375% per annum and may be reduced to 0.25% subject to our attaining certain leverage ratios.

The 2007 Credit Agreement generally requires us to prepay outstanding term loans upon the occurrence of certain defined events, including net cash proceeds of any incurrence of new debt (as defined), certain assets sales or dispositions (as defined) and 50% (which percentage will be reduced if our total leverage ratio is less than certain ratios) of our annual excess cash flow (as defined).

In addition, we are required to repay the term loan in equal quarterly installments beginning June 30, 2007 (with any remainder expected to be due on March 2, 2014) in aggregate annual amounts equal to 1.0% of the initial aggregate principal amount. The principal amount outstanding under the revolving credit facility is due and payable in full at maturity, on March 2, 2013.

All obligations under the 2007 Credit Agreement are unconditionally guaranteed by RDA Holding Co., us and, subject to certain exceptions, each of RDA Holding Co.'s direct and indirect domestic wholly-owned subsidiaries (collectively referred to as the "Guarantors"). The loans made to our German subsidiary are also unconditionally guaranteed by its subsidiaries as well as secured by all of the stock and assets of those subsidiaries (subject to certain exceptions).

All obligations under the 2007 Credit Agreement, and the guarantees of those obligations, are generally secured by the following assets of the Guarantors: (i) 100% of our common stock and each of our direct and indirect domestic subsidiaries and 65% of the voting common stock and 100% of the non-voting common stock of our direct and indirect foreign subsidiaries and (ii) a security interest in substantially all our tangible and intangible assets. Subject to certain exceptions, all obligations of each non-U.S. borrower are unconditionally guaranteed by each restricted subsidiary of such borrower.

The 2007 Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to: (i) incur additional indebtedness or issue shares by subsidiaries, (ii) create liens on assets, (iii) engage in mergers or consolidations, (iv) sell assets, (v) pay dividends and distributions, (vi) make investments, loans or advances, (vii) repay subordinated indebtedness (including the Senior Subordinated Notes described below), (viii) make certain acquisitions, (ix) engage in certain transactions with affiliates, (x) enter into certain burdensome agreements, (xi) amend material agreements governing our subordinated indebtedness (including the Senior Subordinated Notes), (xii) change our lines of business and (xiii) make capital expenditures.

In addition, the 2007 Credit Agreement includes a financial covenant requiring us to comply with a maximum leverage ratio, as defined. The 2007 Credit Agreement also contains certain defined customary affirmative covenants and events of default.

We entered into interest rate swap agreements with a notional value totaling $750.0, involving the exchange of floating- for fixed- rate interest payments, to reduce interest rate volatility and to comply with the interest rate provisions of our 2007 Credit Agreement. See Note 8, Financial Instruments, for further information.

Senior Subordinated Notes and Indenture

On March 2, 2007, we entered into an Indenture among us, the Guarantors (as defined therein) and The Bank of New York, as Trustee, pursuant to which we issued $600.0 of 9% Senior Subordinated Notes due 2017 (the "Senior Subordinated Notes") in a private offering. Financing fees of $24.8 related to the Senior Subordinated Notes were deferred and are amortized on a straight-line basis over the life of the agreement.

The Senior Subordinated Notes mature on February 15, 2017. Interest on the Senior Subordinated Notes accrues at the rate of 9% per annum and is payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2007, to the holders of Senior Subordinated Notes of record on the immediately preceding February 1 and August 1. Interest on the Senior Subordinated Notes is computed on the basis of a 360-day year comprised of twelve 30-day months.

The Senior Subordinated Notes are guaranteed on a senior subordinated basis by all of our subsidiaries that guarantee our obligations under the 2007 Credit Agreement. Any domestic subsidiaries that in the future guarantee our indebtedness will also guarantee the Senior Subordinated Notes. The guarantees of the Senior Subordinated Notes will be released when the guarantees of our 2007 Credit Agreement indebtedness are released.

The guarantees of the Senior Subordinated Notes are unsecured senior subordinated obligations of our subsidiary guarantors and have the same ranking with respect to indebtedness of our subsidiary guarantors as the Senior Subordinated Notes have with respect to our indebtedness.

We may redeem some or all of the Senior Subordinated Notes at any time prior to February 15, 2012 at a price equal to 100% of the principal amount of the Senior Subordinated Notes plus accrued and unpaid interest plus a defined "make-whole" premium. The Senior Subordinated Notes are also redeemable at our option, as defined, in whole or in part, at any time on or after February 15, 2012.

At any time prior to February 15, 2010, we may redeem, at our option, up to 35% of the original principal amount of the Senior Subordinated Notes with the proceeds of one or more equity offerings at a redemption price of 109% of the principal amount of the Senior Subordinated Notes, together with accrued and unpaid interest, if any, to the date of redemption.

Upon the occurrence of a change of control (as defined) of The Reader's Digest Association, Inc., holders of the Senior Subordinated Notes have the right to require us to repurchase all or a portion of the Senior Subordinated Notes at a purchase price in cash equal to 101% of the principal amount of the Senior Subordinated Notes plus accrued and unpaid interest.

The Indenture, among other things, limits our ability and the ability of our subsidiaries to: (i) incur, assume or guarantee additional indebtedness, (ii) issue redeemable stock and preferred stock, (iii) repurchase common stock, (iv) make other restricted payments, including, without limitation, paying dividends and making investments, (v) create liens, (vi) redeem debt that is junior in right of payment to the Senior Subordinated Notes, (vii) sell or otherwise dispose of assets, including common stock of subsidiaries, (viii) enter into agreements that restrict dividends from subsidiaries or (ix) enter into mergers or consolidations.

Registration Rights Agreement

In connection with the issuance of the Senior Subordinated Notes, we entered into a Registration Rights Agreement, dated as of March 2, 2007. The Registration Rights Agreement provides that we and each of the Guarantors will, at our expense and for the benefit of the holders of the Senior Subordinated Notes, (i) file a registration statement on an appropriate registration form (an "Exchange Offer Registration Statement") with respect to a registered offer (an "Exchange Offer") to exchange the Senior Subordinated Notes for new notes guaranteed by the Guarantors on a senior subordinated basis, with terms substantially identical in all material respects to the Senior Subordinated Notes (the notes so exchanged, the " Exchange Notes ") (except that the Exchange Notes will not contain terms with respect to transfer restrictions or any increase in annual interest rate) and (ii) use our reasonable best efforts to cause the Exchange Offer Registration Statement to be declared effective under the Securities Act of 1933.

