

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA INC  
Form 10-Q  
November 15, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549-1004

-----  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER 1-14337

PENTON MEDIA, INC.

-----  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE

36-2875386

-----  
(State of Incorporation)

-----  
(I.R.S. Employer Identification No.)

1300 East Ninth Street, Cleveland, OH

44114

-----  
(Address of Principal Executive Offices)

-----  
(Zip Code)

216-696-7000

-----  
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act.  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (November 10, 2004).

Common Stock: 33,832,004 shares

PENTON MEDIA, INC.

FORM 10-Q

INDEX

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at September 30, 2004 (Unaudited) and December 31,  
Consolidated Statements of Operations (Unaudited) for the Three and Nine Months  
Ended September 30, 2004 and 2003  
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months  
Ended September 30, 2004 and 2003  
Notes to Consolidated Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results  
of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 2. Changes in Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Item 6. Exhibits

Signature

Exhibit index

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PENTON MEDIA, INC.  
CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS)

September 30,  
2004  
-----  
(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents

\$ 17,331

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Restricted cash	193
Accounts receivable, less allowance for doubtful accounts of \$3,575 and \$3,703 in 2004 and 2003, respectively	29,146
Notes receivable	712
Inventories	699
Prepayments, deposits and other	6,936
	-----
Total current assets	55,017
	-----
Property, plant and equipment:	
Land, buildings and improvements	8,504
Machinery and equipment	48,014
	-----
	56,518
Less: accumulated depreciation	40,856
	-----
	15,662
	-----
Other assets:	
Goodwill	176,611
Other intangibles, less accumulated amortization of \$14,741 and \$13,189 in 2004 and 2003, respectively	7,307
Other non-current assets	6,917
	-----
	190,835
	-----
	\$ 261,514
	=====

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

3

PENTON MEDIA, INC.  
CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

	September 30, 2004
	-----
	(Unaudited)
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	\$ 5,862
Accrued compensation and benefits	6,011
Other accrued expenses	29,222
Unearned income, principally trade show and conference deposits	21,884
	-----
Total current liabilities	62,979
	-----
Long-term liabilities and deferred credits:	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Senior secured notes, net of discount	157,012
Senior subordinated notes, net of discount	171,925
Net deferred pension credits	10,625
Other non-current liabilities	7,465
	-----
	347,027
	-----
Commitments and contingencies	
Minority interest	2,352
Mandatorily redeemable convertible preferred stock, par value \$0.01 per share; 50,000 shares authorized, issued and outstanding; redeemable at \$1,000 per share	65,433
Series M preferred stock, par value \$0.01 per share; 150,000 shares authorized, 60,375 issued and outstanding at September 30, 2004	1
Redeemable common stock, par value \$0.01 per share; 4,191 shares issued and outstanding at December 31, 2003	-
Stockholders' deficit:	
Preferred stock, par value \$0.01 per share; 1,800,000 shares authorized; none issued or outstanding	-
Common stock, par value \$0.01 per share; 155,000,000 shares authorized; 33,832,004 and 33,220,877 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	337
Capital in excess of par value	216,732
Retained deficit	(431,222)
Notes receivable from officers, less reserve of \$5,848 and \$7,600 at September 30, 2004 and December 31, 2003, respectively	-
Accumulated other comprehensive loss	(2,125)
	-----
	(216,278)
	-----
	\$ 261,514
	=====

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

4

PENTON MEDIA, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)  
(DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended September 30, 2004	September 30, 2003	Nine Sep 2004
	-----	-----	-----
Revenues	\$ 52,843	\$ 54,119	\$ 158,24
	-----	-----	-----
Operating expenses:			

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Editorial, production and circulation	24,234	23,500	69,38
Selling, general and administrative (including \$2.7 million of executive separation costs for the nine months ended September 30, 2004)	20,542	22,372	69,15
Impairment of assets	39,651	45,797	39,65
Provision for loan impairment	-	-	1,71
Restructuring and other charges	1,455	1,519	5,84
Depreciation and amortization	2,337	3,320	8,31
	-----	-----	-----
	88,219	96,508	194,06
	-----	-----	-----
Operating loss	(35,376)	(42,389)	(35,82
Other income (expense):			
Interest expense	(9,698)	(10,480)	(28,51
Interest income	54	102	22
Other, net	91	38	7
	-----	-----	-----
	(9,553)	(10,340)	(28,22
	-----	-----	-----
Loss from continuing operations before income taxes	(44,929)	(52,729)	(64,04
Benefit (provision) for income taxes	894	236	27
	-----	-----	-----
Loss from continuing operations	(44,035)	(52,493)	(63,77
Discontinued operations:			
Income from discontinued operations (including gain on disposal of \$1.4 million for the nine months ended September 30, 2003), net of taxes	-	99	
	-----	-----	-----
Net loss	(44,035)	(52,394)	(63,77
Amortization of deemed dividend and accretion of preferred stock	(1,772)	(1,980)	(10,37
	-----	-----	-----
Net loss applicable to common stockholders	\$ (45,807)	\$ (54,374)	\$ (74,14
	=====	=====	=====
Net loss per common share - basic and diluted:			
Loss from continuing operations applicable to common stockholders	\$ (1.35)	\$ (1.63)	\$ (2.2
Discontinued operations, net of taxes	-	-	
	-----	-----	-----
Net loss applicable to common stockholders	\$ (1.35)	\$ (1.63)	\$ (2.2
	=====	=====	=====
Weighted-average number of shares outstanding:			
Basic and diluted	33,875	33,358	33,66
	=====	=====	=====

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

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(DOLLARS IN THOUSANDS)

	Nine Months Ended September 30,	
	2004	2003
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (9,954)	\$ 39,103
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,818)	(2,323)
Earnouts paid	-	(7)
Notes receivable, net	(140)	1,659
Proceeds from sale of Professional Trade Shows group	-	3,250
Net cash provided by (used for) investing activities	(1,958)	2,579
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured credit facility	-	(4,500)
Payment of notes payable	-	(417)
Employee stock purchase plan payments	-	(113)
Proceeds from repayment of officers loans	-	250
(Increase) decrease in restricted cash	(193)	494
Payment of financing costs	(10)	(1,917)
Decrease in book overdrafts	(224)	(286)
Net cash used for financing activities	(427)	(6,489)
Effect of exchange rate changes on cash	44	70
Net increase (decrease) in cash and cash equivalents	(12,295)	35,263
Cash and cash equivalents at beginning of period	29,626	6,771
Cash and cash equivalents at end of period	\$ 17,331	\$ 42,034

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

6

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

Penton Media, Inc., together with its subsidiaries, is herein referred to as either "Penton" or the "Company." These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP") for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all information and footnotes required by GAAP for complete financial

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

statements. However, in the opinion of management, the interim financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results of the periods presented. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying unaudited interim consolidated financial statements should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

The Company realigned its business segments during the third quarter of 2004. Results from certain of the Company's international operations which were previously included within the Company's other segments, are now reported in a newly created International segment. Accordingly, the historical results of operations of the Company's segments have been recast to reflect the current segment reporting (see Note 15 - Segment Reporting).

### RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. These reclassifications did not change previously reported net income (loss), cash flows or stockholders' deficit.

### USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Pro forma information regarding net income (loss) and earnings per share is required by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," and has been determined as if Penton had accounted for its stock-based compensation under SFAS 123.

The weighted-average fair value of options granted during the first nine months of 2004 and 2003 was \$0.84 and \$0.32, respectively. The fair value of the options was estimated on the date of grant using the Black-Scholes option-pricing model, under the following assumptions:

	2004	2003
	-----	-----
Risk-free interest rate	3.65%	3.62%
Dividend yield	0.00%	0.00%
Expected volatility	136.29%	104.79%
Expected life	7 years	7 years

# Edgar Filing: PENTON MEDIA INC - Form 10-Q

## PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Had compensation cost for Penton's stock-based compensation plans been determined based on the fair value methodologies consistent with SFAS 123, Penton's net loss and earnings per share for the three and nine months ended September 30, 2004 and 2003 would have been as follows (in thousands, except per share data):

	THREE MONTHS END	
	SEPTEMBER 30,	
	2004	2003
Net loss applicable to common stockholders:		
As reported .....	\$ (45,807)	\$ (54,906)
Add: Stock-based employee compensation expense included in net loss applicable to common stockholders, net of related tax effects .....	24	(123)
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects .....	(123)	(123)
	\$ (45,906)	\$ (54,906)
Pro forma net loss applicable to common stockholders .....	\$ (45,906)	\$ (54,906)
Basic and diluted earnings per share:		
As reported .....	\$ (1.35)	\$ (1.35)
Pro forma .....	\$ (1.35)	\$ (1.35)

### NEW ACCOUNTING PRONOUNCEMENTS

In March 2004, the Emerging Issues Task Force ("EITF") reached a final consensus on EITF Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement 128, Earnings Per Share" ("EITF 03-6"). EITF 03-6 addresses the computation of earnings per share by companies that have issued securities other than common stock that participate in dividends and earnings of the issuing entity. EITF 03-6 is effective for the quarter ended June 30, 2004 and requires the restatement of previously reported earnings per share. The adoption of this issue did not have an effect on the Company's earnings per share as the Company already used the two-class method for its participating securities.

In December 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132-R"). The provisions of this statement do not change the measurement and recognition provisions of SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits other than Pensions." SFAS 132-R replaces SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" and adds additional disclosures. SFAS 132-R is effective for fiscal years ending after December 15, 2003. The Company adopted SFAS 132-R as of December 31, 2003 and has included all required disclosures in these consolidated financial statements.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") was issued which, among other things, provides guidance on identifying variable interest entities ("VIE") and determining when assets, liabilities, non-controlling interests, and operating results of a VIE should be included in a company's consolidated financial statements, and also requires additional disclosures by primary beneficiaries and other significant variable



## Edgar Filing: PENTON MEDIA INC - Form 10-Q

interest holders. In December 2003, the FASB issued a revision of FIN 46 ("FIN 46-R"), clarifying certain provisions and partially deferring the effective dates. The Company presently does not hold an interest in any variable interest entity; therefore, application of FIN 46-R has not affected the Company's consolidated financial statements, results of operations or disclosures.

### NOTE 2 - GOODWILL AND OTHER INTANGIBLES

As required under SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company continues to assess goodwill for impairment at least annually since its initial adoption of SFAS 142 on January 1, 2002. The Company established September 30 as the annual impairment test date and accordingly evaluated goodwill as of September 30, 2004 and 2003, resulting in impairment charges of \$37.8 million (\$1.12 per share) and \$37.6 million, (\$1.13 per share), respectively.

8

### PENTON MEDIA, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Goodwill impairment charges by operating segment at September 30, 2004 and 2003 are as follows (in thousands):

	SEPTEMBER 30, 2004	2003
	-----	-----
Industry	\$ -	\$ -
Technology	32,615	29,203
Retail	-	8,366
Lifestyle	-	-
International	5,185	-
	-----	-----
Total	\$37,800	\$37,569
	=====	=====

The 2004 goodwill impairment charge is primarily due to lower than expected future cash flows in two of our reporting units in our Technology segment and by lower than expected future cash flows in our International segment.

In connection with the results of the SFAS 142 impairment tests summarized above, factors indicated that the carrying value of certain long-lived assets might not be recoverable. Accordingly, impairment testing under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), was undertaken as of September 30, 2004 and 2003 resulting in impairment charges of \$1.9 million and \$8.2 million, respectively. Impaired long-lived assets in 2004 relate to exhibitor lists and advertising relationships in our Information Technology market due to lower than expected revenues and lower retention rates.

Long-lived asset impairment charges, by operating segment, are as follows (in thousands):

	SEPTEMBER 30, 2004	2003
--	-----------------------	------

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	-----	-----
Industry	\$ -	\$ -
Technology	1,851	8,228
Retail	-	-
Lifestyle	-	-
International	-	-
	-----	-----
Total	\$1,851	\$8,228
	=====	=====

The Company's 2004 and 2003 annual SFAS 142 impairment tests were performed by the Company with the assistance of a third party valuation firm. The evaluations utilized both an income and market valuation approach and contain reasonable and supportable assumptions and projections and reflect management's best estimate of projected future cash flows. If the assumptions and estimates underlying these goodwill impairment evaluations are not achieved, the amount of the impairment could be adversely affected. Future impairment tests will be performed at least annually with any impairment classified as an operating expense.

Changes in the carrying amount of goodwill for the nine months ended September 30, 2004, by operating segment, are as follows (in thousands):

	BALANCE AT DECEMBER 31, 2003	ALLOCATION DUE TO SEGMENT CHANGE	ANNUAL IMPAIRMENT CHARGE	BALANCE AT SEPTEMBER 30 2004
	-----	-----	-----	-----
Industry	\$ 36,278	\$ (501)	\$ -	\$ 35,
Technology	67,385	(8,424)	(32,615)	26,
Retail	25,824	-	-	25,
Lifestyle	84,924	-	-	84,
International	-	8,925	(5,185)	3,
	-----	-----	-----	-----
Total	\$ 214,411	\$ -	\$ (37,800)	\$ 176,
	=====	=====	=====	=====

9

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

At September 30, 2004, other intangibles recorded in the consolidated balance sheets are comprised of the following (in thousands):

	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	NET BOOK VALUE
	-----	-----	-----
Trade names	\$ 5,120	\$ (3,994)	\$1,126
Mailing/exhibitor lists	9,255	(5,330)	3,925
Advertiser relationships	5,625	(4,116)	1,509

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Subscriber relationships	1,929	(1,280)	649
Other	120	(22)	98
	-----	-----	-----
Balance at September 30, 2004	\$22,049	\$ (14,742)	\$7,307
	=====	=====	=====

Other intangibles are being amortized over 3 to 15 years. Total amortization expense for the nine months ended September 30, 2004 and 2003 was \$1.8 million and \$3.2 million, respectively. Amortization expense estimated for these intangibles for 2004 through 2008 are as follows (in thousands):

YEAR ENDED DECEMBER 31, -----	AMOUNT -----
2004	\$2,298
2005	\$1,778
2006	\$1,587
2007	\$ 938
2008	\$ 402

NOTE 3 - DISPOSALS

At December 31, 2002, the net assets of our Professional Trade Shows ("PTS") were classified as held for sale. The sale was completed in January 2003 for approximately \$3.2 million and resulted in a gain of approximately \$1.4 million. The results of PTS are reported as discontinued operations for all periods presented. PTS was part of the Company's Industry segment.

Operating results for discontinued operations are as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2003 -----	NINE MONTHS ENDED SEPTEMBER 30, 2003 -----
Revenues	\$ -	\$ -
	=====	=====
Income (loss) from operations, net of taxes	\$ 99	\$ (610)
Gain on sale of properties, net of taxes	-	1,387
	-----	-----
Income from discontinued operations	\$ 99	\$ 777
	=====	=====

NOTE 4 - DEBT

LOAN AND SECURITY AGREEMENT

In August 2003, the Company replaced its senior secured credit facility with a new four-year loan and security agreement. Pursuant to the terms of the revolving loan and security agreement, the Company can borrow up to the lesser of (i) \$40.0 million; (ii) 2.5x the Company's last twelve months adjusted EBITDA measured monthly during the first year, 2.25x during the second year and 2.0x thereafter; (iii) 40% of the Company's last six months of revenues; or (iv) 25% of the Company's enterprise value, as determined annually by a third party. The

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

revolving credit facility bears interest at LIBOR plus 5.0%

10

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

subject to a LIBOR minimum of 1.5%. The Company must comply with a quarterly financial covenant limiting the ratio of maximum bank debt to the last twelve months adjusted EBITDA to 2.25x from June 30, 2004 through March 31, 2005 and 2.0x thereafter. The loan agreement permits the Company to sell assets of up to \$12.0 million in the aggregate during the term or \$5.0 million in any single asset sale; and complete acquisitions of up to \$5.0 million per year. Included in the loan agreement are two stand-by letters of credit of \$0.1 million and \$0.2 million, respectively, required by two of the Company's facility leases. The amounts of the letters of credit reduce the availability under the credit facility. As of September 30, 2004, no amounts were drawn under the stand-by letters of credit. Costs representing bank fees and other professional fees of \$1.9 million are being amortized over the life of the loan agreement. As of September 30, 2004, \$39.7 million was available under the loan and security agreement. There were no amounts outstanding.

