

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA INC  
Form 10-Q  
May 15, 2002

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 March 31, 2002

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  
-----

(State of Incorporation)

36-2875386  
-----

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

1300 EAST NINTH STREET, CLEVELAND, OH  
-----

(Address of Principal Executive Offices)

44114  
-----

(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 X No  
-----

Indicate the number of shares outstanding of each of the issuer's  
classes of common stock, as of the latest practicable date (May 14, 2002).

Common Stock: 31,867,825 shares

PENTON MEDIA, INC.  
FORM 10-Q

Edgar Filing: PENTON MEDIA INC - Form 10-Q

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at March 31, 2002 and December 31, 2001

Consolidated Statements of Operations for the Three Months Ended  
March 31, 2002 and 2001

Consolidated Statements of Cash Flows for the Three Months Ended  
March 31, 2002 and 2001

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

Signature

2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2002 -----
ASSETS -----	(unaudited)
CURRENT ASSETS:	
Cash and cash equivalents	\$ 36,547
Accounts and notes receivable, less allowance for doubtful accounts of \$9,493 and \$10,976 in 2002 and 2001, respectively	49,977
Income taxes receivable	2,480
Inventories	1,100
Deferred tax assets	6,645

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Prepayments, deposits and other	11,337
	-----
	108,086
	-----
PROPERTY, PLANT AND EQUIPMENT:	
Land, buildings and improvements	8,824
Machinery and equipment	61,201
	-----
	70,025
Less: accumulated depreciation	41,603
	-----
	28,422
	-----
OTHER ASSETS:	
Goodwill, less accumulated amortization of \$76,517 in 2002 and 2001, respectively	493,837
Other intangibles, less accumulated amortization of \$21,798 and \$21,384 in 2002 and 2001, respectively	61,146
Deferred tax assets	8,006
Investments	-
	-----
	562,989
	-----
	\$ 699,497
	=====

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 DATA)

	March 31,
	2002
	-----
	(unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Senior secured credit facility	\$ -
Note payable	2,804
Accounts payable	9,780
Income taxes payable	1,471
Accrued earnouts	6,272
Accrued compensation and benefits	13,614
Other accrued expenses	24,662
Unearned income, principally trade show and conference deposits	30,885
	-----
	89,488
	-----

Edgar Filing: PENTON MEDIA INC - Form 10-Q

LONG-TERM LIABILITIES AND DEFERRED CREDITS:

Senior secured credit facility	-
Senior secured notes, net of discount	156,717
Senior subordinated notes, net of discount	171,236
Note payable	417
Net deferred pension credits	15,441
Other	3,303
	-----
	347,114
	-----

Mandatorily redeemable convertible preferred stock; par value \$0.01 per share;  
50,000 shares issued and outstanding; redeemable  
at \$1,000 per share

363

STOCKHOLDERS' EQUITY:

Preferred stock, par value \$0.01 per share; 1,950,000 shares authorized; none issued or outstanding	-
Common stock, par value \$0.01 per share; 60,000,000 shares authorized; 31,910,325 shares issued and outstanding	319
Capital in excess of par value	273,464
Retained earnings	2,128
Notes receivable officers/directors	(10,824)
Accumulated other comprehensive loss	(2,555)
	-----
	262,532
	-----
	\$ 699,497
	=====

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 DATA)

	THREE MONTH MARCH
	-----
	2002
	-----
REVENUES	\$ 63,175
	-----
OPERATING EXPENSES:	
Editorial, production and circulation	25,853
Selling, general and administrative	32,647
Restructuring charge (credit)	(263)
Depreciation and amortization	4,456
	-----
	62,693