Upon an Exchange Offer Registration Statement being declared effective, we will offer the Exchange Notes (and the related guarantees) in exchange for surrender of the Senior Subordinated Notes.

If the Exchange Offer is not consummated, in certain circumstances we will be required to file a shelf registration statement covering resale of the Senior Subordinated Notes. In addition, in certain circumstances if the Exchange Offer is not consummated on or prior to the 360th day after March 2, 2007, up to an additional 1.0% of penalty interest may accrue on the principal amount of the Senior Subordinated Notes outstanding.

2005 Credit Agreement and Senior Unsecured Notes

On March 2, 2007, the entire outstanding principal amount of $390.0 under our $500.0 Five-Year Revolving Credit Agreement dated April 14, 2005 and amended April 19, 2006 (the "2005 Credit Agreement") was repaid and we also repurchased $299.9 of the $300.0 aggregate outstanding principal amount of our 6-1/2% senior unsecured notes due in 2011.

Debt Maturities and Interest Expense

Total debt maturities during the next five years are as follows:

2008	$ 13.1
2009	13.1
2010	13.1
2011	13.1
Later years	1,942.1
Total	$1,994.5

At June 30, 2007 and 2006, we had borrowings of $1,994.5 and $182.8 outstanding, respectively. $13.1 and $182.8 at June 30, 2007 and 2006, respectively, were classified as short-term debt on the statements of financial position and $1,981.4 at June 30, 2007 is classified as long-term debt on the statements of financial position.

Financial Statement Reporting Requirements

We were delayed in the timely delivery of our fiscal 2007 year-end audited financial statements and first quarter 2008 unaudited financial statements pursuant to the terms of our 2007 Credit Agreement and the Indenture relating to our Senior Subordinated Notes (the "Financial Delivery Requirement"). The delay in completing the Financial Delivery Requirement results from technical aspects of the accounting rules and complexities related to changing the fiscal year-end for our predecessor company WRC Media from December 31 to June 30 to conform to our June 30 reporting cycle. On December 12, 2007, we received a notice from the Administrative Agent under our 2007 Credit Agreement that commenced the 30 day period during which we must satisfy the Financial Delivery Requirement under our 2007 Credit Agreement. Until we satisfy the Financial Delivery Requirement under our 2007 Credit Agreement, we will be unable to draw down funds from our revolving credit facility. Delivery of this Annual Report will satisfy the Financial Delivery Requirement as it relates to the fiscal 2007 year-end audited financial statements.

WRC Media

Credit and Guaranty Agreement

In connection with the July 2005 sale of a subsidiary and related recapitalization transactions, two of WRC Media's subsidiaries entered into the Credit and Guaranty Agreement ("First-Lien Facility"). The agreement provided for a facility consisting of a Senior Term Loan with a Tranche A and Tranche B, and a Revolving Credit Facility ("WRC Revolver"), to be secured by liens on substantially all of WRC Media's assets. The agreement also provided for a final maturity of the First-Lien Facility of July 22, 2009.

Beginning November 20, 2006, in connection with the delivery of WRC Media's financial statements as of and for the nine-month period ended September 30, 2006, WRC Media was in default of the Credit and Guaranty Agreement because its borrowings were in excess of the permitted borrowings. At December 31, 2006, WRC Media was not in compliance with certain defined covenants, including leverage and coverage ratios. On January 23, 2007, WRC Media entered into the Forbearance and First Amendment Agreement whereby, among other provisions, WRC Media was, subject to certain terms and conditions, provided $23.0 in permitted borrowings. Under the terms of the Forbearance and First Amendment Agreement, subject to certain conditions including the avoidance of additional defaults, the lenders agreed not to exercise certain rights until March 31, 2007. In consideration of the execution and delivery of the Forbearance and First Amendment Agreement, WRC Media was required to pay a forbearance fee of up to $4.3 on the maturity date of the term loans. As noted above, WRC Media was also in default of certain financial covenants which were not waived. By virtue of these defaults, the lenders were entitled to certain remedies, including the repayment of all borrowings.

In connection with the Acquisition Transaction and the contribution of WRC Media to The Reader's Digest Association, Inc., on March 2, 2007, WRC Media repaid all borrowings and forbearance fees, under the First-Lien Facility and the Forbearance and First Amendment agreements, totaling $112.6.

Term Loan Credit Facility

In connection with the July 22, 2005 redemption and repurchase by WRC Media of all of the shares of WRC Media's 15% Senior Preferred Stock due 2011 ("Senior Preferred Stock) and the warrants to purchase common stock of two of WRC Media's subsidiaries, WRC Media entered into a $30.0 Term Loan and Guaranty Agreement ("Second-Lien Term Loan Credit Agreement"), in addition to the payment of $55.0 and the issuance of 92,754,145 shares of WRC Media common stock to the holders of Senior Preferred Stock.

The Second-Lien Term Loan Credit Agreement provided for similar but less restrictive covenants to those of the Credit and Guaranty Agreement. The Second-Lien Term Loan Credit Agreement was a priority loan to the Credit and Guaranty Agreement.

SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," prescribes the accounting when debt is restructured by a company. Additional guidance on the application of SFAS No. 15 is provided by EITF Issue 02-07, "Determining Whether a Debtor's Modification or Exchange of Debt Instruments is within the Scope of FASB Statement No. 15." The consensus of these pronouncements is that unless there is evidence to the contrary, when debt is restructured with consideration materially less than the carrying value of the retired debt, the provisions of SFAS No. 15 apply. Therefore, although WRC Media was in compliance with its loan covenants when the recapitalization transactions occurred in 2005, because the consideration issued to the Senior Preferred shareholders was significantly less than the Senior Preferred Stock's carrying value, the provisions of SFAS No. 15 applied. Accordingly, the difference between the carrying value of the Senior Preferred Stock and the consideration received by the Senior Preferred shareholders of $82.8 was reduced by the $28.6 of interest expected to be earned by the Second-Lien Term Loan Credit Agreement loan holders over the term of the loan. Therefore, WRC Media recognized a gain of $54.2 and increased the carrying value of the Second-Lien Term Loan Credit Agreement loan by $28.6. The net gain on recapitalization of $38.0 was not reduced by income taxes.