The loan and security agreement contains several provisions that could have a significant impact as to the classification as well as the acceleration of payments for borrowings outstanding under the agreement, including the following: (i) the obligation of the lender to provide any advances under the loan agreement is subject to no material adverse change events; (ii) reserves may be established against the borrowing base for sums that the Company is required to pay, such as taxes and assessments and other types of required payments, and has failed to pay; (iii) in the event of a default under the loan agreement, the lender has the right to direct all cash that is deposited in the Company's lock boxes to be sent to the lender to pay down outstanding borrowings; (iv) the loan agreement establishes cross-defaults to the Company's other indebtedness (such as the 11-7/8% senior secured notes and 10-3/8% senior subordinated notes) such that a default under the loan agreement could cause a default under the note agreements and vice versa; however, default-triggering thresholds are different in the loan agreement and the notes; and (v) if the Company is in default of any material agreement to which it is a party and the counter-party to that agreement has the right to terminate such agreement as a result of the default, this constitutes an event of default under the loan agreement. Under the loan agreement, the lenders reserve the right to deem the notes in default, and in those limited circumstances, could accelerate payment of any outstanding loan balances should the Company undergo a material adverse event. Even though the criteria defining a material adverse event are subjective, the Company does not believe that the exercise of the lenders' right is probable nor does it foresee any material adverse events in 2004. In addition, the Company believes that the senior secured and senior subordinated note agreements are long-term in nature. Accordingly, the Company continues to classify its notes as long term. At September 30, 2004, the Company was in compliance with all of the above provisions.

#### SENIOR SECURED CREDIT FACILITY

In January 2003, the Company amended its senior secured credit facility, and as noted above, this facility was replaced in August 2003. The amendment permitted the Company to sell certain properties in excess of the \$5.0 million aggregate limit required by the original amended agreement. In return, the revolving commitment was ultimately reduced from \$40.0 million to \$20.1 million. The reduction of the revolver resulted in the write-off of unamortized financing fees of \$0.9 million. This charge has been classified as part of interest

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

expense on the consolidated statement of operations for the nine months ended September 30, 2003.

### SENIOR SECURED NOTES

In March 2002, Penton issued \$157.5 million of 11-7/8% senior secured notes (the "Secured Notes") due in 2007. Interest is payable on the Secured Notes semiannually on April 1 and October 1. The Secured Notes were offered at a discount of \$0.8 million, which is being amortized using the interest method over the term of the Secured Notes. Amortization of the discount was approximately \$0.1 million for the nine months ended September 30, 2004 and 2003, respectively.

### SENIOR SUBORDINATED NOTES

In June 2001, Penton issued \$185.0 million of 10-3/8% senior subordinated notes (the "Subordinated Notes") due in 2011. Interest is payable on the Subordinated Notes semiannually on June 15 and December 15. The Subordinated Notes were offered at a discount of \$4.2 million, which is being amortized using the interest method, over the term of the Subordinated Notes. Amortization of the discount was approximately \$0.2 million for the nine months ended September 30, 2004 and 2003, respectively.

11

## PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### INTEREST PAYMENTS

Interest payments of \$18.4 million and \$18.5 million were made during the nine months ended September 30, 2004 and 2003, respectively. Interest of \$14.6 million and \$5.4 million was accrued for at September 30, 2004 and December 31, 2003, respectively, and included in other accrued expenses on the consolidated balance sheets.

### NOTE 5 - PREFERRED STOCK

#### MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

On September 13, 2004, the Company filed a Certificate of Designations governing a new series of preferred stock, \$0.01 par value (the "Series C Preferred Stock") with the Secretary of State for the State of Delaware. The Series C Preferred Stock was exchanged on a share-for-share basis with the Company's Series B Preferred Stock, \$0.01 par value (the "Series B Preferred Stock"). The Certificate of Designations for the Series C Preferred Stock is identical to the Series B Preferred Stock Certificate of Designations except:

- the new series allows for the sharing of the liquidation preference with the new Series M Preferred Stock (discussed below),
- certain technical and correcting amendments have been made to the Certificate of Designations for the Series C Preferred Stock, including fixing the formula used to calculate the "Change of Control Cap" (as defined in the Series C Preferred Stock Certificate of Designations), and
- certain conforming changes were made to the Series C Preferred Stock Certificate of Designations to account for the fact that the Series C Preferred Stock was issued in exchange for the Series B Preferred

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Stock.

At September 30, 2004, an event of non-compliance continues to exist under our Series C Convertible Preferred Stock (the "preferred stock") because the Company's leverage ratio of 14.3 (defined as debt less cash balances in excess of \$5.0 million plus the liquidation value of the preferred stock and unpaid dividends divided by adjusted EBITDA) exceeds 7.5. Upon the occurrence of this event of non-compliance, the 5% per annum dividend rate on the preferred stock increased by one percentage point as of April 1, June 30, September 28 and December 27, 2003 and March 26, 2004 to the current maximum rate of 10% per annum. The dividend rate will adjust back to 5% as of the date on which the leverage ratio is less than 7.5. The conversion price of the preferred stock decreased by \$0.76 as of April 1, June 30, September 28 and December 27, 2003 and March 26, 2004 to its minimum conversion price of \$3.81. However, no such reduction to the conversion price will be made at any time that representatives of the preferred stockholders constitute a majority of the Board of Directors. In July 2004 at the Company's annual stockholders' meeting, changes were made to the Board of Directors such that the preferred stockholders now constitute a majority of the Board, and as a result, the conversion price was restored to \$7.61. The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the loan agreement. As such, there is no acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences have not resulted in any cash outflow from the Company.

If the Company had been sold on September 30, 2004, the bondholders would have been entitled to receive \$335.8 million and the preferred stockholders would have been entitled to receive \$119.4 million before the common stockholders would have received any amounts for their common shares. The amount the preferred stockholders would be entitled to receive could increase significantly in the future under certain circumstances. Stockholders are urged to read the terms of the preferred stock agreement carefully.

Under the conversion terms of the preferred stock, each holder has a right to convert dividends into additional shares of common stock. At September 30, 2004, no dividends have been declared. However, in light of each holder's conversion right and considering the increase in the dividend rate, the Company has recognized a deemed dividend for the beneficial conversion feature inherent in the accumulated dividend based on the original commitment date(s). All such accruals have been reported as an increase in the carrying value of the preferred stock and a charge to capital in excess of par value given that the Company is in a retained deficit position.

12

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### SERIES M PREFERRED STOCK

On September 13, 2004, the Company filed a Certificate of Designations for a new series of preferred stock, \$0.01 par value (the "Series M Preferred Stock") with the Secretary of State for the State of Delaware. The Board of Directors of the Company created the Series M Preferred Stock for issuance to certain officers of the Company as a long-term incentive plan to incentivize management by giving them an equity stake in the performance of the Company. The Series M Preferred Stock is limited to 150,000 shares of which 60,375 shares were issued on September 13, 2004. The Series M Preferred Stock is treated under fixed plan accounting and is classified in the mezzanine section of the balance sheet because redemption is outside the control of the Company. An immaterial amount

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

of expense was recognized for the nine months ended September 30, 2004.

Among other rights and provisions, the Series M Preferred Stock provides that the holder of each share will receive a cash distribution upon any liquidation, dissolution, winding up or change of control of the Company. The amount of such distribution is first a percentage of what the holders of Series C Preferred Stock and second a percentage of what the holders of the Company's common stock would receive upon such liquidation, dissolution, winding up or change of control.

### NOTE 6 - EXECUTIVE BONUS AND TERMINATION BENEFITS

On June 21, 2004, Penton's Board of Directors announced the appointment of David B. Nussbaum as Chief Executive Officer ("CEO") of the Company. In addition to the Company's standard executive incentive and benefit package, Mr. Nussbaum received a signing bonus of approximately \$1.7 million and upon the creation, 30,000 shares of the new Series M Preferred Stock. The Board also accelerated the vesting of 135,000 deferred shares granted to Mr. Nussbaum on February 3, 2004. Mr. Nussbaum used the net proceeds from his signing bonus to repay a portion of his outstanding executive loan balance.

On March 24, 2004, the Company announced that its Chairman and CEO, Thomas L. Kemp, would be leaving the Company. Mr. Kemp's employment was terminated effective June 30, 2004, and on July 1, 2004, Mr. Kemp and the Company signed a Separation Agreement and General Release agreement. The separation agreement stipulated a lump-sum payment of \$2.3 million (including the settlement of Mr. Kemp's accrued SERP obligation of \$0.2 million), the acceleration of 100,000 stock options, and the acceleration of 125,000 performance shares.

In addition, the Board and Mr. Kemp agreed upon a number of provisions related to Mr. Kemp's outstanding executive loan balance. The underlying goal of these provisions is to ensure that there are sufficient funds available to pay any amount due to taxing authorities in case the loan is discharged at a future date. Specifically, \$0.8 million of the \$2.3 million lump-sum payment has been placed in escrow and will be returned to Mr. Kemp only if he pays off the entire loan balance by its due date. Furthermore, Mr. Kemp has granted Penton a security interest in approximately 1.1 million shares of Penton common stock. These pledged securities could be transferred to Penton's ownership under certain circumstances and the proceeds used to pay the appropriate taxing authorities or to pay down the outstanding loan balance.

On June 28, 2004, Mr. Kemp was granted 514,706 deferred shares that vest on January 3, 2005. In return for these shares, Mr. Kemp agreed to comply with the terms of certain restrictive covenants, including a non-compete and a non-solicitation covenant.

On June 27, 2004, the Company announced that its President and Chief Operating Officer, Daniel J. Ramella, would be leaving the Company as part of a management restructuring plan. Mr. Ramella's employment was terminated effective June 30, 2004, and on July 1, 2004, Mr. Ramella and the Company signed a Separation Agreement and General Release agreement. The separation agreement stipulated a lump-sum payment of \$1.7 million (including the settlement of Mr. Ramella's accrued SERP obligation of \$0.2 million), and the acceleration of 139,999 stock options, 210,000 deferred shares and 90,000 performance shares. In addition, the Board agreed to discharge the \$2.6 million outstanding balance on Mr. Ramella's executive loan in return for full and final settlement of any claims Mr. Ramella may have had against the Company.

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 7 - COMMON STOCK AND COMMON STOCK AWARD PROGRAMS

##### BOARD OF DIRECTOR CHANGES

Effective at the annual meeting of stockholders on July 15, 2004, the number of board members decreased from 11 to 8. At the Company's Board of Directors meeting held on July 21, 2004, the Board named Mr. Nussbaum as a director and decreased the number of directors from 8 to 7.

##### EXECUTIVE LOAN PROGRAM

The Company has an Executive Loan Program, which allowed Penton to issue shares of Company common stock at fair market value to six key executives in exchange for full recourse notes. In December 2001, the loan notes were amended to cease interest charges as well as to extend the maturity date from the fifth anniversary of the first loan date to six months following the seventh anniversary of the first loan date. No payments are required until maturity, at which time all outstanding amounts are due.

In June 2004, Mr. Nussbaum repaid his outstanding loan balance with proceeds from his signing bonus and 288,710 shares of Penton common stock, which were returned to the Company. In addition, the Board agreed to discharge the outstanding balance due on Mr. Ramella's executive loan in exchange for Mr. Ramella releasing the Company of any claims he may have had. The Board also agreed upon a number of provisions related to Mr. Kemp's outstanding executive loan balance, as previously noted.

EITF 00-23, "Issues Related to the Accounting for Stock Compensation under APB Opinion No. 25 and FASB Interpretation No. 44" requires that once a Company forgives all or part of a recourse note it must consider all other existing recourse notes as nonrecourse prospectively (variable accounting). Consequently, the Company recognized \$0.1 million in additional paid in capital in excess of par equal to the fair market value of the stock issued in conjunction with the establishment of the loans. In addition, the Company recorded a \$1.8 million provision for loan impairment on the remaining unreserved loan balance in the second quarter of 2004. Additionally, the Company reversed the \$1.1 million reserve established in June 2003 related to Mr. Nussbaum against his signing bonus of \$1.7 million which was recorded in selling, general and administrative expenses on the consolidated statements of operations. Going forward, all future awards exercised with recourse notes shall be presumed to be exercised with nonrecourse notes with any dividends recorded as compensation expense and interest recorded as part of the exercise price.

At September 30, 2004 and December 31, 2003, the outstanding loan balance due under the Executive Loan Program was approximately \$5.8 million and \$9.5 million, respectively. The loan balance, net of amounts reserved of \$5.8 million and \$7.6 million at September 30, 2004 and December 31, 2003, respectively, is classified in the stockholders' deficit section of the consolidated balance sheets as notes receivable from officers.

##### REDEEMABLE COMMON STOCK

At December 31, 2003, the Company classified 4,191 common shares outside of stockholders' deficit because the redemption of the stock was not within the control of the Company. Redeemable common stock relates to common stock that may be subject to rescissionary rights. The purchase of common stock by certain employees in the Company's 401(k) plan from May 2001 through March 2003 was not registered under the federal securities laws. As a result, such purchasers of our common stock during that period may have had the right to rescind their



## Edgar Filing: PENTON MEDIA INC - Form 10-Q

purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. On March 14, 2004, all rescissionary rights expired.

### MANAGEMENT STOCK PURCHASE PLAN

In February 2004, a total of 595 restricted stock units ("RSUs") were granted at \$0.84 per share, which represented 80% of the fair market value of Penton stock on the date of grant. During the first nine months of 2004, 24,611 shares of the Company's common stock were issued under this plan and 2,952 non-vested RSU's were converted to cash, leaving a balance of 79,424 RSUs outstanding at September 30, 2004. For the nine months ended September 30, 2004 and 2003, respectively, an immaterial amount of expense was recognized related to the Management Stock Purchase Plan.

14

### PENTON MEDIA, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### EQUITY AND PERFORMANCE INCENTIVE PLAN

#### Stock Options

In February 2004, 473,700 options were granted to certain executives and other eligible employees at an exercise price of \$0.90 per share. For the first nine months of 2004, 17,000 options were exercised and 860,355 options were cancelled, leaving 1,507,625 options outstanding at September 30, 2004. In June 2004, the Board accelerated the vesting of 239,999 options for two executives, as previously noted.

#### Deferred Shares

In February 2004, 445,000 deferred shares were granted to certain executives and in June 2004, the Board granted 514,706 deferred shares to one executive. Furthermore, in June 2004 the Board accelerated the vesting of 345,000 deferred shares originally granted in February 2004 to two executives. These shares were issued in July 2004. For the nine months ended September 30, 2004, 745,056 shares of the Company's common stock were issued under this plan leaving 614,706 deferred shares outstanding at September 30, 2004. For the nine months ended September 30, 2004 and 2003, approximately \$0.6 million and \$1.4 million, respectively, were recognized as expense related to deferred shares.

