

The Reader's Digest Association, Inc. and Subsidiaries
Consolidated Statements of Operations
(In millions, except per share data)
(unaudited)

	Three-month period ended June 30, 2006 and 2005(A)			Year ended June 30, 2006 and 2005		
	Fiscal Year 2006	Fiscal Year 2005	Better/ (Worse)	Fiscal Year 2006	Fiscal Year 2005	Better/ (Worse)
Revenues	\$557.3	\$556.8	0%	\$2,386.2	\$2,389.7	0%
Product, distribution and editorial expenses	(238.2)	(227.0)	(5%)	(997.1)	(970.9)	(3%)
Promotion, marketing and administrative expenses	(281.4)	(303.6)	7%	(1,240.0)	(1,337.5)	7%
Goodwill charge (B)	--	--	N/M	(187.8)	(129.0)	N/M
Other operating items, net (C)	(\$10.2)	\$1.7	N/M	(\$6.8)	\$14.1	N/M
Operating profit (loss)	27.5	27.9	(1%)	(45.5)	(33.6)	(35%)
Other (expense) income, net (D)	(12.3)	(15.1)	19%	(41.1)	(45.8)	10%
Income (loss) before income tax	15.2	12.8	19%	(86.6)	(79.4)	(9%)
Income tax provision	(3.0)	(1.6)	(88%)	(30.8)	(11.5)	(168%)
Net income (loss)	\$12.2	\$11.2	9%	(\$117.4)	(\$90.9)	(29%)
Basic earnings (loss) per share: Weighted average common shares outstanding	94.3	97.5		95.9	97.4	
Basic earnings (loss) per share	\$0.13	\$0.11	18%	(\$1.24)	(\$0.95)	(31%)
Diluted earnings (loss) per share: Adjusted weighted average common shares outstanding	95.1	100.2		95.9	97.4	
Diluted earnings (loss) per share	\$0.13	\$0.11	18%	(\$1.24)	(\$0.95)	(31%)
Dividends per common share	\$0.10	\$0.10	--	\$0.40	\$0.30	--

(A) RDA reports on a fiscal year beginning July 1. The three-month periods ended June 30, 2006 and 2005 are the fourth fiscal quarters of fiscal year 2006 and fiscal year 2005, respectively. Operating results for any interim period are not necessarily indicative of the results for an entire year.

(B) At least annually, (in the third quarter) RDA reviews the carrying amount of goodwill and other intangibles for recoverability. During interim periods, the company monitors changes in businesses for indicators of impairment. Due to a shortfall in Books Are Fun's operating performance relative to expectations during the peak-selling season, we were required to review goodwill balances related to this business in the second quarter of fiscal 2006. Based on our assessment, Books Are Fun recorded a non-cash charge of \$(187.8)

million or \$(1.96) per share to reduce goodwill at Books Are Fun during the second quarter of fiscal 2006. During the third quarter of fiscal 2005, the company recorded a non-cash charge of \$(129.0) million or \$(1.32) per share, to reduce the carrying amount of goodwill at Books Are Fun.

- (C) Included in other operating items, net are current year restructuring charges and gains from the sales of certain non-strategic assets. The three month period ended June 30, 2006 consists of \$(10.2) million in restructuring charges. The year ended June 30, 2006 primarily consists of the restructuring charges of \$(10.2) million and gains of \$2.5 million on the sale of real estate in Mexico and \$0.5 million in art sales. The three month period ended June 30, 2005 consists of a \$1.7 million gain on art sales. The year ended June 30, 2005 consists of \$14.1 million in gains on sales of buildings, magazine divestitures and art sales. In previous periods, sales of non-strategic assets were recorded in other (expense) income, net, and have been reclassified to other operating items, net to conform to the current period presentation.
- (D) Other (expense) income, net is comprised primarily of interest expense. The three month period ended June 30, 2005 also includes \$(7.3) million of debt financing fees in connection with the refinancing of the five-year revolving credit facility.

N/M - Not meaningful.