Beginning November 20, 2006, WRC Media was in default of the Second-Lien Term Loan Credit Agreement due to the excess borrowings discussed above and the cross default provisions of the Credit and Guaranty Agreement and Second-Lien Term Loan Credit Agreement. As of December 31, 2006, WRC Media was also in default of certain financial covenants which had not been waived. By virtue of these defaults, the lenders were entitled to certain remedies, including the repayment of all borrowings.

In connection with the Acquisition Transaction and the contribution of WRC Media to The Reader's Digest Association, Inc., on March 2, 2007, WRC Media repaid all borrowings under the Second-Lien Term Loan Credit Agreement, totaling $40.1. In connection with the repayment of the Second-Lien Term Loan Credit Agreement, WRC Media recognized a gain in other income and (expense), net on the extinguishment since accrued interest of $18.5 expected to be earned by the Second-Lien Term Loan Credit Agreement was not required to be paid.

Direct Holdings

On May 31, 2005, Direct Holdings entered into an amended asset-backed revolving credit agreement (the "Amended CIT Credit Facility") with The CIT Group/Business Credit, Inc. ("CIT"). The Amended CIT Credit Facility provided for a maximum available credit line totaling $20.0. The credit line was collateralized by substantially all of the assets of Direct Holdings, including accounts receivable, inventory and equipment. The Amended CIT Credit Facility also provided for two Term Loans ("Term Loan A" and "Term Loan B") in the amount of $2.5 each and a $5.0 sub limit for standby letters of credit within the $20.0 credit line.

In February 2006, CIT assigned Term Loan B to Citicorp North America. In March 2006, the maximum revolving credit line decreased from $20.0 to $15.0 pursuant to an Extension Agreement.

New financial covenants as well as other restrictions were set forth. The Extension Agreement also waived a default associated with delivery of audited financial statements for the year ended June 30, 2005.

On May 26, 2006, Direct Holdings entered into an Assumption and Amendment Agreement which provided for several changes to the Amended CIT Credit Facility and Extension Agreements. The Assumption and Amendment Agreement was necessary to remove consolidated covenants and provisions that were in place prior to the sale of Direct Holdings' previous sister company, Lillian Vernon Corporation. Term Loan A increased to $3.8 and Term Loan B increased to $12.5.

On December 27, 2006, CIT entered into an Amendment and Waiver (the "Waiver Amendment") with Direct Holdings and certain other parties, amending the Amended CIT Credit Facility. Among other things, the Waiver Amendment provided for a waiver through December 31, 2006 relating to delivery of annual audited financial statements for the year ended June 30, 2006. It also amended certain EBITDA calculations and trailing EBITDA minimums required to be maintained by Direct Holdings.

In connection with the Acquisition Transaction and the contribution of Direct Holdings to The Reader's Digest Association, Inc., on March 2, 2007, Direct Holdings repaid the outstanding principal and accrued interest of $29.6 under the Amended CIT Credit Facility (including its revolver, Term Loan A and Term Loan B).

Lines of Credit

As of June 30, 2007, international lines of credit and overdraft facilities totaled $41.6, of which $23.5 were outstanding. The interest rates on outstanding borrowings at June 30, 2007 ranged from 5.4% to 6.5%. These lines of credit are subject to renewal annually.

As of June 30, 2007, our $2.9 stand-by letters of credit serves as security for a real estate leases entered into by WRC Media.

Note 13 Capital Stock

In connection with the Acquisition Transaction, Reader's Digest Association, Inc. was authorized to issue 391,000 shares (1,000 common shares and 390,000 preferred shares).   1,000 common shares are outstanding at a par value of $1.00 per share and are owned by RDA Holding Co. Each issued and outstanding share of Reader's Digest Association, Inc. preferred stock remained issue and outstanding as shares of preferred stock of the surviving corporation as of June 30, 2007.

Preferred stock consists of the following as of June 30:

	2007
First preferred stock, par value $1.00 per share; authorized 40,000 shares; issued and outstanding 29,720 shares	$ 1.7
Second preferred stock, par value $1.00 per share; authorized 120,000 shares; issued and outstanding 103,720 shares	6.4

Third subordinated preferred stock, par value $1.00 per share; authorized 230,000 shares; issued and outstanding 155,022 shares		12.6
Total preferred stock	$	20.7

All shares of preferred stock have a preference in liquidation of $100.00 per share. The difference between the aggregate par value and liquidation preference has been appropriated from retained earnings and is shown as part of the value of preferred stock. At our option and at any time, all preferred stock is redeemable at $105.00 per share plus accrued dividends. The terms of the first preferred stock and the second preferred stock provide for annual cumulative dividends of $4.00 per share. The terms of the third subordinated preferred stock provide for annual cumulative dividends of $5.00 per share. Preferred stockholders do not have any voting rights.

In connection with the Acquisition Transaction certain holders of preferred stock executed their preferred stock appraisal rights. In October 2007, we reached an agreement to redeem 26,725, 83,783 and 87,083 shares of first preferred stock, second preferred stock and third subordinated preferred stock, respectively, for $11.6.

Note 14 Commitments and Contingencies

General Litigation

From time to time, we are involved in a variety of claims, lawsuits, investigations and proceedings that arise in the ordinary course of business. We cannot predict the ultimate outcome of these matters with certainty. Management believes that the ultimate outcome of these matters will not have a material adverse effect on our financial position or results of operations, although our results and cash flow could be significantly unfavorably affected in the reporting periods in which these matters are resolved.

Supply and Service Agreements

We maintain several long-term agreements with vendors primarily for the purchase of paper, printing and fulfillment services. These agreements expire at various times through fiscal 2012.

In the normal course of business, we enter into long-term arrangements with suppliers for raw materials and merchandise and with other parties whose recordings or works we use in our products. These arrangements may contain minimum purchase requirements. We enter into these agreements to facilitate an adequate supply of materials and to enable us to develop better products for sale to our customers.

On October 17, 2007, we entered into a seven year contract with Williams Lea, a global corporate information solutions provider. Under the contract, Williams Lea will deliver outsourced print procurement and marketing solutions to our operations in 19 countries across the United States and Canada, Europe, Middle East, Asia Pacific and Latin America. Williams Lea will assume the promotional printing operations of our direct-mail business, providing us with increased leverage and purchasing power by virtue of Williams Lea's expertise and global scale.