#### Performance Shares

During the second quarter of 2004, 11,250 performance shares, which were earned as of December 31, 2003, were issued. Furthermore, a total of 255,000 performance shares were immediately vested in accordance with their respective performance share agreements when the employment of three executives was terminated. These shares were issued in July 2004. At September 30, 2004, a total of 115,000 performance shares remain outstanding. Performance shares are not issuable until earned. For the nine months ended September 30, 2004, \$0.1 million was recognized as expense related to performance shares. For the nine months ended September 30, 2003, an immaterial amount was credited to compensation expense, which resulted from the decrease in the Company's stock price.

#### Performance Units

In the second quarter of 2003, the Company granted 490,155 performance units to

Edgar Filing: PENTON MEDIA INC - Form 10-Q

certain key executives. Subject to the attainment of certain performance goals over a three-year period from January 1, 2003 through December 31, 2005, each grantee can earn a cash award in respect to each performance unit. For the nine months ended September 30, 2004, approximately \$0.6 million was recognized as expense related to these performance units. A total of 195,012 performance units worth \$0.4 million were immediately vested in accordance with their respective performance share agreements when the employment of two executives was terminated in June 2004. These amounts were paid in July 2004.

TREASURY STOCK

In the first nine months of 2004, 445,981 shares were returned to the Company by certain executives to cover taxes on deferred shares issued and by one executive to pay-down a portion of his executive loan. Treasury stock is carried at cost and is recorded as a net decrease in capital in excess of par value.

NOTE 8 - EMPLOYEE BENEFIT PLANS

Effective January 1, 2004, the Company's defined benefit plan was amended to freeze benefit accruals. The Company previously disclosed in its financial statements for the year ended December 31, 2003 that it is required to contribute \$1.5 million to its defined benefit plan for the 2003 plan year. As of September 30, 2004, the entire contribution of \$1.5 million has been paid.

15

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the components of our defined benefit pension expenses for the three and nine months ended September 30, 2004 and 2003 (in thousands):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Service cost.....	\$ -	\$ 467	\$ -	\$ 1,403
Interest cost.....	643	660	1,929	1,980
Expected return on plan assets.....	(782)	(750)	(2,344)	(2,252)
Amortization of prior service costs.....	-	17	-	51
Amortization of actuarial gain.....	-	(137)	-	(413)
	-----	-----	-----	-----
Net periodic benefit cost (benefit)..	\$ (139)	\$ 257	\$ (415)	\$ 769
	=====	=====	=====	=====

Concurrent with the freeze, the Company began making contributions to a new retirement account in the 401(k) Plan, which has been renamed the Penton Media, Inc. Retirement and Savings Plan ("RSP"). The RSP now includes the new retirement account and the "old" 401(k) savings account. There are no changes to the 401(k) savings account as a result of this change. Beginning in 2004, the Company began making monthly contributions to each employee's retirement account equal to between 3% and 6% of the employee's annual salary, based on age and years of service. The Company's contributions become fully vested once the employee has completed five years of service. The Company expects to make contributions to the RSP of approximately \$1.9 million in 2004. During the first

Edgar Filing: PENTON MEDIA INC - Form 10-Q

nine months of 2004, contributions of \$1.3 million have been made.

Effective January 1, 2004, Penton's supplemental executive retirement plan ("SERP") was amended to freeze benefits. In place of the SERP, the Company will accrue an amount equal to between 3% and 6% of the participants' eligible salary plus an investment return equal to the Moody's Aa Corporate Bond note. The accrued percentage is based on each executive's age and years of service. In July 2004, the Company paid a total of \$0.4 million to settle benefit obligations with respect to two executives in connection with the termination of their employment.

The following table summarizes the components of our SERP pension expense for the three and nine months ended September 30, 2004 and 2003 (in thousands):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2004	2003	2004	2003
	----	----	----	----
Service cost.....	\$ -	\$ 18	\$ -	\$ 54
Interest cost.....	8	13	34	39
Amortization of prior service costs....	-	6	-	20
	----	----	----	----
Net periodic benefit cost.....	\$ 8	\$ 37	\$ 34	\$113
	=====	=====	=====	=====

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9 - EARNINGS PER SHARE

Earnings per share have been computed pursuant to the provisions of SFAS No. 128, "Earnings Per Share" ("SFAS 128"). Computations of basic and diluted earnings per share for the three and nine months ended September 30, 2004 and 2003 are as follows (in thousands, except per share amounts):

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Net loss applicable to common stockholders	\$ (45,807)	\$ (54,374)	\$ (74,146)	\$ (80,338)
	=====	=====	=====	=====
Number of shares:				
Weighted average shares outstanding -				
basic and diluted	33,875	33,358	33,665	33,225
	=====	=====	=====	=====
Per share amount:				
Loss applicable to common stockholders -				
basic and diluted	\$ (1.35)	\$ (1.63)	\$ (2.20)	\$ (2.42)
	=====	=====	=====	=====

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Our preferred stock and RSUs are participating securities, such that in the event a dividend is declared or paid on the common stock, the Company must simultaneously declare and pay a dividend on the preferred stock and the RSUs as if the preferred stock and the RSUs had been converted into common stock. EITF 03-6 requires that participating securities included in the scope of EITF 03-6 be included in the computation of basic earnings per share if the effect of inclusion is dilutive. Vested RSUs and vested deferred shares are always included in the computation of basic earnings per share as they are considered equivalent to common stock. Furthermore, non-vested RSUs are excluded from the scope of EITF 03-6 as they are accounted for under APB 25. For participating securities included in the scope of EITF 03-6, the use of the two-class method to determine whether the inclusion of such securities is dilutive is required. Furthermore, non-vested RSU's are included in basic EPS using the two-class method in accordance with SFAS 128. To the extent not included in basic earnings per share, the redeemable preferred stock and the non-vested RSUs are considered in the diluted earnings per share calculation under the "if-converted" method and "treasury stock" method, respectively. At September 30, 2004 and 2003, redeemable preferred stock and non-vested RSUs were excluded from the calculation of basic earnings per share as the results were anti-dilutive.

Due to the loss from continuing operations for the three and nine months ended September 30, 2004, 1,507,625 stock options, 115,000 performance shares, 564,706 non-vested deferred shares, 73,695 non-vested RSUs, 50,000 redeemable preferred shares and 1,600,000 warrants were excluded from the calculation of diluted earnings per share, as the result would have been anti-dilutive. Due to the loss from continuing operations for the three and nine months ended September 30, 2003, 1,995,305 stock options, 471,487 performance shares, 235,704 non-vested deferred shares, 120,329 non-vested RSUs, 50,000 redeemable preferred shares, and 1,600,000 warrants were excluded from the calculation of diluted earnings per share as the result would have been anti-dilutive.

17

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 10 - COMPREHENSIVE LOSS

Comprehensive loss represents net loss plus the results of certain stockholders' equity changes not reflected in the consolidated statements of operations. The after-tax component of comprehensive loss for the three and nine months ended September 30, 2004 and 2003 are as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
Net loss	\$(44,035)	\$(52,394)	\$(63,773)	\$(75,843)
Other comprehensive loss:				
Change in accumulated translation adjustment	10	43	56	271
Total comprehensive loss	\$(44,025)	\$(52,351)	\$(63,717)	\$(75,572)

#### NOTE 11 - RELATED PARTY TRANSACTIONS

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

In the first nine months of 2004, 445,981 shares were returned to the Company by certain executives to cover taxes on deferred shares issued and by one executive to pay-down a portion of his executive loan.

In December 2003, the Company entered into an agreement with a former employee to provide trade show and conference services to selected Penton events in 2004 and 2005. Under the agreement, the former employee will receive guaranteed minimum payments of \$0.4 million and \$0.7 million in 2004 and 2005, respectively. In addition, Penton will provide, for an immaterial charge to the former employee, office space and related office services, including utilities, computer and office equipment, telephone service, janitorial services and other typical office services.

At September 30, 2004, Neue Medien Ulm Holdings GmbH ("Neue Medien") owed Penton Media Germany ("PM Germany"), a consolidated subsidiary, \$0.7 million. This amount is classified on the consolidated balance sheets as notes receivable. Neue Medien and Penton jointly own PM Germany. The notes are due on demand and bear interest at the German Federal rate plus 3%, or 4.13% at September 30, 2004.

### NOTE 12 - INCOME TAXES

The Company assesses the recoverability of its deferred tax assets in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). In the first quarter of 2004 the Company recorded a valuation allowance of \$0.4 million against its net foreign deferred tax assets. In recording the valuation allowance, management considered it more likely than not that all of the foreign net deferred tax assets would not be realized. At September 30, 2004 and December 31, 2003 the valuation allowance for net deferred tax assets and net operating loss carryforwards totaled \$69.7 million and \$55.3 million, respectively.

The Company realized a tax benefit for the three and nine months ended September 30, 2004 related to the reversal of approximately \$1.0 million of contingent liabilities for which the statutes of limitations have expired partially offset by a provision for state taxes. Additionally, the tax benefit recognized for the nine months ended September 30, 2004 was further offset by the valuation allowance noted above. The tax benefit realized for the three and nine months ended September 30, 2003 relates to foreign subsidiaries, which were partially offset by a provision for state taxes.

In January 2003, the Company received a tax refund of \$52.7 million. This amount is included in net cash provided by operating activities in the condensed consolidated statements of cash flows.

### NOTE 13 - CONTINGENCIES

In connection with the acquisition of Mecklermedia Corporation in 1998, a lawsuit was brought against the Company on December 1, 1998 by Ariff Alidina (the "Plaintiff"), a former stockholder of Mecklermedia Corporation, in the United States Federal District Court in the Southern District of New York for an unspecified amount, as well as other relief. The Plaintiff had claimed that the Company violated the federal securities laws by selling Mr. Meckler, a beneficial owner of approximately 26% of the shares of Mecklermedia, an 80.1% interest in Jupitermedia Corporation for what the Plaintiff alleges was a below-market price, thereby giving to Mr. Meckler more consideration for his common stock in Mecklermedia Corporation than was paid to other stockholders of Mecklermedia Corporation. On May 16, 2001, the United States District Court for the Southern District of New York granted the Plaintiff's motion for certification of a class consisting of all former stockholders of Mecklermedia who tendered their shares in the tender offer. By letter dated November 3, 2003,

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

plaintiffs' counsel informed the Court that a

18

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

settlement had been reached in this case. In July 2004, the Federal District Court approved the settlement between the former stockholders of Mecklermedia and the Company for \$4.6 million; this amount reflects the Company's portion of the \$7.0 million total settlement amount. The class settlement was paid entirely from insurance proceeds in August 2004.

On November 3, 2003, a lawsuit was brought against the Company for an unspecified amount by Allison & Associates, Inc. under the Telephone Consumer Protection Act ("TCPA") prohibition against the transmission of unsolicited fax advertisements. The lawsuit is a putative class action (although the class has not yet been certified by the court) that seeks to represent a class of plaintiffs comprised of all individuals and entities who, during the period November 3, 1999, through the present, received one or more facsimiles sent by or on behalf of the Company advertising the commercial availability of its products or services and who did not give their prior expressed permission or invitation to receive such faxes. The statutory penalty for a single violation of the TCPA is \$500, although the penalty can increase to \$1,500 per violation if the Company is found to have willfully or knowingly violated the law. The case is currently pending in the Richmond County, Georgia, Superior Court as the Company is complying with the Court's Order for discovery. As the law regarding class actions and the TCPA is unsettled, the Company is uncertain as to the outcome of this case.

In the normal course of business, Penton is subject to a number of lawsuits and claims, both actual and potential in nature. While management believes that resolution of existing claims and lawsuits will not have a material adverse effect on Penton's financial statements, management is unable to estimate the magnitude or financial impact of claims and lawsuits that may be filed in the future.

#### NOTE 14 - BUSINESS RESTRUCTURING CHARGES

In 2001, 2002, 2003 and the first nine months of 2004, the Company implemented a number of cost reduction initiatives to improve its operating cost structure. The cost reduction initiatives included workforce reductions, the consolidation and closure of over 30 facilities, and the cancellation of various contracts.

For facilities that the Company no longer occupies, management makes assumptions, including the number of years a property will be subleased, square footage, market trends, property location and the price per square foot based on discussions with realtors and/or parties that have shown interest in the space. The Company records estimated sublease income accordingly. The Company is actively attempting to sublease all vacant facilities.

Personnel costs include payments for severance, benefits and outplacement services.

#### 2004 RESTRUCTURING PLAN

In 2004, the Company restructured its operations by flattening its organizational structure as well as implementing other cost savings strategies. The Company recorded restructuring charges of \$0.7 million, \$2.9 million and \$1.1 million, respectively, in the first, second and third quarters of 2004.

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

These costs are primarily associated with the elimination of 58 employees, including several executives, primarily in the United States. As of September 30, 2004, the elimination of 55 positions and payments of \$3.3 million had been completed.

19

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Activity and liability balances related to the 2004 restructuring plan are as follows (in thousands):

	SEVERANCE AND OTHER PERSONNEL COSTS	OTHER EXIT COSTS	TOT
	-----	-----	-----
Charged to costs and expenses	\$ 695	\$ 37	\$
Cash payments	(85)	(25)	
	-----	-----	-----
Restructuring balance, March 31, 2004	610	12	
Charged to costs and expenses	2,868	79	
Adjustments	(5)	(7)	
Cash payments	(254)	(20)	
	-----	-----	-----
Restructuring balance, June 30, 2004	3,219	64	
Charged to costs and expenses	1,049	11	
Adjustments	1	(32)	
Cash payments	(2,876)	(40)	
	-----	-----	-----
Restructuring balance, September 30, 2004	\$ 1,393	\$ 3	\$
	=====	=====	=====

Payment of these severance costs is expected to be completed by the second quarter of 2005.

#### 2003 RESTRUCTURING PLAN

In order to meet continued revenue challenges in 2003, the Company implemented a number of expense reduction and restructuring activities. The Company recorded restructuring charges of \$4.7 million in 2003. Included in this amount is \$2.5 million for personnel costs associated with the elimination of 85 positions, primarily in the United States. Furthermore, facility closing costs of \$3.8 million relate primarily to the closure of one floor at the Company's corporate headquarters and the partial closure of one additional facility. This charge was offset by \$2.3 million of estimated sublease income related to these facilities. The charge for other exit costs of \$0.7 million relates primarily to equipment lease payments at closed office facilities, the cancellation of certain contracts, and broker commissions.

Activity and liability balances related to the 2003 restructuring plan are as follows (in thousands):

#### SEVERANCE

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	AND OTHER PERSONNEL COSTS	FACILITY CLOSING COSTS	OTH EXIT
	-----	-----	-----
Charged to costs and expenses	\$ 2,548	\$ 1,505	\$
Adjustments	35	(11)	
Cash payments	(1,105)	(500)	
	-----	-----	-----
Restructuring balance, December 31, 2003	1,478	994	
Adjustments	264	58	
Cash payments	(1,479)	(160)	
	-----	-----	-----
Restructuring balance, September 30, 2004	\$ 263	\$ 892	\$
	=====	=====	=====

Payments of severance costs are expected to be completed by the first quarter of 2005. Facility closing costs and other exit costs, which consist of equipment leases, will be paid over their respective lease terms, which expire at various dates through 2010.

2002 RESTRUCTURING PLAN

In 2002, the Company announced a number of expense reduction and restructuring initiatives intended to improve its operating cost structure. The actions include costs of \$5.1 million related to the closure of nine offices worldwide. These amounts were offset in part by approximately \$1.7 million related to our New York, NY and Burlingame, CA offices that we were able to sublease in 2002. In addition, the Company reduced the workforce by approximately 316 employees and recorded a liability

20

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

for other contractual obligations related primarily to the cancellation of trade show venues, hotel contracts and service agreements. Adjustments of \$1.7 million in 2002 primarily relate to rent escalation provisions, which had not been taken into consideration when the original 2002 liability was recorded.