Edgar Filing: PENTON MEDIA INC - Form 10-Q

OPERATING INCOME	482
-----	
OTHER INCOME (EXPENSE):	
Interest expense, net of interest earned	(9,056)
Gain on sale of investments	1,491
Miscellaneous, net	(139)
	-----
	(7,704)
	-----
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(7,222)
BENEFIT FOR INCOME TAXES	2,823
	-----
LOSS BEFORE EXTRAORDINARY ITEM	(4,399)
EXTRAORDINARY ITEM, net of taxes	166
	-----
NET LOSS	(4,233)
AMORTIZATION OF DEEMED DIVIDEND AND ACCRETION OF PREFERRED STOCK	(363)
	-----
NET LOSS APPLICABLE TO COMMON STOCKHOLDERS	\$ (4,596)
	=====
NET LOSS PER COMMON SHARE - Basic and diluted	
Loss from operations	\$ (0.15)
Extraordinary item, net of taxes	0.01
	-----
Net loss per common share	\$ (0.14)
	=====
WEIGHTED-AVERAGE NUMBER OF SHARES OUTSTANDING:	
Basic	31,970
	=====
Diluted	31,970
	=====

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

Edgar Filing: PENTON MEDIA INC - Form 10-Q

MARCH

	2002
Net cash provided by (used for) operating activities	\$ 6,010
Cash flows from investing activities:	
Capital expenditures	(578)
Acquisitions, including earnouts paid, net of cash acquired	(300)
Proceeds from sale of INT Media Group, Inc. common stock	5,801
Net cash provided by (used for) investing activities	4,923
Cash flows from financing activities:	
Proceeds from issuance of preferred stock and warrants, net of issue costs	46,122
Proceeds from issuance of senior secured notes	156,717
Purchase of \$10.0 million of senior subordinated notes	(8,375)
Repayment of senior secured credit facility	(180,587)
Proceeds from senior secured credit facility	-
Payments for employee stock purchase plan	(299)
Proceeds from deferred shares and options exercised	-
Payment of financing fees	(8,145)
Dividends paid	-
Net cash provided by financing activities	5,433
Effect of exchange rate changes on cash	(10)
Net increase in cash and cash equivalents	16,356
Cash and cash equivalents at beginning of period	20,191
Cash and cash equivalents at end of period	\$ 36,547

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

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

NOTE 1 - NATURE OF BUSINESS AND FINANCIAL STATEMENT PRESENTATION

These financial statements have been prepared by management in accordance with generally accepted accounting principles for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission.

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

Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, the interim financial statements reflect all adjustments 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, 2001.

### RECLASSIFICATIONS

Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

### USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles 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.

### NOTE 2 - GOODWILL AND OTHER INTANGIBLES

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS 141 also specifies the criteria applicable to intangible assets acquired in a purchase method business combination to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives are no longer required to be amortized, but instead be tested for impairment, at least annually. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment pursuant to the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The Company adopted SFAS 141 and SFAS 142 effective January 1, 2002. The adoption of SFAS 141 did not have a material impact on the Company. In adopting SFAS 142, the Company no longer amortizes goodwill. All other intangibles are considered to have definite lives, which have been reassessed by the Company as of January 1, 2002. Penton expects to complete its goodwill impairment test under SFAS 142 by September 30, 2002. The Company's impairment analysis for other intangibles did not result in any impairment charges.

The following pro forma financial information compares the Company's net loss for the three months ended March 31, 2002 and 2001 had the provisions of SFAS 142 been applied on January 1, 2001 (amounts in thousands, except per share data):

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	-----	-----
Net loss	\$ (4,233)	\$ (1,27
Goodwill amortization, net of tax	-	3,6
	-----	-----
Adjusted net income (loss)	(4,233)	2,4
	-----	-----
Amortization of deemed dividend and accretion of preferred stock	(363)	
	-----	-----
Reported net loss applicable to common stockholders	\$ (4,596)	\$ 2,4
	=====	=====
Basic and diluted earnings per share:		
Reported net loss applicable to common stockholders	\$ (0.14)	\$ (0.0
Goodwill amortization, net of tax	-	0.
	-----	-----
Adjusted net income (loss) applicable to common stockholders	\$ (0.14)	\$ 0.
	=====	=====
Weighted-average shares outstanding	31,970	31,8
	=====	=====

Identifiable intangible assets, exclusive of goodwill, as of March 31, 2002, are recorded in Other Intangibles in the Consolidated Balance Sheets and comprise of:

	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	
	-----	-----	-----
Trade names	\$ 14,225	\$ (4,524)	\$
Mailing/ exhibitor lists	40,214	(11,783)	
Advertiser relationships	7,200	(1,290)	
Acquisition costs	5,039	(2,234)	
Subscriber relationships	2,100	(153)	
Sponsor relationships	2,112	(528)	
Noncompete agreements	1,509	(984)	
	-----	-----	-----
Balance at March 31, 2002	\$ 72,399	\$ (21,496)	\$
	=====	=====	=====

Total amortization expense for identifiable intangible assets was \$2.3 million and \$1.7 million for the three months ended March 31, 2002 and 2001, respectively. Amortization expense is estimated for each of the five succeeding years as follows:

Fiscal year ended December 31:	AMOUNT
2002	\$ 9,644
2003	\$ 8,371



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

2004	\$ 5,688
2005	\$ 5,217
2006	\$ 4,981
2007	\$ 4,400

8

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

#### NOTE 3 - ACQUISITIONS

##### 2001 ACQUISITIONS

In 2001, Penton acquired nine companies for an aggregate purchase price of approximately \$9.7 million in cash and \$3.5 million in promissory notes, with potential contingent consideration of up to \$4.8 million based on the achievement of specified business targets through 2003. The excess of the aggregate purchase price over the fair market value of net assets acquired was approximately \$11.5 million.

At March 31, 2002, Penton had \$6.3 million accrued for contingent consideration. Of the amount accrued, approximately \$1.5 million is payable in shares of common stock with the balance payable in cash. The Company expects to issue the shares of common stock and pay approximately \$1.2 million in cash during the second quarter of 2002, with the balance payable in the second half of the year. Cash of \$0.3 million was paid in the first quarter of 2002 for contingent considerations.

At March 31, 2002, the remaining maximum potential liability for future contingent consideration is approximately \$56.5 million. Contingent considerations are payable based on achieving specified performance goals, such as reaching certain revenue or EBITDA levels. The earnout period for \$52.2 million of the total contingent consideration expires at December 31, 2002; \$0.4 million expires at January 31, 2003; and \$3.9 million expires at December 31, 2003. If the contingent consideration based on attaining certain revenue levels for Duke Communications International, Inc. does not equal at least \$15.0 million at the end of 2002, an additional year will be added to achieve up to, but not more than, a total cumulative revenue contingent payment of \$15.0 million. Contingent payments earned are recorded as additional goodwill, pursuant to the provisions of EITF 95-8, "Accounting for Contingent Consideration Paid to the Shareholders of an Acquired Enterprise in a Purchase Business Combination," and tested for impairment at least annually as required under SFAS 142.

#### NOTE 4 - INVESTMENTS

In January 2002, Penton sold its remaining 11.8% ownership interest, or 2,973,383 shares, in INT Media Group, Inc. for approximately \$5.8 million in cash, and recognized a gain of approximately \$1.5 million.

#### NOTE 5 - DEBT

##### SENIOR SECURED NOTES

In March 2002, Penton issued \$157.5 million of 11 7/8% senior secured notes (the "Secured Notes") due in 2007 to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. Interest is payable on the Secured Notes semi-annually on April 1 and October 1. The Secured Notes are

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

fully and unconditionally guaranteed on a senior basis by all of Penton's domestic subsidiaries. Penton may redeem the Secured Notes, in whole or in part, during the periods October 1, 2005 through September 30, 2006 and October 1, 2006 and thereafter at redemption prices of 105.9375% and 100.0000% of the principal amount, respectively, together with accrued and unpaid interest. In addition, at any time prior to October 1, 2005, up to 35% of the aggregate principal amount of the Secured Notes may be redeemed at Penton's option, within 90 days of certain public equity offerings of its common stock, at a redemption price equal to 111.875% of the principal amount, together with accrued and unpaid interest.

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 not material for the three months ended March 31, 2002. Costs representing underwriting fees and other professional fees of \$6.6 million are

9

### PENTON MEDIA, INC.

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

being amortized over the term of the Secured Notes. Net proceeds of \$150.9 million were used to pay down \$83.6 million of Penton's term loan A facility and \$49.0 million of its term loan B facility, and to repurchase \$10.0 million of the Company's 10 3/8% senior subordinated notes for \$8.7 million. The remaining net proceeds of \$9.6 million were used for general corporate purposes. The Secured Notes rank senior in right to all of Penton's subordinated indebtedness, including the 10 3/8% senior subordinated notes due in 2011, and equal in right of payment with all of the Company's other senior indebtedness, which is approximately \$3.2 million at March 31, 2002. The Secured Notes contain covenants that will, among other things, limit the Company's ability to pay dividends, incur additional debt, sell assets, and enter into mergers or consolidations.