World's Finest Chocolate, Inc

In May 2000, QSP Inc. (QSP) entered into a long-term licensing agreement with World's Finest Chocolate, Inc (WFC) whereby QSP received the exclusive fundraising rights for WFC's products. In May 2007, the agreement with WFC was restructured to reduce the term of the agreement from December 31, 2020 to December 31, 2009, reduce our annual minimum tonnage purchase requirements for the remaining term of the agreement, phase out the fundraising exclusivity rights previously granted to QSP (effective January 1, 2008), and eliminate certain employment restrictions.

As a result of substantially reducing the term of the previous contract and lowering the minimum tonnage commitment, a charge of $(15.0) was recorded as of June 30, 2007 in other operating items, net on the combined consolidated statement of operations. Of the total charge, $8.0 was paid in 2007, and $4.0 will be paid during the third quarter of 2008 and $3.0 during 2009.

As of June 30, 2006, QSP accrued $5.6 million in anticipation of not meeting its calendar year 2006 minimum tonnage requirement of 11,300 tons. During 2007, the minimum tonnage accrual of $4.8 was reversed and an additional $2.7 inventory cost reduction was recognized in connection with certain performance and delivery issues at WFC. Both of these amounts were recorded as a credit to product, distribution and editorial expenses.

The approximate annual minimum purchase amount under this restated agreement by calendar year are 9,000 tons in 2007 ($51.3), 8,000 tons in 2008 ($46.7) and 7,000 tons in 2009 ($41.9). These amounts are estimates based on defined minimum tonnage requirements, as stipulated in the restated agreement, and nominal price increases. Failure to meet calendar year minimum tonnage amounts could result in QSP paying a penalty to WFC of $1.00 per pound below the minimum purchase requirement. It is QSP's intention to meet the annual minimum tonnage requirements for the remaining term of the restated agreement

Lease Obligations

We occupy certain facilities under lease arrangements and lease certain equipment.

Rental expense and sublease income are as follows:

	2007	2006	2005
Rental expense	$ 13.5	$ 6.6	$ 7.2
Sublease income	(2.5)	(0.9)	(0.3)
Net rental expense	$ 11.0	$ 5.7	$ 6.9

Future minimum rental commitments, net of sublease income, for noncancelable operating leases for the next five fiscal years and thereafter (extending to 2024) are as follows:

	Minimum Rental Payments	Minimum Sublease Income	Net
2008	30.8	6.9	23.9
2009	28.5	5.5	23.0
2010	24.6	3.4	21.2
2011	22.1	3.2	18.9
2012	20.5	3.1	17.4
Later years	87.3	12.2	75.1

Note 15 Segments

Our businesses are structured into the same reportable segments (Reader's Digest North America, Reader's Digest International, School & Educational Services (formerly Consumer Business Services), WRC Media and Direct Holdings) that our chief operating decision maker uses to assess business performance. As of June 30, 2007, WRC Media and Direct Holdings have not been fully integrated into our businesses. Accordingly, the business performance of both WRC Media and Direct Holdings were assessed and monitored on a standalone basis in 2007. WRC Media and Direct Holdings were also assessed and monitored on a standalone basis in the 2006 and 2005 combined financial statements. We expect to have WRC Media and Direct Holdings fully integrated into our business in 2008. In addition to the reportable segments, we separately report Corporate Unallocated expenses, which are expenses not directly attributable to business unit performance. Similarly, we separately report the effects of goodwill and intangible asset impairment charges, certain purchase accounting related fair value adjustments and other operating items, net, because our chief operating decision maker does not factor these items when assessing business unit performance. Here is a brief description of the activities included within our reportable segments.

Reader's Digest North America

This segment comprises our operations in the United States and Canada that publish and market *Reader's Digest* magazine, Reiman magazines and several special interest magazines. It also includes our operations in the United States and Canada that publish and market Books and Home Entertainment products (including Select Editions, Reader's Digest Young Families, music and video products, and series and general books related to the following affinities: reading, home and health, and entertainment) as well as two new businesses launched in 2006, *Allrecipes.com* and Taste of Home Entertaining.

These businesses have a common focus on the direct marketing aspect of new customer acquisition at a minimal cost. The performance of *Reader's Digest* magazine and our special interest magazines is driven primarily by circulation revenues and, secondarily, by advertising sales. Circulation is also the principal driver of performance for Reiman magazines, which have limited advertising revenues. The results of our Books and Home Entertainment business are driven by the size of our active customer base, new customer acquisition programs, response rates to promotional mailings, customer payment rates and membership in our continuity series business.

Reader's Digest International

This segment comprises our operations outside of the United States and Canada, with our most significant markets in the United Kingdom, Germany, Central Europe, Australia and France. The businesses in this segment publish and market *Reader's Digest* magazine (in numerous editions and languages) and books and home entertainment products (described above).

The performance of these businesses is driven by factors similar to those in the Reader's Digest North America segment, except that overall results are less sensitive to changes in individual geographic market conditions due to the number of markets in which we operate. The results for *Reader's Digest* magazine in international markets are driven primarily by circulation and secondarily by advertising revenues. The results of our books and home entertainment products in these markets are driven by the size of our active customer base, new customer acquisition programs, response rates to promotional mailings, customer payment rates and membership in our continuity series business.

School & Educational Services

This segment comprises Books Are Fun, our display marketing business, and QSP, our youth fundraising businesses, in the United States and Canada.

Books Are Fun and QSP principally sell products through non-direct marketing channels, primarily through their sales forces. The performance of these businesses is driven by product selection, the number of accounts or events, the average sales per account or event, and the number of participants in fundraising programs.

WRC Media

WRC Media is a leading publisher of classroom periodicals, including the *Weekly Reader*. WRC Media also publishes grade-specific workbooks, fiction and nonfiction texts, and other supplementary educational materials, including customized instructional materials paid for by various sponsors, all of which are distributed primarily to pre-K - 12 students throughout the United States. WRC Media sells its proprietary and third-party products through catalogs, telesales operations and independent distributors.

WRC Media also develops and distributes research-based, technology learning solutions. The CompassLearning Odyssey software solution is a comprehensive educational assessment, curriculum, reporting and management tool suite for grades pre-K - 12, all of which are aligned to local, state and national standards. In addition, WRC Media provides consulting/teacher training services to educators on curriculum development and technology integration in the classroom, utilizing its software products.