Activity and liability balances related to the 2002 restructuring plan are as follows (in thousands):

	SEVERANCE AND OTHER PERSONNEL COSTS	FACILITY CLOSING COSTS	OTHER EXIT COSTS
	-----	-----	-----
Charged to costs and expenses	\$ 10,344	\$ 3,421	\$ 1,648
Adjustments	200	1,705	59
Cash payments	(5,440)	(693)	(967)
	-----	-----	-----
Restructuring balance, December 31, 2002	5,104	4,433	740
Adjustments	(45)	(604)	(92)
Cash payments	(4,928)	(1,469)	(375)
	-----	-----	-----
Restructuring balance, December 31, 2003	131	2,360	273



Edgar Filing: PENTON MEDIA INC - Form 10-Q

Adjustments	(78)	525	271
Cash payments	(33)	(599)	(544)
	-----	-----	-----
Restructuring balance, September 30, 2004	\$ 20	\$ 2,286	\$ -
	=====	=====	=====

The balance of severance costs relate to an executive who will be paid through the first quarter of 2007. Other exit costs are expected to be paid in the remainder of 2004, and obligations for the non-cancelable facility leases will be paid over their respective lease terms, which expire at various dates through 2010.

In 2002, restructuring charges of \$1.0 million were classified as part of discontinued operations.

2001 RESTRUCTURING PLAN

During 2001, as part of a broad cost reduction initiative, the Company announced certain expense reduction initiatives, including a reduction in workforce, which reduced headcount by approximately 400 employees, the closure of more than 20 offices worldwide and other exit costs primarily related to the write-off of computerized software development costs. Adjustments to other exit costs of approximately \$1.0 million in 2001 and \$0.4 million in 2002 primarily relate to the reversal of certain restructuring initiatives that did not require the level of spending that had originally been estimated.

Activity and liability balances related to the 2001 restructuring plan are as follows (in thousands):

	SEVERANCE AND OTHER PERSONNEL COSTS	FACILITY CLOSING COSTS	EX
	-----	-----	-----
Charged to costs and expenses	\$ 6,774	\$ 8,669	\$
Adjustments	(23)	-	
Cash payments	(4,468)	(267)	
	-----	-----	-----
Restructuring balance, December 31, 2001	2,283	8,402	
Adjustments	(135)	(459)	
Cash payments	(2,129)	(1,590)	
	-----	-----	-----
Restructuring balance, December 31, 2002	19	6,353	
Adjustments	(8)	598	
Cash payments	(11)	(1,304)	
	-----	-----	-----
Restructuring balance, December 31, 2003	-	5,647	
Adjustments	-	90	
Cash payments	-	(1,263)	
	-----	-----	-----
Restructuring balance, September 30, 2004	\$ -	\$ 4,474	\$
	=====	=====	=====

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company completed the workforce and other exit cost actions in 2003. The Company expects to pay the obligations for the non-cancelable leases over their respective lease terms, which expire at various dates through 2013.

#### ESTIMATED FUTURE PAYMENTS

At September 30, 2004, the Company had an accrued restructuring balance of \$9.5 million. Management expects to make cash payments during the remainder of 2004 of approximately \$1.3 million, composed of \$0.8 million for employee separation costs, \$0.4 million for facility lease obligations and \$0.1 million for other contractual obligations. The balance of severance costs will be paid through the first quarter of 2007, and the balance of facility costs and other exit costs, primarily long-term leases, are expected to be paid through the end of the respective lease terms, which extend through 2013.

Amounts due within one year of approximately \$3.2 million and \$3.7 million at September 30, 2004 and December 31, 2003, respectively, are classified in other accrued expenses on the consolidated balance sheets. Amounts due after one year of approximately \$6.4 million and \$7.6 million at September 30, 2004 and December 31, 2003, respectively, are included in other non-current liabilities on the consolidated balance sheets.

Restructuring charges, including adjustments, for the three and nine months ended September 30, 2004 and 2003 are as follows, by segment:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Industry	\$ 997	\$ 475	\$ 1,640	\$ 644
Technology	269	138	1,037	745
Lifestyle	-	-	-	45
Retail	114	633	812	633
International	6	144	2,397	685
Corporate	118	66	46	552
	-----	-----	-----	-----
Total	\$ 1,504	\$ 1,456	\$ 5,932	\$ 3,304
	=====	=====	=====	=====

Restructuring charges are included in restructuring and other charges on the consolidated statements of operations.

#### NOTE 15 - SEGMENT INFORMATION

Mr. Nussbaum, who was appointed CEO in June 2004, is now Penton's chief operating decision maker. Mr. Nussbaum and the executive team assess and manage the Company's operations differently than the prior management team resulting in a change in the Company's reportable segments effective in the third quarter of 2004. As a result of this change in reportable segments, all prior periods were recast to conform with the new segment format.

The Company's newly designated segments include: Industry, Technology, Lifestyle, Retail and International. The results of these newly established segments will, consistent with past practice, be regularly reviewed by the Company's chief operating decision maker and the executive team to determine how resources will be allocated to each segment and to assess the performance of

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

each segment. All five segments derive their revenues from publications, trade shows and conferences, and online media products. The segments are generally based on the market sectors they serve, except the International segment, which is primarily based on the geographical markets it serves.

Content of our Industry segment publications, trade shows and conferences, and online media products is geared to customers in the manufacturing, design/engineering, mechanical systems/construction, and government/compliance industries.

22

### PENTON MEDIA, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Content of our Technology segment publications, trade shows and conferences, and online media products is geared to customers in the business technology, aviation, enterprise information technology, and electronics industries.

Content of our Lifestyle segment publications, trade shows and conferences, and online media products is geared to customers in the natural products industry.

Content of our Retail segment publications, trade shows and conferences, and online media products is geared to customers in the food/retail and hospitality industries.

Revenues for our International segment are derived from publications, trade shows and conferences, and online media products generated from our European and German operations.

The executive management team evaluates performance of each segment based on its revenues and adjusted segment EBITDA. As such, in the analysis that follows, the Company uses adjusted segment EBITDA, which is defined as net income (loss) before interest, taxes, depreciation and amortization, non-cash compensation, impairment of assets, restructuring charges, executive separation costs, provision for loan impairment, discontinued operations, general and administrative costs, and other non-operating items. General and administrative costs include functions such as finance, accounting, human resources and information systems, which cannot reasonably be allocated to each segment. Assets are not allocated to segments and as such have not been presented.

Summary information by segment for the three months ended September 30, 2004 and 2003, is as follows (in thousands):

	REVENUES		ADJUSTED SEGMENT EBITDA	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Industry	\$ 20,772	\$ 19,374	\$ 6,378	\$ 5,224
Technology	14,101	14,272	2,425	1,887
Lifestyle	3,914	10,340	(424)	4,507
Retail	5,751	5,057	1,920	1,524
International	8,305	5,076	1,802	628
	-----	-----	-----	-----
Total	\$ 52,843	\$ 54,119	\$ 12,101	\$ 13,770
	=====	=====	=====	=====

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Summary information by segment for the nine months ended September 30, 2004 and 2003, is as follows (in thousands):

	REVENUES		ADJUSTED SEGMENT EBITDA	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
Industry	\$ 57,205	\$ 57,059	\$ 16,350	\$ 15,792
Technology	44,563	46,467	7,545	6,651
Lifestyle	25,022	28,751	9,669	12,526
Retail	16,412	15,510	4,526	4,522
International	15,044	11,190	726	(441)
	-----	-----	-----	-----
Total	\$ 158,246	\$ 158,977	\$ 38,816	\$ 39,050
	=====	=====	=====	=====

23

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Segment revenues, all of which are realized from external customers, equal Penton's consolidated revenues. Following is a reconciliation of Penton's total adjusted segment EBITDA to consolidated net loss (in thousands):

	THREE MONTHS ENDED		NINE
	SEPTEMBER 30,		SE
	2004	2003	2004
	-----	-----	-----
Total adjusted segment EBITDA	\$ 12,101	\$ 13,770	\$ 38,816
General and administrative costs	(3,988)	(5,475)	(15,600)
	-----	-----	-----
Total Company EBITDA	8,113	8,295	23,116
Depreciation and amortization	(2,337)	(3,320)	(8,300)
Provision for loan impairment	-	-	(1,700)
Restructuring and other charges	(1,455)	(1,519)	(5,800)
Impairment of assets	(39,651)	(45,797)	(39,600)
Executive separation costs	(21)	-	(2,700)
Non-cash compensation	(25)	(48)	(700)
Interest expense	(9,698)	(10,480)	(28,500)
Interest income	54	102	200
Other, net	91	38	-
	-----	-----	-----
Loss from continuing operations before income taxes	(44,929)	(52,729)	(64,000)
Benefit for income taxes	894	236	200
Discontinued operations	-	99	-
	-----	-----	-----
Net loss	\$ (44,035)	\$ (52,394)	\$ (63,700)
	=====	=====	=====

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### NOTE 16 - SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Portions of the following transactions do not provide or use cash and, accordingly, are not reflected in the condensed consolidated statements of cash flows.

For the nine months ended September 30, 2004, Penton issued 24,611 shares under the Management Stock Purchase Plan, 745,056 deferred shares, 266,250 performance shares and 17,000 shares under the stock option plan. In February 2004, 473,700 stock options, 595 RSUs and 445,000 deferred shares were granted and in June 2004, an additional 514,706 deferred shares were granted. As a result of the termination of three executives in June 2004, 239,999 stock options and 255,000 performance shares were immediately vested. The performance shares were issued in July 2004. Furthermore, for the nine months ended September 30, 2004, Penton recorded amortization of deemed dividend and accretion on preferred stock of \$10.4 million.

In June 2004, Mr. Nussbaum returned 288,710 common shares to reduce his executive loan balance. In addition, Mr. Nussbaum received a signing bonus for \$1.7 million of which \$1.1 million was used to pay off the remaining balance of his executive loan.

For the nine months ended September 30, 2003, Penton issued 20,835 shares under the Management Stock Purchase Plan, 372,916 deferred shares and 30,516 performance shares to several officers and other key employees. In addition, in February 2003, 618,850 stock options, 99,876 RSUs and 391,360 deferred shares were granted. Furthermore, for the nine months ended September 30, 2003, Penton recorded amortization of deemed dividend and accretion on preferred stock of \$4.5 million.

24

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 17 - GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

The following schedules set forth condensed consolidated balance sheets as of September 30, 2004, and December 31, 2003, and condensed consolidated statements of operations for the three and nine months ended September 30, 2004 and 2003, and condensed consolidated statements of cash flows for the nine months ended September 30, 2004 and 2003. In the following schedules, "Parent" refers to Penton Media, Inc., "Guarantor Subsidiaries" refers to Penton's wholly owned domestic subsidiaries, and "Non-guarantor Subsidiaries" refers to Penton's foreign subsidiaries. "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in Penton's subsidiaries.

25

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF SEPTEMBER 30, 2004

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 12,905	\$ 188	\$ 4,238
Restricted cash	193	-	-
Accounts receivable, net	19,948	5,159	4,039
Notes receivable	-	-	712
Inventories	388	306	5
Prepayments, deposits and other	4,424	1,022	1,490
	-----	-----	-----
	37,858	6,675	10,484
	-----	-----	-----
Property, plant and equipment, net	12,419	2,066	1,177
Goodwill	111,378	61,493	3,740
Other intangibles, net	4,463	2,597	247
Other non-current assets	6,744	122	51
Investments in subsidiaries (1)	(229,483)	-	-
	-----	-----	-----
	(94,479)	66,278	5,215
	-----	-----	-----
	\$ (56,621)	\$ 72,953	\$ 15,699
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 24,988	\$ 6,759	\$ 3,337
Accrued compensation and benefits	4,681	1,221	109
Unearned income	14,168	4,453	3,263
	-----	-----	-----
	43,837	12,433	6,709
	-----	-----	-----
<b>Long-term liabilities and deferred credits:</b>			
Senior secured notes, net of discount	80,076	76,936	-
Senior subordinated notes, net of discount	87,682	84,243	-
Net deferred pension credits	10,625	-	-
Intercompany advances	(131,791)	83,555	41,275
Other non-current liabilities	3,794	1,872	1,799
	-----	-----	-----
	50,386	246,606	43,074
	-----	-----	-----
<b>Commitments and contingencies</b>			
Minority interest	-	-	2,352
Mandatorily redeemable convertible preferred stock	65,433	-	-
Series M preferred stock	1	-	-
<b>Stockholders' deficit:</b>			
Common stock and capital in excess of par value	217,069	209,653	16,614
Retained deficit	(431,222)	(395,742)	(50,944)
Notes receivable from officers, less reserve of \$5,848	-	-	-

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Accumulated other comprehensive income (loss)	(2,125)	3	(2,106)
	-----	-----	-----
	(216,278)	(186,086)	(36,436)
	-----	-----	-----
	\$ (56,621)	\$ 72,953	\$ 15,699
	=====	=====	=====

(1) Reflects investments in subsidiaries utilizing the equity method.

26

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	(DOLLARS IN THOUSAND)		
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 27,125	\$ 147	\$ 2,354
Accounts receivable, net	19,511	4,901	5,309
Notes receivable	-	-	571
Inventories	582	287	6
Prepayments, deposits and other	2,845	379	1,674
	-----	-----	-----
	50,063	5,714	9,914
	-----	-----	-----
Property, plant and equipment, net	14,613	2,656	1,534
Goodwill	122,289	90,755	1,367
Other intangibles, net	5,053	5,639	191
Other non-current assets	8,425	143	534
Investment in subsidiaries (1)	(177,677)	-	-
	-----	-----	-----
	(27,297)	99,193	3,626
	-----	-----	-----
	\$ 22,766	\$ 104,907	\$ 13,540
	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 17,308	\$ 6,506	\$ 1,702
Accrued compensation and benefits	5,838	1,112	208
Unearned income	16,990	3,144	4,646
	-----	-----	-----
	40,136	10,762	6,556
	-----	-----	-----
<b>Long-term liabilities and deferred credits:</b>			

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Senior secured notes, net of discount	80,027	76,888	-
Senior subordinated notes, net of discount	87,566	84,132	-
Net deferred pension credits	11,040	-	-
Intercompany advances	(110,837)	71,196	32,736
Other non-current liabilities	4,701	2,250	2,212
	-----	-----	-----
	72,497	234,466	34,948
	-----	-----	-----
Commitments and contingencies			
Minority interest	-	-	2,487
Mandatorily redeemable convertible preferred stock	55,060	-	-
Redeemable common stock	2	-	-
Stockholders' deficit:			
Common stock and capital in excess of par value	226,598	209,653	16,614
Retained deficit	(367,449)	(349,976)	(44,904)
Notes receivable from officers, less reserve of \$7,600	(1,897)	-	-
Accumulated other comprehensive income (loss)	(2,181)	2	(2,161)
	-----	-----	-----
	(144,929)	(140,321)	(30,451)
	-----	-----	-----
	\$ 22,766	\$ 104,907	\$ 13,540
	=====	=====	=====

(1) Reflects investments in subsidiaries utilizing the equity method.