#### 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 semi-annually on June 15 and December 15. The Subordinated Notes are guaranteed, on a senior subordinated basis, by the Company's domestic subsidiaries and may be redeemed on or after June 15, 2006. In addition, the Company may redeem up to 35% of the aggregate principal amount of the Subordinated Notes before June 15, 2004 with the proceeds of certain equity offerings. 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 \$0.06 million for the three months ended March 31, 2002. Costs representing underwriting fees and other professional fees of \$1.7 million are being amortized over the term of the Subordinated Notes. Net proceeds of \$180.2 million were used to pay down \$136.0 million under the revolving credit facility, \$12.8 million of term loan A and \$7.2 million of term loan B. The remaining net proceeds of \$24.2 million were used for general corporate purposes. The Subordinated Notes are unsecured senior subordinated obligations of the Company, subordinated in right of payment to all existing and future senior indebtedness of the Company, including the credit facility. The Subordinated Notes contain covenants that will, among other things, restrict the Company's ability to borrow money, pay dividends on or repurchase capital stock, make investments, sell assets, and enter into mergers

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

or consolidations.

In March 2002, the Company repurchased \$10.0 million of the Subordinated Notes with \$8.7 million of the proceeds from the Secured Note offering, resulting in an extraordinary gain of \$0.8 million (\$0.03 per diluted share), net of \$0.6 million in taxes.

### SENIOR SECURED CREDIT FACILITY

Penton maintained a credit agreement with several banks under which it could borrow up to \$400.0 million. The agreement provided for a revolving credit facility of up to \$185.0 million, a long-term loan of \$140.0 million ("term loan A") and a long-term loan of \$75.0 million ("term loan B"). At December 31, 2001, Penton had no amounts outstanding under the revolving credit facility, \$113.8 million outstanding under term loan A and \$66.7 million outstanding under term loan B.

In March 2002, Penton amended its senior credit facility and paid off its term loan A and term loan B facilities from the proceeds received from the sale of preferred shares (see Note 6 - Mandatorily Redeemable Convertible Preferred Stock), proceeds received from the sale of INT Media Group, Inc. common stock (see Note 4 - Investments), cash on hand from a tax refund of approximately \$12.2 million, and the issuance of \$157.5 million in Secured Notes mentioned above. The amended and restated facility provides for a maximum revolving credit facility of \$40.0 million, which is limited to 80% of eligible receivables. In order to access the revolver, the Company must not have more than \$7.5 million of cash and cash equivalents available, must be in compliance with the loan documents and must submit a borrowing base certificate immediately prior to each extension of credit. In addition, the Company is required to prepay the revolver in the event that it is overextended on its eligible receivables, or it has more than \$7.5 million in cash and cash equivalents at the end of any month. The amended agreement has no financial covenants; however, the amendment increases the interest rate on the revolver, places additional restrictions on

10

### PENTON MEDIA, INC.

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

certain payments, limits additional debt and contingent obligations, requires additional collateral, restricts additional acquisitions and investments, limits Penton's ability to sell assets, and limits capital expenditures.

The revolving credit facility bears interest, at Penton's option, at either the Alternative Base Rate ("ABR"), defined as the higher of the Administrative Agent's Prime Rate or the Federal Funds Rate plus 0.50%, or at LIBOR, plus a rate margin ranging from 2.75% to 4.25% based on Penton's consolidated leverage ratio, defined as the ratio of total debt to total adjusted EBITDA. At March 31, 2002, \$26.6 million was available under the revolving credit facility, however, no amounts were outstanding. The commitment under the revolving credit facility decreases by 15% in 2003, 30% in 2004, 35% in 2005 and 20% in 2006. Penton has agreed to pay a commitment fee ranging from 0.375% to 0.50%, based on Penton's consolidated leverage ratio, on the average unused portion of the revolving credit facility commitment.