The results of our WRC Media business are driven by software sales, subscriber renewal rates, new customer acquisition programs, response rates to promotional mailings and customer payment rates.

Direct Holdings

Direct Holdings and its subsidiaries is a global direct marketer of music, videos, and DVDs under the Time Life brand. The Time Life name and logo are registered trademarks of Time Inc. and Time Warner Inc. and are used under a license agreement with Direct Holdings. DHW has offices in the United States, Europe, and Australia. It markets products primarily on television via DRTV advertising, through retail locations, via telephone, the internet, and direct mail.

The results of our Direct Holdings business are driven by response rates to television advertisements, success of new product introductions and customer payment rates.

Intercompany Eliminations and Corporate Unallocated Expenses

We present our segment revenues and operating (losses) profits consistent with how we manage our operations and how our chief operating decision maker reviews our results. Revenues and expenses attributable to intercompany transactions are included in the results of our reportable segments. Such amounts are eliminated (under the intercompany eliminations caption below) to reconcile our reportable segment amounts to combined consolidated amounts, as reported in the statements of operations. Accounting policies of our segments are the same as those described in Note 1, Organization and Summary of Significant Accounting Policies. In addition to intercompany revenues and expenses, we separately report Corporate Unallocated expenses, which cover expenses that are not directly attributable to business unit performance. Corporate Unallocated expenses include the cost of governance and other corporate-related expenses, as well as income and expenses associated with our U.S. pension plans and retiree healthcare benefits.

We evaluate performance and allocate resources based on operating income from continuing operations excluding other operating items and Corporate Unallocated expenses. Identifiable assets by segment are those assets that are used in the operations of that business. Corporate assets consist primarily of cash and cash equivalents, certain prepaid expenses, marketable securities, certain pension assets, certain fixed assets and certain other current assets. Sales are attributed to countries based on selling location. Long-lived assets are primarily: property, plant and equipment, net; goodwill and intangible assets, net; and prepaid pension benefits.

Reportable Segment Financial Information

	Years ended June 30,		
	2007	2006	2005
Revenues			
Reader's Digest North America	$ 294.9	$ ---	$ ---
Reader's Digest International	352.0	---	---
School & Educational Services	99.9	---	---
WRC Media	136.8	134.1	139.0
Direct Holdings	252.4	260.0	303.5
Intercompany eliminations	(4.1)	---	---
Purchase accounting related adjustments(1)	(55.5)	---	---
Total revenues	$ 1,076.4	$ 394.1	$ 442.5
Operating (loss) profit			
Reader's Digest North America	$ 51.6	$ ---	$ ---
Reader's Digest International	39.6	---	---
School & Educational Services	(5.7)	---	---
WRC Media	(0.3)	2.5	1.9
Direct Holdings	(7.5)	(1.1)	2.8
Goodwill and intangible asset impairment charge (2)	---	---	(70.1)
Purchase accounting related adjustments(1)	(62.6)	---	---
Corporate Unallocated	(14.4)	---	---
Other operating items, net(3)	(36.2)	(14.5)	(20.6)
Total operating (loss) profit	$ (35.5)	$ (13.1)	$ (86.0)
Assets			
Reader's Digest North America	$ 1,659.8	$ ---	$ ---
Reader's Digest International	1,575.9	---	---
School & Educational Services	415.9	---	---
WRC Media	225.0	142.4	366.7
Direct Holdings	78.9	56.8	62.6
Corporate	443.1	---	---
Total assets	$ 4,398.6	$ 199.2	$ 429.3

(1) Purchase accounting related fair value adjustments primarily include the fair value reduction to unearned revenue. These charges are not included in the segment results reviewed by the chief operating decision maker. See Note 2, Acquisition and Divestitures, for further information.

(2) The goodwill and intangible asset impairment charges related to WRC Media is not included in segment results reviewed by our chief operating decision maker. See Note 7, Goodwill and Other Intangible Assets, Net, for additional information.

(3) Other operating items, net consists of contractual charges related to the strategic repositioning of our business, asset impairments and restructuring charges. Such items are not included in segment results reviewed by our chief operating decision maker. See Note 4, Other Operating Items, Net, for further information.

	Years ended June 30,		
	2007	2006	2005
Depreciation and amortization and asset impairments			
Reader's Digest North America	$ 9.4	$ ---	$ ---
Reader's Digest International	11.7	---	---
School & Educational Services	2.1	---	---
WRC Media	9.1	10.8	13.2
Direct Holdings	2.0	4.2	6.9
WRC Media asset impairment charges	---	---	70.1
Corporate	2.4	---	---
Total depreciation, amortization and asset impairments	$ 36.7	$ 15.0	$ 90.2
Capital expenditures			
Reader's Digest North America	$ 2.3	$ ---	$ ---
Reader's Digest International	3.2	---	---
School & Educational Services	0.3	---	---
WRC Media	7.1	7.8	6.7
Direct Holdings	0.6	0.4	2.5
Corporate	0.9	---	---
Total capital expenditures	$ 14.4	$ 8.2	$ 9.2

The following table presents our combined consolidated net revenues by product:

	Years ended June 30,		
	2007	2006	2005
Revenues			
Books	$ 376.9	$ 42.5	$ 45.3
Magazines - advertising	57.8	---	---
Magazines - subscription	173.4	46.6	46.3
Music and videos	337.6	260.1	303.5
Food and gift	63.6	---	---
Other	67.1	44.9	47.4
Total revenues	$ 1,076.4	$ 394.1	$ 442.5

Information about geographic areas is as follows:

	Years ended June 30, 2007	2006	2005
Revenues			
United States	$ 622.6	$ 318.3	$ 343.7
International	454.0	75.8	98.8
Inter-area	(0.2)	---	---
Total revenues	$ 1,076.4	$ 394.1	$ 442.5
Long-lived assets, net			
United States	$ 2,075.2	$ 108.0	$ 114.5
International	1,430.3	0.5	1.5
Total long-lived assets, net	$ 3,505.5	$ 108.5	$ 116.0

Note 16 Related Party Transactions

Transaction Fee Agreement

In connection with the Acquisition Transaction, RDA Holding Co. entered into a transaction fee agreement with Ripplewood pursuant to which Ripplewood received an aggregate transaction fee of $25.0 in cash. This amount was pushed down to us from RDA Holding Co. resulting in the deferral of $11.3 in financing fees in connection with the 2007 Credit Agreements and Senior Subordinated Notes and $13.7 in transaction costs recorded in connection with purchase accounting.