27

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	(DOLLARS IN THOUSAND)		
REVENUES	\$ 34,367	\$ 9,788	\$ 8,688
	-----	-----	-----
OPERATING EXPENSES:			
Editorial, production and circulation	15,826	4,999	3,409
Selling, general and administrative	10,913	5,924	3,705
Impairment of assets	10,911	23,555	5,185
Restructuring and other charges	1,116	333	6



Edgar Filing: PENTON MEDIA INC - Form 10-Q

Depreciation and amortization	1,568	569	200
	-----	-----	-----
	40,334	35,380	12,505
	-----	-----	-----
OPERATING INCOME (LOSS)	(5,967)	(25,592)	(3,817)
	-----	-----	-----
OTHER INCOME (EXPENSE):			
Interest expense	(5,756)	(3,867)	(75)
Interest income	37	-	17
Equity in losses of subsidiaries	(33,247)	-	-
Other, net	(5)	(9)	105
	-----	-----	-----
	(38,971)	(3,876)	47
	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(44,938)	(29,468)	(3,770)
Benefit (provision) for income taxes	903	(9)	-
	-----	-----	-----
NET LOSS	\$ (44,035)	\$ (29,477)	\$ (3,770)
	=====	=====	=====

28

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIONS
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
REVENUES	\$ 38,236	\$ 10,240	\$ 5,643	\$
	-----	-----	-----	-----
OPERATING EXPENSES:				
Editorial, production and circulation	16,530	4,806	2,164	
Selling, general and administrative	12,204	7,106	3,062	
Impairment of assets	363	39,550	5,884	
Restructuring and other charges	659	716	144	
Depreciation and amortization	2,048	815	457	
	-----	-----	-----	-----
	31,804	52,993	11,711	
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	6,432	(42,753)	(6,068)	
	-----	-----	-----	-----

Edgar Filing: PENTON MEDIA INC - Form 10-Q

OTHER INCOME (EXPENSE):				
Interest expense	(5,377)	(5,029)	(74)	
Interest income	102	-	-	
Equity in losses of subsidiaries	(53,631)	-	-	5
Other, net	(22)	1	59	
	-----	-----	-----	-----
	(58,928)	(5,028)	(15)	5
	-----	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES				
	(52,496)	(47,781)	(6,083)	5
Benefit (provision) for income taxes	3	(5)	238	
	-----	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS				
	(52,493)	(47,786)	(5,845)	5
Income from discontinued operations	99	-	-	
	-----	-----	-----	-----
NET LOSS	\$ (52,394)	\$ (47,786)	\$ (5,845)	\$ 5
	=====	=====	=====	=====

29

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIM
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
REVENUES	\$ 110,530	\$ 30,374	\$ 17,342	\$
	-----	-----	-----	-----
OPERATING EXPENSES:				
Editorial, production and circulation	47,168	15,118	7,094	
Selling, general and administrative	38,334	20,936	9,885	
Impairment of assets	10,911	23,555	5,185	
Provision for loan impairment	1,717	-	-	
Restructuring and other charges	4,036	1,765	46	
Depreciation and amortization	5,852	1,885	581	
	-----	-----	-----	-----
	108,018	63,259	22,791	
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	2,512	(32,885)	(5,449)	
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Interest expense	(15,430)	(12,845)	(243)	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Interest income	173	-	47	
Equity in losses of subsidiaries	(51,806)	-	-	
Other, net	(2)	(9)	86	
	<u>(67,065)</u>	<u>(12,854)</u>	<u>(110)</u>	
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(64,553)	(45,739)	(5,559)	
Benefit (provision) for income taxes	780	(27)	(481)	
NET LOSS	<u>\$ (63,773)</u>	<u>\$ (45,766)</u>	<u>\$ (6,040)</u>	<u>\$</u>

30

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIM
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
	(DOLLARS IN THOUSANDS)			
REVENUES	\$ 112,066	\$ 33,257	\$ 13,654	\$
OPERATING EXPENSES:				
Editorial, production and circulation	47,642	15,992	5,686	
Selling, general and administrative	36,834	22,809	8,962	
Impairment of assets	363	39,550	5,884	
Provision for loan impairment	7,600	-	-	
Restructuring and other charges	1,328	1,323	685	
Depreciation and amortization	6,725	2,764	1,334	
	<u>100,492</u>	<u>82,438</u>	<u>22,551</u>	
OPERATING INCOME (LOSS)	11,574	(49,181)	(8,897)	
OTHER INCOME (EXPENSE):				
Interest expense	(15,515)	(14,482)	(233)	
Interest income	339	-	-	
Equity in losses of subsidiaries	(72,649)	-	-	
Miscellaneous, net	(391)	(146)	267	
	<u>(88,216)</u>	<u>(14,628)</u>	<u>34</u>	
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(76,642)	(63,809)	(8,863)	
Benefit (provision) for income taxes	(134)	(15)	194	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

LOSS FROM CONTINUING OPERATIONS	(76,776)	(63,824)	(8,669)	
Income (loss) from discontinued operations	933	9	(165)	
NET LOSS	\$ (75,843)	\$ (63,815)	\$ (8,834)	\$

31

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIM
	(DOLLARS IN THOUSANDS)			
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ (12,230)	\$ 121	\$ 2,155	\$
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(1,606)	(80)	(132)	
Notes receivable, net	-	-	(140)	
Net cash used for investing activities	(1,606)	(80)	(272)	
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payment of financing costs	(10)	-	-	
Increase in restricted cash	(193)	-	-	
Increase (decrease) in book overdrafts	(225)	-	1	
Net cash provided by (used for) financing activities	(428)	-	1	
Effect of exchange rate changes on cash	44	-	-	
Net increase (decrease) in cash and cash equivalents	(14,220)	41	1,884	
Cash and cash equivalents at beginning of period	27,125	147	2,354	
Cash and cash equivalents at end of period	\$ 12,905	\$ 188	\$ 4,238	\$

32

PENTON MEDIA, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 17 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIM
	-----	-----	-----	-----
	(DOLLARS IN THOUSAND)			
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	\$ 38,169	\$ 142	\$ 792	\$
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(1,801)	(428)	(94)	
Notes receivable, net	-	-	1,659	
Earnouts paid	-	(7)	-	
Proceeds from sale of Professional Trade Shows group	3,250	-	-	
	-----	-----	-----	-----
Net cash provided by (used for) investing activities	1,449	(435)	1,565	
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Repayment of senior secured credit facility	(4,500)	-	-	
Payment of notes payable	-	-	(417)	
Employee stock purchase plan payments	(107)	-	(6)	
Proceeds from repayment of officers loans	250	-	-	
Decrease in restricted cash	241	-	253	
Payment of financing costs	(1,917)	-	-	
Increase (decrease) in book overdrafts	147	-	(433)	
	-----	-----	-----	-----
Net cash used for financing activities	(5,886)	-	(603)	
	-----	-----	-----	-----
Effect of exchange rate changes on cash	70	-	-	
	-----	-----	-----	-----
Net increase (decrease) in cash and equivalents	33,802	(293)	1,754	
Cash and equivalents at beginning of period	5,165	460	1,146	
	-----	-----	-----	-----
Cash and equivalents at end of period	\$ 38,967	\$ 167	\$ 2,900	\$
	=====	=====	=====	=====

33

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and the notes thereto. Historical results and percentage relationships set forth in the consolidated financial statements, including trends that might appear, should not be taken as indicative of future results. Penton considers portions of this information to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to expectations for future periods. Although Penton believes that the expectations reflected in such forward-looking statements are based upon reasonable

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

assumptions, it can give no assurance that its expectations will be achieved. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates" and similar expressions are intended to identify forward-looking statements. A number of important factors could cause Penton's results to differ materially from those indicated by such forward-looking statements, including, among other factors, fluctuations in advertising revenue with general economic cycles; economic uncertainty exacerbated by potential terrorist attacks on the United States or the impact of the war with Iraq, and related geopolitical events; the performance of our natural products industry trade shows; the seasonality of revenues from trade shows and conferences; our ability to launch new products that fit strategically with and add value to our business; our ability to penetrate new markets internationally; increases in paper and postage costs; the effectiveness of our cost-saving efforts; the infringement or invalidation of Penton's intellectual property rights; pending litigation; government regulation; competition; technological change; and international operations.

Except as expressly required by the federal securities laws, Penton does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances, or any other reason.

### OVERVIEW

We are a diversified business-to-business media company. We provide media products that deliver proprietary business information to owners, operators, managers and professionals in the industries we serve. Through these products, we offer industry suppliers multiple ways to reach their customers and prospects as part of their sales and marketing efforts. We publish specialized trade magazines, produce trade shows and conferences, and provide a range of online media products, including Web sites, electronic newsletters and electronic conferences.

In June 2004, the Company appointed David B. Nussbaum as Chief Executive Officer ("CEO"). Mr. Nussbaum is now Penton's chief operating decision maker. After reviewing the Company's operations, Mr. Nussbaum and the executive team implemented a change in the Company's reportable segments effective in the third quarter of 2004 to conform with the way the Company's businesses are now assessed and managed. The Company is structured along segment and industry lines rather than by product lines. This enables us to promote our related group of products, including publications, trade shows and conferences, and online media products, to our customers. Our five principal segments are: Industry, Technology, Lifestyle, Retail and International. As a result of this change in reportable segments, all prior periods were recast to conform with the new segment format.

### BUSINESS TRENDS

Revenues for the Company have stabilized during 2004. However, the business-to-business print advertising market continues to struggle in some markets we serve, although not to the extent of previous years. Based on industry information that is available, it is clear that the trade magazine industry has not yet demonstrated any real recovery in advertising pages in spite of improving economic conditions in most sectors. Some of the sectors that are core to Penton's business continue to record meaningful declines in print advertising pages this year.

The continuing decline in print advertising pages across a broad range of business-to-business markets appears to be tied to the combination of the historical lag of advertising recovery and the secular changes that are

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

occurring in our industry. While it is historically consistent for advertising recovery to lag the recovery of underlying end-markets, we are likely experiencing a structural change in how our customers are allocating their marketing budgets even as their business conditions improve.

34

While the secular changes vary by market and are not consistently applied across all sectors, we are witnessing increasing adoption of electronic marketing programs that include search engine advertising, as well as custom marketing programs that include events and print products. The changing marketing strategies of our customers continue to impact print advertising budgets in several sectors.

The adoption of non-traditional media channels seems to be driven by a combination of sales lead generation goals and marketing accountability in several markets. Brand building and new product introductions, historically the strength of print advertising programs, are not the primary marketing strategies for many of our customers at this point in the economic cycle.

In sectors where brands continue to be the primary focus of marketing plans, such as foodservice and retail, print advertising continues to be the foundation of marketing programs. As customers in other sectors return to brand building and introduction of new products, it is likely that print advertising will recover. However, it is also likely that print advertising recovery will lag the overall growth in our customers' total marketing budgets.

While electronic media ("eMedia") is still a relatively small part of our operations, we expect to see accelerated growth of this product line as we introduce new digital media offerings across all of our markets.

### COMPANY STRATEGY

The Company's strategy is to build a full tripod of media products in all the markets we serve, ensuring we offer eMedia and events to leverage our strong print brands and deliver every possible media channel to our markets. Our objectives are to offer creative, unique opportunities to our customers to help them achieve broader business success. The secular changes taking place in the business-to-business media industry offers a great opportunity to drive a wide range of new marketing solutions to our customers, including eMedia properties, custom marketing programs and integrated marketing services, in addition to traditional print advertising and trade show exhibitions.

### RECENT DEVELOPMENTS

#### EXCHANGE OF PREFERRED STOCK

On September 13, 2004, the Company filed a Certificate of Designations governing a new series of preferred stock, \$.01 par value (the "Series C Preferred Stock") with the Secretary of State for the State of Delaware. The Series C Preferred Stock was exchanged on a share-for-share basis with the Company's Series B Preferred Stock, \$.01 par value (the "Series B Preferred Stock"). The Certificate of Designations for the Series C Preferred Stock is identical to the Series B Preferred Stock Certificate of Designations except:

- the new series allows for the sharing of the liquidation preference with the new Series M Preferred Stock (discussed below),
- certain technical and correcting amendments have been made to the Certificate of Designations for the Series C Preferred Stock, including fixing the formula used to calculate the "Change of

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Control Cap" (as defined in the Series C Preferred Stock Certificate of Designations), and

- certain conforming changes were made to the Series C Preferred Stock Certificate of Designations to account for the fact that the Series C Preferred Stock was issued in exchange for the Series B Preferred Stock.

### SERIES M PREFERRED STOCK

On September 13, 2004, the Company filed a Certificate of Designations for a new series of preferred stock, \$.01 par value (the "Series M Preferred Stock") with the Secretary of State for the State of Delaware. The Board of Directors of the Company created the Series M Preferred Stock for issuance to certain officers of the Company as a long-term incentive plan to incentivize management by giving them an equity stake in the performance of the Company. The Series M Preferred Stock is limited to 150,000 shares of which 60,375 shares were issued on September 13, 2004. The Series M Preferred Stock is treated under fixed plan accounting and is classified in the mezzanine section of the balance sheet because redemption is outside the control of the Company.

Among other rights and provisions, the Series M Preferred Stock provides that the holder of each share will receive a cash distribution upon any liquidation, dissolution, winding up or change of control of the Company. The amount of such distribution is first a percentage of what the holders of Series C Preferred Stock and second a percentage of what the holders of the Company's common stock would receive upon such liquidation, dissolution, winding up or change of control.

35

### NEW CHAIRMAN AND CHIEF EXECUTIVE OFFICER

On June 21, 2004, the Board of Directors announced the appointment of David B. Nussbaum as CEO of Penton. Mr. Nussbaum succeeds Thomas L. Kemp. The Company had announced on March 24, 2004 that Mr. Kemp would be leaving the Company.

Mr. Nussbaum was previously an executive vice president with the Company and president of the Company's former Technology and Lifestyle Media Division. Mr. Nussbaum joined Penton in 1998 after an 18-year career with Miller Freeman, Inc., where he was a senior vice president responsible for its New York Division.

In addition, the Board of Directors named Royce Yudkoff as its non-executive chairman. Mr. Yudkoff is a co-founder of ABRY Partners, an investment holding company based in Boston, and currently serves as its president and managing partner.

### BOARD OF DIRECTOR CHANGES

Effective at the annual meeting of stockholders on July 15, 2004, the number of board members was reduced from 11 to 8. With this reduction, the holders of the preferred stock constitute a majority of the Company's Board of Directors. Upon the preferred stockholders obtaining this majority, the conversion price of the Company's preferred stock adjusted back to \$7.61 (see Preferred Stock Leverage Ratio Event of Non-Compliance below).

The Company announced on June 14, 2004, that the preferred stockholders had appointed Mr. Yudkoff as a director to replace Daniel C. Budde, who resigned effective June 11, 2004. At the same meeting, the Board named Mr. Yudkoff its non-executive chairman.



## Edgar Filing: PENTON MEDIA INC - Form 10-Q

At the Company's Board of Directors meeting held on July 21, 2004, the Board named Mr. Nussbaum as a director and decreased the number of directors to seven.

### MANAGEMENT RESTRUCTURING

On June 24, 2004, the Company announced a reorganization of its corporate leadership structure. These changes, which are aimed at accelerating product and service development, driving revenue growth, and flattening the company's organizational structure, included the following actions:

- Daniel J. Ramella, president and Chief Operating Officer of Penton Media, Inc. and president of the Company's Industry Media Division, and William C. Donohue, who managed the Retail Media group operation, left the Company as of June 30, 2004.
- David B. Nussbaum, the Company's new CEO, assumed the senior operating responsibilities for the Industry group and Darrell Denny, president of the Company's IT Media and Lifestyle Media groups, assumed the operating responsibilities for the Retail group as well as the IT Media and Lifestyle Media groups.
- Eric Shanfelt, director of eMedia strategy for Penton's IT Media Group and New Hope Natural Media businesses, assumed the newly created corporate position of vice president of eMedia Strategy as Penton moves to expand its e-Media portfolio.