The Reader's Digest Association, Inc. and Subsidiaries
Revenues and Operating Profit (Loss) by Operating Segments
(In millions)
(unaudited)

	Three-month period ended June 30, 2006 and 2005(A)			Year ended June 30, 2006 and 2005		
	Fiscal Year 2006	Fiscal Year 2005	Better/ (Worse)	Fiscal Year 2006	Fiscal Year 2005	Better/ (Worse)
Revenues						
Reader's Digest North America	\$244.9	\$228.1	7%	\$939.4	\$917.3	2%
Reader's Digest International	258.9	252.4	3%	1,031.2	1,012.1	2%
Consumer Business Services	60.1	80.6	(25%)	445.6	485.1	(8%)
Intercompany eliminations (B)	(6.6)	(4.3)	(53%)	(30.0)	(24.8)	(21%)
Total Revenues	\$557.3	\$556.8	0%	\$2,386.2	\$2,389.7	0%
Operating profit (loss)						
Reader's Digest North America	\$46.4	\$27.8	67%	\$114.5	\$90.8	26%
Reader's Digest International	33.4	26.9	24%	78.3	76.1	3%
Consumer Business Services	(30.1)	(9.2)	(227%)	(2.7)	29.4	(109%)
Corporate unallocated (C)	(12.0)	(6.9)	(74%)	(41.0)	(37.9)	(8%)
	\$37.7	\$38.6	(2%)	\$149.1	\$158.4	(6%)
Other operating items, net (D)	(\$10.2)	\$1.7	N/M	(\$6.8)	\$14.1	N/M
Goodwill charge (E)	--	--	N/M	(\$187.8)	(\$129.0)	N/M
Deferred promotion amortization (F)	--	(12.4)	N/M	--	(77.1)	N/M
Total operating profit (loss)	\$27.5	\$27.9	(1%)	(\$45.5)	(\$33.6)	(35%)

(A) RDA reports on a fiscal year beginning July 1. The three-month periods ended June 30, 2006 and 2005 are the fourth fiscal quarters of fiscal year 2006 and fiscal year 2005, respectively. Operating results for any interim period are not necessarily indicative of the results for an entire year.

(B) In the normal course of business, the company's segments enter into transactions with one another. These intercompany transactions are recorded by each segment at amounts as if the transactions were with third parties and, therefore, affect segment performance. Operating segment revenues, above, are presented gross before intercompany eliminations. However, intercompany revenues and associated expenses are eliminated in consolidation and are not reflected in the company's consolidated results.

(C) Corporate unallocated expenses include the cost of governance and other centrally managed expenses, as well as the accounting for U.S. pension plans, post-retirement healthcare costs, and stock and executive compensation programs which are not allocated to the

operating segments. Governance and centrally managed expenses include costs such as corporate finance and general management, investor and public relations, legal, treasury, and any related information technology and facility costs utilized by these departments.

- (D) Included in other operating items, net are current year restructuring charges and gains from the sales of certain non-strategic assets. The three month period ended June 30, 2006 consists of \$(10.2) million in restructuring charges. The year ended June 30, 2006 primarily consists of the restructuring charges of \$(10.2) million and gains of \$2.5 million on the sale of real estate in Mexico and \$0.5 million in art sales. The three month period ended June 30, 2005 consists of a \$1.7 million gain on art sales. The year ended June 30, 2005 consists of \$14.1 million in gains on sales of buildings, magazine divestitures and art sales. In previous periods, sales of non-strategic assets were recorded in other (expense) income, net, and have been reclassified to other operating items, net to conform to the current period presentation.
- (E) At least annually, (in the third quarter) RDA reviews the carrying amount of goodwill and other intangibles for recoverability. During interim periods, the company monitors changes in businesses for indicators of impairment. Due to a shortfall in Books Are Fun's operating performance relative to expectations during the peak-selling season, we were required to review goodwill balances related to this business in the second quarter of fiscal 2006. Based on our assessment, Books Are Fun recorded a non-cash charge of \$(187.8) million or \$(1.96) per share to reduce goodwill at Books Are Fun during the second quarter of fiscal 2006. During the third quarter of fiscal 2005, the company recorded a non-cash charge of \$(129.0) million or \$(1.32) per share, to reduce the carrying amount of goodwill at Books Are Fun.
- (F) For the three month period ended June 30, 2005, deferred promotion amortization amounted to \$(12.4) million, which reflects the expensing of the deferred magazine promotion asset as of June 30, 2004, and includes \$(0.1) million from the effects of foreign exchange. For the twelve-month period ended June 30, 2005, the total deferred promotion amortization is \$(77.1) and includes \$(0.6) million from the effects of foreign exchange.

N/M - Not meaningful.