In addition, in connection with the Acquisition Transaction we paid $3.9 of transaction fees, primarily related to the bridge loan commitment fee, on behalf of RDA Holding Co. This payment was recorded as a reduction in additional paid in capital.

Management Services Agreement

Reader's Digest Association, Inc.

In connection with the Acquisition Transaction, RDA Holding Co. entered into a management services agreement with Ripplewood, J. Rothschild Group (Guernsey) Ltd., and GoldenTree Asset Management, LP, pursuant to which Ripplewood, J. Rothschild Group (Guernsey) Ltd., and GoldenTree Asset Management, LP (together the "Service Providers"), to receive a management fee of $7.5 million (the "Management Fee") paid quarterly each January 1, April 1, July 1 and October 1 following the closing date, paid pro rata in accordance with the percentage listed for each Service Provider in the management services agreement. The Management Fee will be paid in cash, in immediately available funds, to the account of each Service Provider provided to RDA Holding Co. in writing by such Service Provider. As the services provided under the management agreement are for our benefit, the payment of these fees was pushed down to us.

The management services agreement has a term of seven years. Upon a public offering or a change of control, the management services agreement will terminate, and the Service Providers will be entitled to the net present value of the remaining payments under the management services agreement. In addition to the Management Fee, RDA Holding Co. will pay (or cause us to pay) directly, or reimburse, the Service Providers for their out-of-pocket expenses, which include reasonable out-of-pocket costs and expenses incurred by the Service Providers in connection with the services rendered under the management services agreement.

The management services agreement will also provide that, to the extent that RDA Holding Co. requests services other than management services from a Service Provider, RDA Holding Co. and such Service Provider may negotiate mutually agreed upon fees and expenses to be paid by RDA Holding Co. for such other services, and such other services will be deemed to be provided under the management services agreement. The management services agreement will include customary exculpatory and indemnification provisions in favor of the Service Providers.

In 2007, we expensed $2.5 of management fees and did not have an accrual as of June 30, 2007.

WRC Media

In connection with the acquisitions of Weekly Reader and CompassLearning in 1999, WRC Media entered into management agreements with its principal shareholder, Ripplewood. In accordance with the management agreements, the shareholder provides WRC Media consulting and financial advisory services. Under the original agreements, WRC Media was obligated to pay to the shareholder annual aggregate management fees for services totaling $1.0, which are payable quarterly. The agreements have no stated term, but can be terminated by the shareholder upon five days notice. In addition, WRC Media will reimburse the principal shareholder for reasonable out-of-pocket costs and expenses incurred in connection with the performance of its services.

These agreements were revised as part of the recapitalization in July 2005, and the revised agreements prohibit the payment of management fees subject to certain conditions. In addition, WRC Media will reimburse the principal shareholder for reasonable out-of-pocket costs and expenses incurred in connection with the performance of its services. WRC Media did not pay any management fees in 2007 and 2006. During 2005, WRC Media incurred management fees of $1.0, which is included in promotion, marketing and administrative expenses. In connection with the WRC Media Merger, the agreements were terminated.

Direct Holdings

Concurrent with the acquisition described in Note 3, Direct Holdings became party to an agreement with Ripplewood, whereby Ripplewood would render to Direct Holdings advisory and consulting services in relation to the affairs of Direct Holdings, including without limitation, (i) advice in designing financing structures and advice regarding relationships with Direct Holdings' lenders and bankers; (ii) advice regarding the structure and timing of public offerings of debt and equity securities of Direct Holdings; (iii) advice regarding property dispositions or acquisitions; and (iv) such other advice directly or ancillary to the above financial advisory services as may be reasonably requested by Direct Holdings. In consideration of these services, Direct Holdings agreed to pay Ripplewood a quarterly monitoring fee equal to approximately $0.2 through May, 2006. In June 2006, the quarterly monitoring fee increased to $0.3 as a result of the sale of Lillian Vernon Corporation. The agreement is in effect through the first date on which Ripplewood beneficially owns less than 9.5% of the equity of Direct Holdings and, therefore, this agreement was terminated on March 2, 2007 in connection with the Direct Holdings Stock Acquisition.

For fiscal 2007, 2006 and 2005, the total expense recorded in connection with the monitoring agreement was approximately $0.8 each year.

ZelnickMedia Corp. and Strauss Zelnick

On January 1, 2004, Direct Holdings entered into a management agreement with ZelnickMedia Corp. (ZM) under which ZM provides management services to Direct Holdings. Under the management agreement (as amended and restated), Direct Holdings agreed to pay ZM an annual fee of approximately $0.5 for advisory and consulting services. Direct Holdings also pays out-of-pocket expenses of ZM in connection with the management of Direct Holdings. ZM was also eligible for an annual bonus under the management agreement, which was based on the achievement of an EBITDA target compared to budget. The bonus is earned if at least 80% of the EBITDA target was achieved, and increased in accordance with defined levels up to a cap of the lesser of 333% of the base annual management fee or $2.5, if more than 150% of the EBITDA target was achieved.

In connection with the Direct Holdings Stock Acquisition, the management agreement (as amended and restated) was terminated and replaced with a new agreement in which ZM provides management services to Direct Holdings through December 2008 for an annual fee of $0.8. In addition, Direct Holdings paid any unpaid annual bonus due under the terms of the previous management agreement.

The new management agreement may be terminated either immediately or upon 15 or 30 days notice depending on the circumstances. If the agreement is terminated by Direct Holdings for cause or by ZM without good reason, then ZM is not entitled to any future management fees. If the agreement is terminated for any other reason, then ZM is entitled to continuing management fee and expense payments through the original term of the agreement, which is December 2008.

For fiscal 2007, 2006 and 2005, the total amount expensed including the aforementioned bonus, was approximately $2.0, $0.8 and $0.7, respectively, and is included in promotion, marketing and administrative expenses in the accompanying combined consolidated and combined statement of operations. As of June 30, 2007 and 2006 the amount accrued related to this agreement is approximately $0.9 and $0.4, respectively.