### SENIOR EXECUTIVE BONUS AND TERMINATION BENEFITS

As noted above, on June 21, 2004, Penton's Board of Directors announced the appointment of David B. Nussbaum as CEO of the Company. In addition to the Company's standard executive incentive and benefit package, Mr. Nussbaum received a signing bonus of approximately \$1.7 million and 30,000 shares of Series M Preferred Stock. In addition, the Board accelerated the vesting of 135,000 deferred shares granted to Mr. Nussbaum on February 3, 2004. Mr. Nussbaum used the net proceeds from his signing bonus to repay a portion of his outstanding executive loan balance.

On March 24, 2004, the Company announced that its Chairman and CEO, Thomas L. Kemp, would be leaving the Company. Mr. Kemp's employment was terminated effective June 30, 2004, and on July 1, 2004, Mr. Kemp and the Company signed a Separation Agreement and General Release agreement. Mr. Kemp's separation agreement includes the following:

36

- A lump-sum payment of approximately \$2.3 million, of which \$0.8 million has been placed in escrow. Included in this payment is severance of approximately \$1.8 million per Mr. Kemp's employment agreement; \$0.3 million related to performance units granted on May 22, 2003; and \$0.2 million related to the settlement of Mr. Kemp's accrued supplemental executive retirement plan obligation;
- The accelerated vesting of 100,000 stock options granted to Mr. Kemp prior to his termination making them immediately exercisable; and
- The immediate vesting of 125,000 performance shares in accordance with the terms of his performance share agreement dated February 5, 2002.

In addition, the Board and Mr. Kemp agreed upon a number of provisions related

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

to Mr. Kemp's outstanding executive loan balance. The underlying goal of these provisions was to mitigate any tax exposure to the Company should the loan be discharged at a future date. Specifically, \$0.8 million of the lump-sum payment described above has been placed in escrow and will be returned to Mr. Kemp only if he pays off the entire loan balance by its due date. Furthermore, Mr. Kemp has granted Penton a security interest in approximately 1.1 million shares of Penton common stock. These pledged securities could be transferred to Penton's ownership under certain circumstances and used to pay the appropriate taxing authorities or to pay down the outstanding loan balance.

On June 28, 2004, Mr. Kemp was granted 514,706 deferred shares that vest on January 3, 2005. In return for these shares, Mr. Kemp agreed to comply with the terms of certain restrictive covenants, including a non-compete and a non-solicitation covenant.

At September 30, 2004, \$2.7 million in termination benefits related to Mr. Kemp have been included in selling, general and administrative expenses on the consolidated statements of operations.

On June 27, 2004, the Company announced that its President and Chief Operating Officer, Daniel J. Ramella, would be leaving the Company as part of a management restructuring plan. Mr. Ramella's employment was terminated effective June 30, 2004, and on July 1, 2004, Mr. Ramella and the Company signed a Separation Agreement and General Release agreement. Mr. Ramella's separation agreement includes the following:

- A lump-sum payment of approximately \$1.7 million. Included in this payment is severance of approximately \$1.4 million per Mr. Ramella's employment agreement; \$0.1 million related to performance units granted on May 22, 2003; and \$0.2 million related to the settlement of Mr. Ramella's accrued supplemental executive retirement plan obligation;
- The accelerated vesting of 139,999 stock options granted to Mr. Ramella prior to his termination making them immediately exercisable; and
- The immediate vesting of 90,000 performance shares in accordance with the terms of his performance share agreement dated February 5, 2002.

In addition, the Board agreed to discharge the balance of Mr. Ramella's \$2.6 million executive loan in return for the full and final settlement of any claims Mr. Ramella may have had against the Company.

At September 30, 2004, \$1.4 million in termination benefits related to Mr. Ramella were included in restructuring and other charges on the consolidated statements of operations.

### PREFERRED STOCK LEVERAGE RATIO EVENT OF NON-COMPLIANCE

At September 30, 2004, an event of non-compliance continues to exist under our Series C Preferred Stock because the Company's leverage ratio of 14.3 (defined as debt less cash balances in excess of \$5.0 million plus the liquidation value of the preferred stock and unpaid dividends divided by adjusted EBITDA) exceeds 7.5. Upon the occurrence of this event of non-compliance, the 5% per annum dividend rate on the preferred stock increased by one percentage point as of April 1, June 30, September 28 and December 27, 2003 and March 26, 2004 to the current maximum rate of 10% per annum. The dividend rate will adjust back to 5% as of the date on which the leverage ratio is less than 7.5. The conversion price of the preferred stock decreased by \$0.76 as of April 1, June 30, September 28 and December 27, 2003 and March 26, 2004 to its minimum conversion

Edgar Filing: PENTON MEDIA INC - Form 10-Q

price of \$3.81. However, no such reduction to the conversion price will be made at any time that representatives of the preferred stockholders constitute a majority of the Board of Directors. In July 2004 at the Company's

37

annual stockholders' meeting, changes were made to the Board of Directors such that the preferred stockholders now constitute a majority of the Board, and as a result, the conversion price was restored to \$7.61. The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the loan agreement. As such, there is no acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences have not resulted in any cash outflow from the Company.

If the Company had been sold on September 30, 2004, the bondholders would have been entitled to receive \$335.8 million and the preferred stockholders would have been entitled to receive \$119.4 million before the common stockholders would have received any amounts for their common shares. The amount the preferred stockholders would be entitled to receive could increase significantly in the future under certain circumstances. Stockholders are urged to read the terms of the preferred stock agreement carefully.

RESULTS OF OPERATIONS

REVENUES

Our magazines generate revenues primarily from the sale of advertising space and are primarily controlled circulation distributed free of charge to qualified subscribers in our target industries. Subscribers to controlled-circulation publications qualify to receive our trade magazines by verifying their responsibility for specific job functions, including purchasing authority. We survey our magazine subscribers annually to verify their continuing qualification. Trade show exhibitors pay a fixed price per square foot of booth space. In addition, we receive revenues from attendee fees at trade shows and from exhibitor sponsorships of promotional media. Our conferences are supported by either attendee registration fees or marketer sponsorship fees, or a combination of both. Online revenues are primarily generated from web site banner advertising and sponsorships; advertising in, or the sponsorship of, electronic newsletters; and the sponsorship of web seminars and virtual trade show events.

The following table summarizes our revenues for the three and nine months ended September 30, 2004 and 2003:

	THREE MONTHS ENDED SEPTEMBER 30,			NINE SE
	2004	2003	CHANGE	2004
	-----	-----	-----	-----
	(Dollars in millions)			
Revenues.....	\$ 52.8	\$ 54.1	(2.4)%	\$ 158.2

Three Month Comparison

Total revenues decreased \$1.3 million, or 2.4%, from \$54.1 million for the three months ended September 30, 2003 to \$52.8 million for the same period in 2004. The decrease was due to a decrease in trade show revenues of \$2.3 million, or

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

16.8%, from \$13.7 million for the three months ended September 30, 2003 to \$11.4 million for the same 2004 period. This decrease was offset by an increase in online media revenues of \$0.9 million, or 27.2%, from \$3.2 million for the three months ended September 30, 2003 to \$4.1 million for the same 2004 period and an increase in publishing revenue of \$0.1 million, or 0.4%, from \$37.2 million for the three months ended September 30, 2003 to \$37.3 million for the same 2004 period.

The \$2.3 million, or 16.8%, decrease in trade show and conference revenues between the third quarter of 2003 and the third quarter of 2004 is due to a shift in timing of our Natural Products Expo East show from September in 2003 to October in 2004. Natural Products Expo East is the Company's second largest trade show. The effects of this shift were partially offset by the shift of our UK Service Management Europe, Manufacturing, and Computers in Manufacturing trade shows, all of which were held in November of 2003 and in September of 2004. The net effect of all these show shifts is lower revenues for the third quarter of 2004 of nearly \$4.4 million. This decrease was partially offset by quarter-on-quarter revenue increases of nearly \$0.5 million from our Leisure Industry Week and Comfortech HVAC events. In addition, trade show revenues increased nearly \$1.7 million in the third quarter of 2004 compared to 2003 due to the inclusion of revenues from our Motion & Controls event, which is produced biannually, and the addition of two new events launched in the third quarter, Effective IT and Engineering Green Buildings.

38

The Natural Products Expo East show held in Washington D. C. in October 2004 posted growth in both attendance, with more than 22,000 attendees, and exhibitor revenues exceeding its September 2003 event.

The \$0.9 million, or 27.2%, increase in online media revenues was primarily due to increases of nearly \$0.5 million in electronic newsletter sponsorships as well as increases in web seminar sponsorships and content related sponsorships. Quarter-on-quarter increases were realized in most of Penton's markets with our IndustryWeek and Business Finance online products generating the largest increases.

The \$0.1 million, or 0.4%, increase in publishing revenues was primarily due to an increase in advertisements offset by lower subscription revenues and list rental revenues. Quarter-on-quarter revenue increases of \$1.1 million were realized from magazines but were offset by revenues decreases of \$1.0 million from special issues, card packs and print newsletters, as customers move their marketing dollars from print media to web-based marketing opportunities, and event marketing.

### Nine Month Comparison

Total revenues decreased \$0.8 million, or 0.5%, from \$159.0 million for the nine months ended September 30, 2003 to \$158.2 million for the same period in 2004. The decrease was due primarily to a decrease in publishing revenues of \$4.0 million, or 3.5%, from \$113.4 million for the nine months ended September 30, 2003 to \$109.4 million for the same 2004 period. This decrease was partially offset by increases in online media revenues of \$2.5 million, or 24.8%, from \$10.3 million for the nine months ended September 30, 2003 to \$12.8 million for the same 2004 period and an increase in trade show revenues of \$0.7 million, or 2.1%, from \$35.3 million for the nine months ended September 30, 2003 to \$36.0 million for the same 2004 period.

The \$4.0 million, or 3.5%, decrease in publishing revenues was due primarily to decreases in advertising revenues and revenues from subscriptions and list rentals. The two primary reasons for the decrease in magazine revenues is the

Edgar Filing: PENTON MEDIA INC - Form 10-Q

period-on-period decrease in our IT Media publications and the elimination of our Internet World magazine in June of 2003, which generated revenues of approximately \$1.0 million in 2003.

The \$2.5 million, or 24.8%, increase in online media revenues was primarily due to increases in sponsorship revenues for electronic newsletters, web seminars and online events. Period-on-period increases were realized by most of Penton's online media products, with the Windows IT Pro, IndustryWeek and Business Finance products generating the largest increases.

The \$0.7 million, or 2.1%, increase in trade show and conference revenues for the nine months ended September 30, 2004 compared with the same prior year period was due primarily to an increase in sponsorship and attendee revenues offset by a decrease in exhibitor revenues from booth rentals. Increased trade show revenues were primarily due to: (i) the shift in timing of our UK Service Management Europe and UK Manufacturing shows from November of 2003 to September of 2004; (ii) the year-on-year results of a highly successful Natural Products Expo West show held in March 2004; (iii) the biannual Motion & Control event which was held in the UK in 2004; and (iv) the third quarter launch of our Effective IT and Engineering Green Buildings events. Revenues for the nine months ended September 30, 2004 do not include revenues from our Natural Products Expo East show because the event was held in October this year. Revenues for the nine months ended September 30, 2003 include this event because the show was held in September 2003.

A summary of revenues by product for the three and nine months ended September 30, 2004 are as follows:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,
	2004	2003	2004
	-----	-----	-----
	(In thousands)		
Publishing	\$ 37,328	\$ 37,187	\$ 109,383
Trade Shows & Conferences	11,377	13,680	36,088
Online Media	4,138	3,252	12,775
	-----	-----	-----
Total Revenues	\$ 52,843	\$ 54,119	\$ 158,246
	=====	=====	=====

Revenue trends within each segment are further detailed below in the segment discussion section.

EDITORIAL, PRODUCTION AND CIRCULATION

	THREE MONTHS ENDED SEPTEMBER 30,		
	2004	2003	CHANGE
	----	----	-----
	(Dollars in millions)		
Editorial, production and circulation.....	\$ 24.2	\$ 23.5	3.1%
Percent of revenues.....	45.9%	43.4%	

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Our editorial, production and circulation expenses include personnel costs, purchased editorial costs, exhibit hall costs, online media costs, postage charges, circulation qualification costs and paper costs. The increase in editorial, production and circulation expenses for the third quarter of 2004 compared with the third quarter of 2003 primarily reflect costs associated with our Leisure Industry Week and Computers in Manufacturing events, which were held in the fourth quarter of 2003 and the third quarter of 2004; costs associated with our biannual Motion & Control event which was in the third quarter of 2004; costs associated with the launch of our Effective IT and Engineering Green Buildings events held in the third quarter of 2004; and costs associated with an increase in the number of road shows held during the quarter. These cost increases were partially offset by the lack of costs associated with our Natural Products East show, which was held in the third quarter of 2003 and not until the fourth quarter of 2004; lower headcount and personnel-related costs; lower postage costs; and lower paper and printing costs. Expenses in 2003 include some costs attributable to unprofitable properties, which have been eliminated, particularly Internet World magazine. The increase in editorial, production and circulation expenses for the nine months ended September 30, 2004 compared with the same 2003 period are primarily due to the same factors as noted in the three-month comparison.

### SELLING, GENERAL AND ADMINISTRATIVE

	THREE MONTHS ENDED		
	SEPTEMBER 30,		
	2004	2003	CHANGE
	-----	-----	-----
	(Dollars in		
Selling, general and administrative.....	\$ 20.5	\$ 22.4	(8.2)%
Percent of revenues.....	38.9%	41.3%	

Our selling, general and administrative ("SG&A") expenses include personnel costs, independent sales representative commissions, product marketing, and facility costs. Our SG&A expenses also include costs of corporate functions, including accounting, finance, legal, human resources, information systems, and communications. The decrease in SG&A expenses for the third quarter of 2004 compared with the third quarter of 2003 was due primarily to the shift in timing of our Natural Products Expo East event, as certain costs are deferred until the show is held; and restructuring efforts undertaken in 2003 and 2004, which have resulted in lower headcount and personnel-related costs and lower facility costs. The increase in SG&A expenses for the nine months ended September 30, 2004 compared with the period in 2003 was due primarily to a \$2.7 million charge related to executive separation costs for Mr. Kemp, who left the Company on June 30, 2004; a signing bonus of \$1.7 million paid to Mr. Nussbaum (net of the reversal of \$1.1 million related to Mr. Nussbaum's executive loan); and \$0.3 million in other executive-related separation costs. These additional costs were partially offset by the shift in our Natural Products Expo East event as noted above and restructuring efforts undertaken in 2003 and 2004.

### IMPAIRMENT OF ASSETS

The Company completed its annual goodwill impairment review in accordance with Statement of Financial Accounting Standard ("SFAS") SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") as of September 30, 2004, which resulted in a non-cash charge of \$37.8 million and reduced the carrying value of goodwill for two reporting units in our Technology segment and one reporting unit in our

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

International segment. As a result of the impairment of goodwill for three of our seven reporting units, the Company also completed an assessment at September 30, 2004, of its other intangibles in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), and recorded a non-cash charge of \$1.9 million. The 2004 goodwill impairment charge is primarily due to lower than expected future cash flows in two of our reporting units in our Technology segment and by lower than expected future cash flows in our International segment. Impaired long-lived assets in 2004 relate to exhibitor lists and advertising relationships in our Information Technology market due to lower than expected revenues and lower retention rates.