The extinguishment of the term loans resulted in a non-cash extraordinary charge of \$0.7 million (\$0.02 per diluted share), net of \$0.5 million in taxes, relating to the write-off of unamortized deferred finance costs.

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

Cash paid for interest for the three months ended March 31, 2002 and 2001 was \$2.0 million and \$5.4 million, respectively. The drop in interest paid in the first quarter of 2002 compared with 2001 is due to the timing of interest payments on the Secured Notes and the Subordinated Notes compared with the requirements under our term loans. Included in interest expense in the Consolidated Statements of Operations are \$0.2 million and \$0.5 million of interest income for the three months ended March 31, 2002 and 2001, respectively.

### NOTES PAYABLE

The notes payable at March 31, 2002 represents indebtedness resulting from the acquisition of Hillgate Communications Ltd. in February 2001. Loan note A in the amount of \$2.8 million bears interest at 1% and matures in April 2004. However, the holders of loan note A have the option to demand payment anytime after April 30, 2002. Loan note B in the amount of \$0.4 million bears interest at 0.5% and matures in July 2004. However, the holders of loan note B have the option to demand payment anytime after April 30, 2004. Both notes are denominated in British pounds. In May 2002, loan note A was paid in full.

### NOTE 6 - MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

On March 19, 2002, the Company issued 40,000 shares of its Series B Convertible Preferred Stock, par value \$0.01 per share (the "preferred stock"), and warrants (the "warrants") to purchase 1,280,000 shares of Penton's common stock, par value \$0.01 per share, for \$40.0 million in a private placement to institutional investors and affiliated entities. On March 28, 2002, the Company issued an additional 10,000 shares of preferred stock, par value \$0.01 per share, and warrants to purchase an additional 320,000 shares of Penton's common stock, par value \$0.01 per share, for \$10.0 million to the same group of investors. The net proceeds from the sale of the preferred stock and warrants were used to repay the term loan indebtedness under Penton's senior credit facility (see Note 5 - Debt.)

The net proceeds of \$46.2 million from the issuance of the preferred stock and warrants, net of issue costs of \$3.8 million, have been allocated to the preferred stock and warrants based on the relative fair values of each security as of the respective commitment dates noted above. Approximately \$4.1 million was allocated to the warrants and was recorded in additional paid in capital resulting in a discount to the preferred stock, which is being amortized as preferred stock dividends from the issuance date to the mandatory redemption date. The fair value of the warrants was determined using the Black-Scholes pricing model.

The balance of the net proceeds, approximately \$42.1 million was allocated to the preferred stock, which because of its mandatory redemption date is classified outside of permanent equity. Pursuant to the provisions of EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable

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

as a beneficial conversion feature in Capital in Excess of Par Value resulting in an additional discount to the preferred stock. This beneficial conversion feature is being recognized, using the interest method, as a deemed dividend to the preferred stockholders and an increase in the carrying value of the preferred stock from the issuance date to the 10 year mandatory redemption date.

The preferred stock is also being accreted to its maximum redemption amount possible pursuant to Topic D-98, "Classification and Measurement of Redeemable Securities" using the interest method from the issuance date to the 10-year mandatory redemption date. For the three months ended March 31, 2002, the amortization of the warrant and beneficial conversion feature discounts together with accretion of the preferred stock to its maximum redemption price resulted in an aggregate charge to retained earnings of \$0.4 million which increased the loss applicable to common stockholders by this amount.

Pursuant to the provisions of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," the preferred stock agreement contains certain embedded derivative features that are required to be bifurcated from the preferred stock and recognized at fair value with changes in fair value reflected in income. These features principally relate to certain contingent payment provisions that are indexed to the company's equity security prices. As of March 31, 2002, however, the estimated fair value of those embedded derivative features requiring bifurcation from the preferred stock was not significant.

The following is a description of the material terms of the preferred stock and warrants:

### Liquidation Preference:

The preferred stock has preferences in the event of liquidation, dissolution, winding up, or change in control. Upon the occurrence of any such event, the preferred stockholder will be entitled to be paid in cash.