Under a separate Service Agreement entered into on January 1, 2004, Mr. Strauss Zelnick became the Chairman of Direct Holdings. In May 2005, Direct Holdings hired a full time CEO and Mr. Zelnick retained the title of Chairman. Mr. Zelnick received no cash compensation in his capacity as Chairman. Mr. Zelnick is also the Chairman and CEO of ZelnickMedia Corp. This Service Agreement was terminated in connection with the Direct Holdings Stock Acquisition.

Lillian Vernon Corporation

In March 2003, Ripplewood formed a new holding company, LVC Holdings L.L.C. and its wholly-owned merger subsidiary to acquire a publicly-traded company, Lillian Vernon Corporation. LVC Holdings L.L.C. was subsequently renamed Direct Holdings Worldwide L.L.C.

Although both Lillian Vernon Corporation (LVC) and Direct Holdings were owned by Direct Holdings Worldwide L.L.C., each company was generally managed autonomously. However, there were certain administrative and order fulfillment operations that were shared for cost and efficiency purposes. Direct Holdings shared management fees that were paid to both Ripplewood and ZM.

LVC charges Direct Holdings for certain order fulfillment services, information technology costs, and certain occupancy costs of LVC's Virginia Beach Distribution Center, as well as certain administrative functions, on a monthly basis at agreed-upon rates based upon the usage of such functions. For Fiscal 2007, 2006 and 2005, LVC billed Direct Holdings approximately $13.5, $10.9 and $7.4 respectively, for services and shared costs related to distribution and approximately $0.5, $3.7 and $8.6, respectively, for selling, general and administrative expenses.

As part of the Amended CIT Credit Facility discussed in Note 12, Debt, LVC and Direct Holdings entered into an intercompany loan arrangement whereby LVC periodically requested advances and made repayments to fund its cash flow requirements. As of June 30, 2007 and June 30, 2006, the balance of the prepaid fulfillment services was approximately $(1.2) and $0, respectively. See Note 1, Organization and Summary of Significant Accounting Polices for further information.

On May 26, 2006, LVC entered into a stock purchase agreement and other agreements where all of the outstanding stock was acquired by an unrelated third party. As part of the LVC sale transaction, Direct Holdings assumed certain related party liabilities of $2.4, a related party receivable of $1.3 million and incurred additional debt with CIT of approximately $10.0. In addition, the third party purchaser did not assume the prepaid fulfillment and distribution balance owed by LVC to Direct Holdings of approximately $27.5. Direct Holdings, on behalf of the Parent, incurred $1.8 in costs related to the LVC sale transaction. In addition, Direct Holdings assumed $1.2 in a note payable from LVC. The net costs from these transactions of $0.6 are presented as due from parent in the statement of stockholders' deficit.

As part of the stock purchase agreement, certain domestic subsidiaries of Direct Holdings agreed to negotiate and to enter into a Transition Services Agreement and an Operating Agreement as provided by the summary of key terms for each agreement. The summary of the key terms of the Transition Services Agreement requires, among other things, that certain information technology, employee and benefit administration services be transferred from LVC to Direct Holdings. The summary of the key terms of the Operating Agreement, among other provisions, generally obligates Direct Holdings to continue using the LVC Virginia Beach warehouse facility for its fulfillment and distribution services for a term of four years at either the lower of current or market rates payable monthly.

Direct Holdings did not enter into either a Transition Services Agreement or an Operating Agreement with LVC, but the parties proceeded to provide and receive services as provided in the respective summaries of key terms. Pursuant to the summary of key terms outlined in the stock purchase agreement for the Operating Agreement, in 2007, Direct Holdings exercised its right to terminate early the operating services provided by LVC. Direct Holdings notified LVC in February 2007 that it was terminating the services arrangement effective August 31, 2007. The summary of key terms required Direct Holdings to pay a termination fee of $3 million on the termination date, which was recorded in Other Operating Items, net on the combined consolidated statement of operations during 2007. During the six month termination period, Direct Holdings continued to pay LVC for certain operating costs incurred as part of providing on-going fulfillment, customer service and distribution services as well as termination related expenses through the end August 2007.

Selected Financial Data (Unaudited)

In millions	2007	2006	2005	2004	2003
Statement of Operation Data					
Revenues	$1,076.4	$394.1	$442.5	$337.1	$176.1
Operating (loss) profit	(35.5)	(13.1)	(86.0)	7.7	12.8
Net loss before discontinued operations and extraordinary items	(90.7)	(3.0)	(92.7)	(34.2)	(21.4)
Net (loss) income	(90.7)	59.4	(75.8)	(35.1)	(21.4)
Balance Sheet Data					
Cash and cash equivalents, short-term investments and marketable securities	$50.2	$7.5	$9.6	$10.1	$12.5
Total assets	4,398.6	199.2	436.6	489.8	433.8
Long-term debt	1,981.4	17.9	483.0	306.1	285.7
Stockholders' equity (deficit)	686.5	(115.1)	(211.1)	(136.5)	(160.4)

Exhibit 21.1

SUBSIDIARIES OF
THE READER'S DIGEST ASSOCIATION, INC.

Argentina
- Reader's Digest Argentina, SRL

Australia
- The Reader's Digest Association Pty. Limited
  - Reader's Digest (Australia) Pty. Ltd.
- Direct Holdings Asia Pacific Pty. Limited
  - Shop Australia Pty. Limited
  - Direct Holdings Australia Pty. Limited
    - Direct Holdings (N.Z.) Pty. Limited
    - World Record Club Pty. Limited
    - Record Clubs of Australia Pty. Limited

Austria
- Verlag Das Beste Ges.m.b.H.

Belgium
- Reader's Digest N.V.-S.A.
- Reader's Digest World Services, S.A.

Brazil
- Reader's Digest Brasil Ltda.

Bulgaria
- Reader's Digest EOOD

Canada
- The Reader's Digest Association (Canada) Ltd.
  - Reader's Digest Magazine Limited
  - 1302791 Alberta ULC
  - 3634116 Canada Inc.
  - Quality Service Programs, Inc.
    - EFundraising.com Corporation Incorporated/Corporation eFundraising.com Incorporee

China
- Guangdong Pegasus Marketing Information & Service Co. Ltd.
- Reader's Digest (Guangzhou) Direct Mail Service Co. Ltd.
- Shanghai Ying Cui Advertising
- Reader's Digest (China) Direct Marketing Services Co., Ltd.