At September 30, 2003, the Company completed its annual SFAS 142 impairment review and recorded a non-cash charge of approximately \$37.6 million to reduce the carrying value of goodwill for two reporting units in our Technology Media

40

segment and one reporting unit in our Retail segment. The Company also completed an assessment at September 30, 2003, in accordance with SFAS 144, and recorded a non-cash charge of \$8.2 million.

### RESTRUCTURING AND OTHER CHARGES

	THREE MONTHS ENDED SEPTEMBER 30,		
	2004	2003	CHANGE
	-----	-----	-----
	(Dollars in		
Restructuring and other charges.....	\$ 1.5	\$ 1.5	-
Percent of revenues.....	2.8%	2.8%	%

Commencing in 2001 and continuing through the third quarter of 2004, we implemented a number of cost reduction initiatives to improve our operating cost structure. For a more detailed discussion of activity under our restructuring plans, see Note 14 - Business Restructuring Charges of the notes to consolidated financial statements.

### 2004 RESTRUCTURING PLAN

In 2004, the Company restructured its operations by flattening its organizational structure as well as implementing other cost savings strategies. The Company recorded restructuring charges of \$4.7 million and adjustments of \$1.1 million in the first nine months of 2004. These charges are primarily associated with the elimination of 58 positions, including several executive positions, primarily in the United States. As of September 30, 2004, the elimination of 55 positions and payments of \$3.3 million had been completed. Adjustments of \$1.1 million were made to reflect a new sublease with rates lower than what had been originally estimated and the settlement of a disputed contract in excess of what had originally been expected.

### SUMMARY OF RESTRUCTURING ACTIVITIES

The following table summarizes all of the Company's restructuring activity through September 30, 2004 (in thousands):

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	SEVERANCE AND OTHER PERSONNEL COSTS	FACILITY CLOSING COSTS	OTHER EXIT COSTS	
	-----	-----	-----	-----
Charges	\$ 6,774	\$ 8,669	\$ 4,364	\$
Adjustments	(23)	-	(994)	
Cash payments	(4,468)	(267)	(2,423)	
	-----	-----	-----	
Accrual at December 31, 2001	2,283	8,402	947	
Charges	10,344	3,421	1,648	
Adjustments	65	1,246	(363)	
Cash payments	(7,569)	(2,283)	(1,217)	
	-----	-----	-----	
Accrual at December 31, 2002	5,123	10,786	1,015	
Charges	2,548	1,505	661	
Adjustments	(18)	(17)	(10)	
Cash payments	(6,044)	(3,273)	(965)	
	-----	-----	-----	
Accrual at December 31, 2003	1,609	9,001	701	
Charges	4,612	-	127	
Adjustments	182	673	222	
Cash payments	(4,727)	(2,022)	(843)	
	-----	-----	-----	
Accrual at September 30, 2004	\$ 1,676	\$ 7,652	\$ 207	\$
	=====	=====	=====	=====

At September 30, 2004, the Company had an accrued restructuring balance of \$9.5 million. We expect to make cash payments through the remainder of 2004 of approximately \$1.3 million, comprised of \$0.8 million for employee separation costs, \$0.4 million for lease obligations and \$0.1 million for other contractual obligations. The balance of severance and other exit costs will be paid through 2007, and the balance of facility costs, primarily long-term leases, is expected to be paid through the end of the respective lease terms, which extend through 2013. Amounts due within one year of approximately \$3.2 million and

41

\$3.7 million at September 30, 2004 and December 31, 2003, respectively, are classified in other accrued expenses on the consolidated balance sheets. Amounts due after one year of approximately \$6.4 million and \$7.6 million at September 30, 2004 and December 31, 2003, respectively, are included in other non-current liabilities on the consolidated balance sheets.

The Company expects to realize sufficient savings from its 2004 restructuring efforts to recover the employee termination costs by July 31, 2005. Savings from terminations of contracts and lease costs will be realized over the estimated lives of the contracts or leases.

OTHER INCOME (EXPENSE)

Other income (expense) consists of the following:

THREE MONTHS ENDED SEPTEMBER 30,		
2004	2003	CHANGE
----	----	-----

(In mil



## Edgar Filing: PENTON MEDIA INC - Form 10-Q

Interest expense.....	\$ (9.7)	\$ (10.5)	(7.5)%
Interest income.....	\$ 0.1	\$ 0.1	- %
Other, net.....	\$ 0.1	\$ -	n/m

Included in interest expense for the three months ended September 30, 2003 is approximately \$1.0 million related to the write-off of unamortized financing fees associated with the replacement of our senior secured credit facility in August 2003 with a new four-year loan agreement. Included in interest expense for the nine months ended September 30, 2003 is an additional \$0.9 million related to the write-off of unamortized financing fees associated with the commitment reduction of our credit facility revolver in January 2003 from \$40.0 million to \$20.1 million.

### EFFECTIVE TAX RATES

The Company realized a tax benefit for the three and nine months ended September 30, 2004 related to the reversal of approximately \$1.0 million of contingent liabilities for which the statutes of limitations have expired partially offset by a provision for state taxes. Additionally, the tax benefit recognized for the nine months ended September 30, 2004 was further offset by the valuation allowance noted above. The tax benefit realized for the three and nine months ended September 30, 2003 relates to foreign subsidiaries, which were partially offset by a provision for state taxes.

### DISCONTINUED OPERATIONS

Discontinued operations in 2003 include the results of PM Australia, which was sold in December 2002, and the results of Professional Trade Shows ("PTS"), which was sold in January 2003. PM Australia was part of our Technology segment, and PTS was part of our Industry segment.

The \$0.8 million of income recognized in 2003 was primarily due to a gain of approximately \$1.4 million associated with the sale of PTS, offset by one month of operations for PTS, and settlement costs for certain pending lawsuits related to PM Australia.

### SEGMENTS

Mr. Nussbaum is now Penton's chief operating decision maker. Mr. Nussbaum and the executive team assess and manage the Company's operations differently than the prior management team resulting in a change in the Company's reportable segments effective in the third quarter of 2004. As a result of this change in reportable segments, all prior periods have been recast to conform with the new segment format.

The Company's newly designated segments include: Industry, Technology, Lifestyle, Retail and International. The results of these newly established segments will, consistent with past practice, be regularly reviewed by the Company's chief operating decision maker and the executive team to determine how resources will be allocated to each segment and to assess the

performance of each segment. The segments derive their revenues from publications, trade shows and conferences, and online media products.

The executive management team evaluates performance of the segments based on revenues and adjusted segment EBITDA. As such, in the analysis that follows, we have used adjusted segment EBITDA, which we define as net income (loss) before

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

interest, taxes, depreciation and amortization, non-cash compensation, executive separation costs, impairment of assets, restructuring charges, provision for loan impairment, discontinued operations, general and administrative costs, and other non-operating items. General and administrative costs include functions such as finance, accounting, human resources and information systems, which cannot reasonably be allocated to each segment. See Note 15 - Segment Information, for a reconciliation of total adjusted segment EBITDA to consolidated net loss.

Financial information by segment for the three months ended September 30, 2004 and 2003, is summarized as follows (in thousands):

	REVENUES		ADJUSTED SEGMENT EBITDA	
	2004	2003	2004	2003
Industry	\$ 20,772	\$ 19,374	6,378	\$ 5,224
Technology	14,101	14,272	2,425	1,887
Lifestyle	3,914	10,340	(424)	4,507
Retail	5,751	5,057	1,920	1,524
International	8,305	5,076	1,802	628
Total	\$ 52,843	\$ 54,119	12,101	\$ 13,770

Financial information by segment for the nine months ended September 30, 2004 and 2003, is summarized as follows (in thousands):

	REVENUES		ADJUSTED SEGMENT EBITDA	
	2004	2003	2004	2003
Industry	\$ 57,205	\$ 57,059	\$ 16,350	\$ 15,792
Technology	44,563	46,467	7,545	6,651
Lifestyle	25,022	28,751	9,669	12,526
Retail	16,412	15,510	4,526	4,522
International	15,044	11,190	726	(441)
Total	\$ 158,246	\$ 158,977	\$ 38,816	\$ 39,050

### INDUSTRY

#### Three Months

Our Industry segment, which represented 39.3% and 35.8% of total Company revenues for the three months ended September 30, 2004 and 2003, respectively, serves customers in the manufacturing, design/engineering, construction, government/compliance and supply/logistics industries. For the three months ended September 30, 2004 and 2003, respectively, 88.4% and 91.0% of this segment's revenues were generated from publishing operations, 7.3% and 6.4% from trade shows and conferences, and 4.3% and 2.6% from online media products.

Revenues for this segment increased \$1.4 million, or 7.2%, from \$19.4 million

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

for the three months ended September 30, 2003 to \$20.8 million for the same period in 2004. This increase was due primarily to higher publishing revenues of \$0.7 million, higher conference revenues of \$0.3 million and higher online media revenues of \$0.4 million. The increase in publishing revenues was primarily attributable to a \$1.3 million improvement in our manufacturing group, from magazines such as American Machinist and IndustryWeek. This improvement in publishing revenues was partially offset by lower revenues attributed to our government/compliance products and slightly lower publishing revenues from our construction unit. The increase in trade show and conference revenues was primarily due to the July 2004 launch of our Engineering Green Buildings conference and a year-over-year increase in our Comfortech HVAC conference. The increase in online

43

media revenues was primarily from quarter-over-quarter improvements in our manufacturing and government/compliance group websites.

Adjusted segment EBITDA for our Industry portfolio increased \$1.2 million, or 22.1%, from \$5.2 million for the three months ended September 30, 2003 to \$6.4 million for the same period in 2004. Industry publications increased \$0.6 million, while trade shows and conferences improved \$0.3 million and online media improved \$0.3 million. The increase in adjusted segment EBITDA margins was due primarily to higher revenues and cost reduction efforts undertaken.

### Nine Months

Our Industry segment represented 36.1% and 35.9% of total Company revenues for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004, and 2003, respectively, 92.6% and 94.5% of this segment's revenues were generated from publishing operations, 3.3% and 2.7% from trade shows and conferences, and 4.1% and 2.8% from online media products.

Revenues for this segment increased \$0.1 million, or 0.3%, from \$57.1 million for the nine months ended September 30, 2003 to \$57.2 million for the same period in 2004. The increase was due primarily to higher trade show and conference revenues of \$0.4 million and higher online media revenues of \$0.7 million partially offset by lower publishing revenues and ancillary revenues of \$1.0 million. The increase in trade show and conferences revenues was attributed to our Comfortech HVAC conference which showed a 25.9% year-on-year revenue increase, and the launch of our Engineering Green Buildings conference in July 2004 and our IW Smart Manufacturing conference in June 2004 which attributed an additional \$0.5 million in revenues in 2004. The increase in online media revenues was primarily from year-over-year improvements in our manufacturing, government/compliance and design engineering group websites. Lower publishing revenues were primarily due to lower advertising revenues from our government/compliance group.

Adjusted segment EBITDA for our Industry portfolio increased \$0.6 million, or 3.5%, from \$15.8 million for the nine months ended September 30, 2003 to \$16.4 million for the same period in 2004. This increase is due to our trade shows and conferences, which increased \$0.4 million and our online media products which increased by \$0.6 million. These increases were partially offset by a decrease of \$0.4 million in publishing. The increase in adjusted segment EBITDA margins was due primarily to cost reduction efforts undertaken.

### TECHNOLOGY

#### Three Months

Our Technology segment, which represented 26.7% and 26.4% of total Company

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

revenues for the three months ended September 30, 2004 and 2003, respectively, serves customers in the business technology, aviation, enterprise information technology and electronics industries. For the three months ended September 30, 2004 and 2003, respectively, 70.5% and 75.9% of this segment's revenues were generated from publishing operations, 9.9% and 7.5% from trade shows and conferences, and 19.6% and 16.6% from online media products.

Revenues for this segment decreased \$0.2 million, or 1.2%, from \$14.3 million for the three months ended September 30, 2003 to \$14.1 million for the same period in 2004. The decrease was due primarily to lower publishing revenues of \$0.9 million, partially offset by higher trade show revenues of \$0.3 million and higher online media revenues of \$0.4 million. The decrease in publishing revenues was primarily the result of lower revenues from our IT Media publications, slightly lower revenues from our aviation magazines and the elimination of over \$0.1 million in revenues related to our Internet World magazine, which was shut-down in 2003. These declines were partially offset by improvements in our electronics industry publications. Higher trade show revenues were attributable to quarter-over-quarter increases in revenues generated from our Windows road show events held during the quarter. The increase in online media revenues was primarily attributable to strong eMedia performance in our electronics group.

Adjusted segment EBITDA for our Technology portfolio increased \$0.5 million, or 28.5%, from \$1.9 million for the three months ended September 30, 2003 to \$2.4 million for the same period in 2004. The increase was attributable to online media of \$0.5 million and trade shows and conferences of \$0.3 million. These improvements were partially offset by a decline of \$0.3 million in the segment's publications. The increase in adjusted segment EBITDA margins was due primarily to cost reduction efforts undertaken.

44

### Nine Months

Our Technology segment represented 28.2% and 29.2% of total Company revenues for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, respectively, 65.8% and 72.1% of this segment's revenues were generated from publishing operations, 13.9% and 11.7% from trade shows and conferences, and 20.3% and 16.2% from online media products.

Revenues for this segment decreased \$1.9 million, or 4.1%, from \$46.5 million for the nine months ended September 30, 2003 to \$44.6 million for the same period in 2004. The decrease was due primarily to lower publishing revenues of \$4.2 million, offset by higher online media revenues of \$1.5 million and higher trade show revenues of \$0.8 million. The decrease in the segment's publishing revenues was due partially to the elimination of over \$1.0 million in revenues related to our Internet World magazine, which was shut down in 2003, and declines in our IT Media publications. The increase in online media revenues was due to year-over-year improvements in most of our web sites, increased revenues from sponsorships of our electronic newsletters, and increased revenues from sponsorships of web seminars. The increase in trade show revenues was primarily due to an increase of nearly 87% in Windows road show revenues in 2004 compared with 2003. Trade show revenues in 2003 included revenues of \$0.4 million from our IW Spring show and \$0.2 million from our Military Electronics event, neither of which were held in 2004.

Adjusted segment EBITDA for our Technology portfolio increased \$0.9 million, or 13.4%, from \$6.6 million for the nine months ended September 30, 2003 to \$7.5 million for the same period in 2004. The increase was attributable to online media of \$1.4 million and trade shows and conferences of \$0.8 million. These

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

improvements were partially offset by a decline of \$1.7 million in the segment's publications. The increase in adjusted segment EBITDA margins was due to cost reduction efforts undertaken.

### LIFESTYLE

#### Three Months

Our Lifestyle segment, which represented 7.4% and 19.1% of total Company revenues for the three months ended September 30, 2004 and 2003, respectively, serves customers in the natural products industry. For the three months ended September 30, 2004 and 2003, respectively, 82.7% and 29.2% of this segment's revenues were generated from publishing and 17.1% and 70.8% from trade shows and conferences. Segment revenues from online media products for the three months ended September 30, 2004 generated 0.2%.

Revenues for this segment decreased \$6.4 million, or 62.1%, from \$10.3 million for the three months ended September 30, 2003 to \$3.9 million for the same period in 2004. Trade shows and conferences accounted for \$6.6 million of this decrease, offset slightly by an increase in publishing revenues of \$0.2 million. The sharp decline in trade show and conference revenues was due to the shift in timing of our Natural Products Expo East event, which was held in the third quarter of 2003 but moved to the fourth quarter of 2004.