The Reader's Digest Association, Inc. and Subsidiaries
Consolidated Condensed Balance Sheets
(In millions)
(unaudited)

	June 30, 2006	June 30, 2005
Assets		
Cash and cash equivalents	\$34.7	\$37.7
Accounts receivable, net	261.9	233.9
Inventories	172.3	162.4
Prepaid and deferred promotion costs	62.3	53.8
Prepaid expenses and other current assets	173.1	144.9
Total Current Assets	704.3	632.7
Property, plant and equipment, net	119.3	119.3
Goodwill	744.1	880.9
Other intangible assets, net	134.4	137.8
Prepaid pension assets	324.6	307.9
Other noncurrent assets	95.4	102.0
Total Assets	\$2,122.1	\$2,180.6
Liabilities and Stockholders' Equity		
Accounts payable	\$128.2	\$109.8
Accrued expenses	257.3	267.4
Income taxes payable	40.6	34.5
Unearned revenues	394.1	395.5
Other current liabilities	9.8	12.4
Total Current Liabilities	830.0	819.6
Long-term debt	695.0	559.2
Unearned revenues	131.2	133.0
Accrued pension	108.7	121.5
Postretirement and postemployment benefits other than pensions	94.2	96.7
Other noncurrent liabilities	87.9	84.4
Total Liabilities	1,947.0	1,814.4
Capital stock	30.3	21.2
Paid-in capital	208.1	206.8
Retained earnings	1,064.3	1,221.6
Accumulated other comprehensive loss	(67.4)	(84.1)
Treasury stock, at cost	(1,060.2)	(999.3)
Total Stockholders' Equity	175.1	366.2
Total Liabilities and Stockholders' Equity	\$2,122.1	\$2,180.6

The Reader's Digest Association, Inc. and Subsidiaries
Consolidated Condensed Statements of Cash Flows
(In millions)
(unaudited)

	Three-month period ended		Year ended	
	June 30, (A)		June 30,	
	2006	2005	2006	2005
Cash flows from operating activities				
Net (loss) income	\$12.2	\$11.2	(\$117.4)	(\$90.9)
Depreciation and amortization	8.7	12.1	36.8	56.9
Asset impairments	2.8	--	190.6	129.0
Amortization of debt issue costs	0.4	7.3	1.5	10.3
Stock-based compensation	3.3	3.0	14.3	11.2
Net gain on sales of long-term assets	(0.5)	(1.7)	(4.1)	(14.3)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions				
Accounts receivable, net	18.4	26.3	(19.1)	3.6
Inventories	28.0	19.4	(7.8)	(7.7)
Prepaid and deferred promotion costs	(22.2)	(6.3)	(7.5)	54.0
Other assets	0.8	8.5	(25.7)	13.6
Unearned revenues	(58.4)	(38.0)	(9.2)	(9.0)
Income and deferred taxes, net	(6.8)	(3.3)	(0.3)	0.1
Accounts payable and accrued expenses	6.7	(10.7)	1.9	(7.1)
Other liabilities	(2.9)	(2.3)	(6.3)	(10.7)
Net change in cash due to operating activities	(9.5)	25.5	47.7	139.0
Cash flows from investing activities				
Proceeds from sales of other long-term assets	0.5	2.6	0.9	6.7
Proceeds from sales of property, plant and equipment	--	4.7	3.7	62.8
Purchase of Allrecipes.com, net of cash acquired	(65.9)	--	(65.9)	--
Purchases of intangible assets	--	--	(0.5)	--
Capital expenditures	(5.3)	(10.5)	(19.9)	(23.5)
Net change in cash due to investing activities	(70.7)	(3.2)	(81.7)	46.0
Cash flows from financing activities				
Proceeds from borrowings, net	82.0	251.2	135.8	214.6
Repayments of term loan	--	(266.1)	--	(377.0)
Dividends paid	(9.9)	(10.1)	(39.9)	(30.5)
Cash paid for financing fees	(0.3)	(1.8)	(0.3)	(2.2)
Treasury stock repurchases	(19.6)	(5.0)	(65.2)	(5.0)
Proceeds from employee stock purchase plan and exercise of stock options	0.7	3.3	2.2	3.3
Other, net	0.1	(2.2)	(3.7)	(3.0)
Net change in cash due to financing activities	53.0	(30.7)	28.9	(199.8)
Effect of exchange rate changes on cash	2.0	(2.6)	2.1	2.2
Net change in cash and cash equivalents	(25.2)	(11.0)	(3.0)	(12.6)
Cash and cash equivalents at beginning of period	59.9	48.7	37.7	50.3
Cash and cash equivalents at end of period	\$34.7	\$37.7	\$34.7	\$37.7

(A) RDA reports on a fiscal year beginning July 1. The three-month periods ended June 30, 2006 and 2005 are the fourth fiscal quarters of fiscal year 2006 and fiscal year 2005, respectively. Operating results for any interim period are not necessarily indicative of the results for an entire year.