Czech Republic
- Reader's Digest Vyber s.r.o.

Finland
- Oy Valitut Palat - Reader's Digest Ab

France
- Selection du Reader's Digest S.A.
  - Selection du Reader's Digest Assurances SARL

Germany
- Verlag Das Beste GmbH
  - Optimail/Direcktwerbeservice GmbH
  - Pegasus Medien Produktions- und Vertriebsgesellschaft.mbH
- Reader's Digest Deutschland Holding GmbH
- Target Direct Marketing Services GmbH
- RD German Holdings GmbH

Greece
- Reader's Digest Hellas Publications Company Limited

Hong Kong
- Reader's Digest Association Far East Limited
  - Asian Qualiproducts Services, Limited
- Reader's Digest (East Asia) Limited
- R.D. Properties, Ltd.
- Direct Holdings Asia Pacific Pty. Limited

Hungary
- Reader's Digest Kiado KFT

India
- Reader's Digest Book and Home Entertainment (India) Private Limited

Italy
- Libri e piu, Srl

Japan
- The Reader's Digest Ltd.
- Reader's Digest Global Advertising Ltd.

Kazakhstan
- LLC "Publisher Reader's Digest

Malaysia
  - Reader's Digest (Malaysia) Sdn. Bhd

Mexico
- Caribe Condor S.A. de C.V.
  - Corporativo Reader's Digest Mexico S. de R.L. de CV
  - Grupo Editorial Reader's Digest, S. de R.L. de C.V.
  - Reader's Digest Mexico, S.A. de C.V.

Netherlands
- RD Netherlands Holdings BV
- Reader's Digest Netherlands Holdings B.V.
- Pegasus Netherlands Services CV
- Reader's Digest European Shared Services B.V.
- Uitgeversmaatschappij The Reader's Digest N.V.
  - Distrimedia Services B.V.
- Direct Holdings International B.V.
  - Direct Holdings Holland B.V.

Philippines
- Reader's Digest (Philippines) Inc.

Poland
Reader’s Digest Przeglad Sp.z o.o.

Portugal
Seleccoes do Reader’s Digest (Portugal) S.A.
Euroseleccoes - Publicacoes E Artigos Promocionais, Lda.

Romania
Editura Reader’s Digest SRL

Russia
Publishing House Reader’s Digest, JSC
LLC Digest Direct

Singapore
Reader's Digest Asia Pte. Ltd.
Reader’s Digest Asia, Ltd.

Slovak Republic
Reader’s Digest Vyber Slovensko, s.r.o.

Spain
Reader’s Digest Selecciones S.A.
Sociedad Difusion Cultural, S.L.

Sweden
Reader’s Digest Aktiebolag

Switzerland
Das Beste aus Reader’s Digest AG
Direct Holdings Switzerland GmbH

Thailand
Reader’s Digest (Thailand) Limited

Turkey
Reader’s Digest Secilmis Yayincilik Dagitim Pazarlama Ticaret Limited Sirketi (Reader’s Digest Selected Publishing Distribution Trade Ltd Company)

Ukraine
LLC Direct Digest
LLC Publisher Reader’s Digest

United Kingdom
Reader’s Digest Children’s Publishing Limited
Reader’s Digest Europe Limited
The Reader’s Digest Association Limited
Pegasus UK Holdings Limited
Reader’s Digest Holdings Limited
Fundraising For You Limited
Money Magazine Limited
RD Publications Limited
Reader’s Digest Central & Eastern Europe Limited
Reader’s Digest European Systems
Reader’s Digest Financial Services Limited
Direct Entertainment U.K. Limited

United States*

- Allrecipes.com, Inc.
- Ardee Music Publishing, Inc.
- Books Are Fun, Ltd.
- Christmas Angel Productions, Inc.
- Direct Holdings U.S. Corp.
  - Direct Holdings Americas Inc.
    - Alex Inc.
    - Direct Holdings Custom Publishing Inc.
    - Direct Holdings Customer Service Inc.
    - Direct Holdings Education Inc.
    - Direct Holdings Libraries Inc.
    - Direct Holdings IP L.L.C.
- Pegasus Asia Investments Inc.
- Pegasus Finance Corp.
- Pegasus Investment, Inc.
- Pegasus Sales, Inc.
- Pleasantville Music Publishing, Inc.
- QSP, Inc.
  - Family Reading Program Corp.
  - QSP Distribution Services, LLC
  - QSP Products and Programs, LLC
  - QSP Sales, LLC.
  - QSP Services, LLC
  - QSP Ventures, LLC
  - Fundraising.com, Inc.
  - Reiman Media Group, Inc.
    - Taste of Home Productions, Inc.
    - Taste of Home Media Group, Inc.
    - World Wide Country Tours, Inc.
  - VideOvation, Inc.
- R.D. Manufacturing Corporation
- RD Publications, Inc.
  - Home Service Publications, Inc.
  - RD Large Edition, Inc.
  - RD Trade Shows, Inc.
  - RD Walking, Inc.
  - Retirement Living Publishing Company, Inc.
  - Travel Publications, Inc.
    - RD Member Services Inc.
- Reader’s Digest Children’s Publishing, Inc.
- Reader’s Digest Consumer Services, Inc.
  - RD Magazine Value Partners, Inc.
- Reader’s Digest Entertainment, Inc.
- Reader’s Digest Financial Services, Inc.
- Taste of Home Entertaining, Inc.
- Reader’s Digest Latinoamerica, S.A.
  - WAPLA, LLC
- Reader’s Digest Sales and Services, Inc.
- Reader’s Digest Sub Nine, Inc.
- Reader’s Digest Young Families, Inc.
- SMDDMS, Inc.
- The Reader’s Digest Association (Russia) Incorporated
- W.A. Publications, LLC
- WRC Media, Inc.
  - Compass Learning, Inc.
  - Weekly Reader Corporation

Lifetime Learning Systems, Inc.
World Almanac Education Group, Inc.
  Funk & Wagnalls Yearbook Corp.
  Gareth Stevens, Inc.

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*All are Delaware corporations except Allrecipes.com, Inc. which is a Washington corporation, Books Are Fun, Ltd., which is an Iowa corporation, Gareth Stevens, Inc. which is a Wisconsin corporation, and Direct Holdings Libraries, Inc. which is a New York corporation.