Adjusted segment EBITDA for the Lifestyle segment decreased \$4.9 million, or 109.4%, from \$4.5 million for the three months ended September 30, 2003 to a loss of \$0.4 million for the same period in 2004. Trade shows and conferences accounted for all of this decline due to the shift in timing of the Natural Products Expo East event as noted above.

#### Nine Months

Our Lifestyle segment represented 15.8% and 18.1% of total Company revenues for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, respectively, 38.0% and 30.3% of this segment's revenues were generated from publishing and 61.9% and 69.7% from trade shows and conferences. Segment revenues from online media products for the nine months ended September 30, 2004 generated 0.1%.

Revenues for this segment decreased \$3.8 million, or 13.0%, from \$28.8 million for the nine months ended September 30, 2003 to \$25.0 million for the same period in 2004. Trade shows and conferences accounted for \$4.6 million of the decrease, offset by improvements in publishing revenues of \$0.8 million. The decline in our lifestyle segment was primarily due to the shift in timing of our Natural Products Expo East event, which was held in the third quarter of 2003 but moved to the fourth

45

quarter of 2004. This decline was partially offset by a 19.3% year-over-year improvement in revenues from our Natural Products Expo West show, which was held in March 2004, and improvements in our publishing revenues primarily from Delicious Living and The Natural Foods Merchandiser magazines.

Adjusted segment EBITDA for the Lifestyle segment decreased \$2.9 million, or 22.8%, from \$12.5 million for the nine months ended September 30, 2003 to \$9.7 million for the same period in 2004. Trade shows and conferences accounted for \$3.6 million of the decrease offset by a \$0.5 million improvement in publishing adjusted EBITDA.

### RETAIL

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### Three Months

Our Retail segment, which represented 10.9% and 9.3% of total Company revenues for the three months ended September 30, 2004 and 2003, respectively, serves customers in the food/retail and hospitality industries. For the three months ended September 30, 2004 and 2003, respectively, 93.2% and 90.9% of this segment's revenues were generated from publishing, 5.2% and 7.1% from trade shows and conferences, and 1.6% and 2.0% from online media products.

Revenues for this segment increased \$0.7 million, or 13.7%, from \$5.1 million for the three months ended September 30, 2003, to \$5.8 million for the same period in 2004. This increase was due primarily to quarter-over-quarter revenue improvements in our Restaurant Hospitality and Lodging Hospitality magazines. Trade show and conference revenues and online media revenues were flat with third quarter 2003 levels.

Adjusted segment EBITDA for the Retail segment increased \$0.4 million, or 26.0%, from \$1.5 million for the three months ended September 30, 2003 to \$1.9 million for the same period in 2004. The increase was due primarily to the revenue increases noted above.

### Nine Months

Our Retail segment represented 10.4% and 9.8% of total Company revenues for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, respectively, 92.7% and 90.1% of this segment's revenues were generated from publishing, 5.8% and 7.9% from trade shows and conferences, and 1.5% and 2.0% from online media products.

Revenues for this segment increased \$0.9 million, or 5.8%, from \$15.5 million for the nine months ended September 30, 2003 to \$16.4 million for the same period in 2004. The increase was due primarily to year-over-year revenue improvements in our Restaurant Hospitality, Lodging Hospitality and Baking Management magazines offset by lower year-on-year revenues from our Convenience Store Decision magazine, slightly lower trade show and conference revenues, and a modest decline in online media revenues.

Adjusted segment EBITDA for the Retail segment remained flat for the nine months ended September 30, 2003 compared with the same period in 2004. Although EBITDA for publications increased by \$0.9 million due to revenue increases noted above, these improvements were offset by a slight decrease from trade show and conferences and higher overhead costs.

## INTERNATIONAL

### Three Months

Our International segment, which consists of our European and German operations, represented 15.7% and 9.4% of total Company revenues for the three months ended September 30, 2004 and 2003, respectively. These operations primarily serve customers in the manufacturing, leisure and technology industries. For the three months ended September 30, 2004 and 2003, respectively, 5.3% and 21.8% of this segment's revenues were generated from publishing, 90.2% and 72.8% from trade shows and conferences, and 4.5% and 5.4% from online media products.

Revenues for this segment increased \$3.2 million, or 63.6%, from \$5.1 million for the three months ended September 30, 2003, to \$8.3 million for the same period in 2004. This increase was due primarily to the shift in timing of our Service Management Europe and Manufacturing trade shows from the fourth quarter in 2003 to the third quarter in 2004. Also

contributing to the increase was our biannual Motion & Control event, which took place in the quarter, and our launch of the Effective IT event in the quarter.

Adjusted segment EBITDA for the International segment increased \$1.2 million, or 186.9%, from \$0.6 million for the three months ended September 30, 2003 to \$1.8 million for the same period in 2004. The increase was due primarily to the increase in revenues noted above.

#### Nine Months

Our International segment represented 9.5% and 7.0% of total Company revenues for the nine months ended September 30, 2004 and 2003, respectively. For the nine months ended September 30, 2004 and 2003, respectively, 15.8% and 29.2% of this segment's revenues were generated from publishing, 76.7% and 63.8% from trade shows and conferences, and 7.5% and 7.0% from online media products.

Revenues for this segment increased \$3.9 million, or 34.4%, from \$11.2 million for the nine months ended September 30, 2003 to \$15.0 million for the same period in 2004. The increase was primarily due to an increase in trade shows revenues of \$4.4 million and an increase in online media revenues of \$0.4 million. These increases were partially offset by a decline in publishing revenues of \$0.9 million. The increase in trade show revenues was due primarily to the shift in timing of our Service Management Europe and Manufacturing trade shows from the fourth quarter in 2003 to the third quarter in 2004. Also contributing to the increase was our biannual Motion & Control event, which was held in 2004, and the launch of our Effective IT event in 2004. The increase in online revenues is due primarily to the launch of our Service Management Online 365 virtual event in 2004. The decrease in publishing was due primarily to our German operations, which discontinued a number of magazines in 2003.

Adjusted segment EBITDA for the International segment increased \$1.2 million, or 264.6%, from a loss of \$0.4 million for the nine months ended September 30, 2003 to \$0.7 million for the same period in 2004. The increase was due primarily to the increase in revenues noted above.

#### LIQUIDITY AND CAPITAL RESOURCES

##### CURRENT LIQUIDITY

At September 30, 2004, our principal sources of liquidity are our existing cash reserves of \$17.3 million and available borrowing capacity under our credit facility of \$39.7 million.

Our primary fourth quarter 2004 cash needs will be for working capital, debt service, capital expenditures, and business restructuring charges. Cash payments expected to be made in the fourth quarter of 2004 include: debt service charges of \$18.5 million; capital expenditures of approximately \$0.4 million; restructuring related payments of \$1.3 million and a contribution of \$0.6 million to our Retirement and Savings Plan.

We have no principal repayment requirements until maturity of our Secured Notes in October 2007. In addition, we have no bank debt and no maintenance covenants on our existing bond debt.

We believe that our existing sources of liquidity, our available credit facility of \$39.7 million, and revenues expected to be generated from operations, will be sufficient to fund our operations, anticipated capital expenditures, working capital, and other financing requirements. However, we cannot assure you that this will be the case, and if we continue to incur operating losses and negative

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

cash flows in the future, we may need to further reduce our operating costs or obtain alternate sources of financing, or both, to remain in business. Our ability to meet cash operating requirements depends upon our future performance, which is subject to general economic conditions and to financial, competitive, business, and other factors. The Company's ability to return to sustained profitability at acceptable levels will depend on a number of risk factors, many of which are largely beyond the Company's control. If we are unable to meet our debt obligations or fund our other liquidity needs, particularly if the revenue environment does not substantially improve, we may be required to raise additional capital through additional financing arrangements or the issuance of private or public debt or equity securities. We cannot assure you that such additional financing will be available at acceptable terms. In addition, the terms of our convertible preferred stock and warrants issued, including the conversion price, dividend, and liquidation adjustment provisions, could result in substantial

47

dilution to common stockholders. The redemption price premiums and board representation rights could negatively impact our ability to access the equity markets in the future.

The Company has implemented, and continues to implement, various cost-cutting programs and cash conservation plans, which involve the limitation of capital expenditures and the control of working capital.

### ANALYSIS OF CASH FLOWS

Penton's total cash and cash equivalents was \$17.3 million at September 30, 2004, compared with \$29.6 million at December 31, 2003. Cash used for operating activities was \$10.0 million for the nine months ended September 30, 2004, compared with cash provided by operating activities of \$39.1 million for the same period in 2003. Operating cash flows for the nine months ended September 30, 2004, reflected a net loss of \$63.8 million and a net decrease in working capital items of approximately \$0.9 million, offset by non-cash charges (primarily impairment of assets, depreciation and amortization and restructuring charges) of approximately \$54.7 million. Operating cash flows for the nine months ended September 30, 2003, reflected a net loss of \$75.8 million, offset by a net increase in working capital items of approximately \$43.2 million and non-cash charges (primarily impairment of assets, depreciation and amortization and provision for loan impairment) of approximately \$71.8 million.

The decrease in operating cash flows for the nine months ended September 30, 2004, compared with the same 2003 period was due primarily to the tax refund received in January 2003 of approximately \$52.7 million.

Investing activities used \$2.0 million of cash for the nine months ended September 30, 2004 primarily for capital expenditures. Investing activities provided \$2.6 million of cash for the nine months ended September 30, 2003, primarily from proceeds of \$3.3 million from the sale of PTS in January 2003 and net proceeds of \$1.7 million received on notes receivable offset by capital expenditures of \$2.3 million.

Financing activities used \$0.4 million of cash for the nine months ended September 30, 2004 primarily due to an increase in restricted cash and decrease in book overdrafts. Financing activities used \$6.5 million of cash for the nine months ended September 30, 2003, due primarily to the repayment of \$4.5 million on our senior secured credit facility, the payment of finance fees, and the payoff of a note payable of \$0.4 million. These uses were partially offset by proceeds of approximately \$0.3 million from the repayment of an officers loan and a decrease in restricted cash.



## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### RISK FACTORS

Management's concerns remain consistent with and should be read in conjunction with the Risk Factors section of the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

### NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 - Basis of Presentation of the notes to the consolidated financial statements.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### Impairment of Long-Lived Assets

The Company completed its annual SFAS 142 impairment review at September 30, 2004. This review resulted in a non-cash impairment charge of approximately \$37.8 million to reduce the carrying value of goodwill for three reporting units, which are part of our Technology and International segments.

The Company's SFAS 142 evaluations were performed by the Company with the assistance of a third party valuation firm, utilizing assumptions and projections we believe to be reasonable and supportable, and that reflect management's best estimate of projected future cash flows. Considerable judgment was required in selecting discount rates, allocating goodwill to new reporting units, developing cash flow projections and developing balance sheets for each reporting unit. Slight changes in any of these assumptions could create a material impact on the impairment charge recorded by the Company.

48

We evaluate our long-lived assets for impairment whenever circumstances indicate that an impairment may exist pursuant to the provisions of SFAS 144. Factors indicating that an impairment may exist include permanent declines in cash flows, continued decreases in utilization of a long-lived asset, or a change in business strategy. The process involves management determining if the cash flows expected to be generated from the use of a long-lived asset (group) and its eventual disposition (undiscounted and without interest charges) are less than the carrying amount of the asset (group). If the criteria is met, the fair value is determined using appropriate assumptions. The determination and calculation of impairment requires management's judgment and estimates, including among other items, establishing asset groupings and determining discount rates.

During the nine months ended September 30, 2004, there were no other significant new critical accounting policies or estimates.

### FOREIGN CURRENCY

The functional currency of our foreign operations is their local currency. Accordingly, assets and liabilities of foreign operations are translated to U.S. dollars at the rates of exchange on the balance sheet date; income and expense are translated at the average rates of exchange prevailing during the period. There were no significant foreign currency transaction gains or losses for the periods presented.

### SEASONALITY

We may experience seasonal fluctuations as trade shows and conferences held in one period in the current year may be held in a different period in future years.

## Edgar Filing: PENTON MEDIA INC - Form 10-Q

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our long-term debt consists of senior notes with interest at fixed rates. Consequently, we do not have significant interest rate risk exposure related to our long-term debt. However, the fair value of our senior notes fluctuates with the market, as they are publicly traded. At September 30, 2004, the fair value of the Subordinated Notes and the Secured Notes was \$80.5 million and \$151.2 million, respectively, compared to \$116.8 million and \$153.0 million, respectively, at December 31, 2003. The fair value of the notes is determined by the price investors are willing to pay in the open market. We currently do not manage the fair value risk related to our senior notes.

The table below provides information about the expected cash flows associated with our long-term debt obligations and their fair value at September 30, 2004 (in thousands):

	EXPECTED MATURITY DATE FOR THE YEARS ENDED DECEMBER 31,					TOT
	2004	2005	2006	2007	2011	
Long-Term Debt:						
Senior Subordinated Notes	-	-	-	-	\$175,000	\$175
Interest rate	10-3/8%	10-3/8%	10-3/8%	10-3/8%	10-3/8%	10
Senior Secured Notes	-	-	-	\$157,500	-	\$157
Interest rate	11-7/8%	11-7/8%	11-7/8%	11-7/8%	11-7/8%	11

During the nine months ended September 30, 2004, there were no other significant changes related to the Company's market risk exposure.

49

### ITEM 4. CONTROLS AND PROCEDURES

As of September 30, 2004, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a - 15(e) and 15d - 15(e)). Based on that evaluation, the Company's management, including the CEO and CFO, concluded that Penton's disclosure controls and procedures were adequate and effective as of September 30, 2004 to ensure that material information relating to Penton would be made known to them by others within Penton, particularly during the period in which this Form 10-Q was being prepared. During the period covered by this report on Form 10-Q, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

50

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

In July 2004, the Federal District Court in the Southern District of New York

Edgar Filing: PENTON MEDIA INC - Form 10-Q

approved the settlement between the former stockholders of Mecklermedia and the Company. The class settlement, which amounted to \$7.0 million, was paid entirely by insurance proceeds.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information with respect to changes in our common stock made during the nine months ended September 30, 2004.

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE	TOTAL NUMBER OF SHARES PURCHASED UNDER A PROGRAM
January 1-31, 2004	-	-	-
February 1-29, 2004	-	-	-
March 1-31, 2004	-	-	-
April 1-30, 2004	-	-	-
May 1-31, 2004	-	-	-
June 1-30, 2004	288,710 (1)	\$ 0.46	-
July 1-31, 2004	-	-	-
August 1-31, 2004	-	-	-
September 1-30, 2004	-	-	-
Total	288,710	\$ 0.46	-

(1) On June 24, 2004, one executive delivered 288,710 shares to the Company to pay down a portion of his executive loan.

ITEM 6. EXHIBITS

(a)

EXHIBIT NO.	DESCRIPTION OF DOCUMENT
31.1	Principal executive officer's certification pursuant to Section 302 of the Sarba
31.2	Principal financial officer's certification pursuant to Section 302 of the Sarba
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section Act of 2002.

SIGNATURE

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

Penton Media, Inc.  
(Registrant)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

By: /s/ PRESTON L. VICE

-----  
Preston L. Vice  
Chief Financial Officer

Date: November 15, 2004

52

EXHIBIT INDEX

EXHIBIT NO.

DESCRIPTION OF DOCUMENT

-----

-----

31.1

Principal executive officer's certification pursuant to Section 302 of the Sarban

31.2

Principal financial officer's certification pursuant to Section 302 of the Sarban

32

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section  
Act of 2002.

53