The initial liquidation value of the preferred stock is \$1,000 per share. If the preferred stock is not converted or redeemed prior to March 19, 2008, the liquidation value will increase to \$4,570 per share if stockholder approval of: (i) the issuance of common stock upon the conversion of the Series B preferred stock and upon exercise of the warrants and (ii) authorization of an increase to the number of authorized common shares has been obtained as of such date or, to \$9,140 per share if such approval has not been obtained.

### Dividends:

From the date of issuance until March 19, 2008, the dividends on the preferred stock will accrue daily on the sum of the then-applicable liquidation value and the accrued dividends thereon at an annual rate of 7% per annum unless, at any time during such period, the stockholder approval has been obtained. The dividend rate will decrease to 5% per annum upon receipt of the stockholder approval. The dividend rate will decrease to 5% per annum retroactive to the date of issuance of the preferred stock, to the extent of any preferred stock still outstanding, if Penton obtains the stockholder approval by September 19, 2002. Otherwise, the reduced dividend will apply only from and after the date such approval is obtained. From and after March 19, 2008, the dividends will accrue at a rate of 15% per annum.

Dividends are payable semi-annually in cash only if declared by Penton's board of directors and approved by holders of no less than 75% of the preferred stock then outstanding. The provisions of Penton's debt instruments limit its ability to pay dividends in cash, and the Company has no present intention to either declare or pay cash dividends on the preferred stock.

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

12

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

Upon the occurrence of certain triggering events, the dividend rate increases by one percentage point, with additional one-percentage-point increases per quarter up to a maximum increase of five percentage points.

### Conversion Provisions:

Each share of preferred stock is convertible, at any time, subject to certain restrictions, at the holder's option into a number of shares of Penton's common stock, computed by multiplying the number of shares of preferred stock to be converted by the liquidation value, plus accrued but unpaid dividends, divided by the conversion price. The conversion price for the preferred stock initially will be \$7.61 per share, subject to certain anti-dilution adjustments.

The Company also can convert the preferred stock, subject to certain restrictions, into a number of common shares, computed by multiplying the number of shares of preferred stock to be converted by the liquidation value, plus accrued but unpaid dividends, divided by the conversion price. Among others, the restrictions include the market price of the common shares being equal to or greater than the applicable share minimum noted below.

### Company's Redemption Provisions:

The Company can redeem the preferred stock at any time, in whole or in part, at a cash redemption price equal to the product of the number of shares of common stock into which the preferred shares can be converted, without actually requiring such conversion, and the greater of the volume weighted-average closing share price of Penton's common stock for the preceding 30 trading days, or the applicable minimum share price derived from the following schedule (as the same may be adjusted for stock splits and similar transactions):

If being redeemed prior to the third anniversary	\$15.18
If being redeemed after the third, but before the fourth anniversary	\$17.51
If being redeemed after the fourth, but before the fifth anniversary	\$19.31
If being redeemed after the fifth, but before the sixth anniversary	\$23.26

### Holder's Redemption Provisions:

Any holder of preferred stock may require Penton to redeem all of its preferred stock at the redemption price noted above in the event of a change of control.

On the 10th anniversary of the original date of issuance, the Company will redeem all of the preferred stock then outstanding at a redemption price per share equal to the greater of the liquidation value of such shares (plus unpaid dividends) or the applicable optional redemption price noted above.

### Scheduled Redemption:

In April 2002, Penton reached an agreement with its preferred stockholders to eliminate the scheduled redemption date of the preferred stock. Penton is seeking an amendment of the preferred stock indenture to eliminate the contractual redemption in ten years, which if obtained will eliminate the present requirement to accrete the preferred stock to the maximum possible

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

redemption amount by such date. However, Penton is not seeking to eliminate the preferred stockholders' right to require the Company to redeem the security upon the occurrence of certain contingent events. To the extent that redemption of the preferred stock becomes probable of occurring in the future pursuant to a contingent redemption provision of the preferred stock, accretion to the maximum redemption amount will be required at such time. In order to amend the terms of the preferred stock, the affirmative vote of the holders of a majority our outstanding common and preferred stock is required. If stockholders do not approve this amendment to the terms of the preferred stock, we intend to eliminate the scheduled

13

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

redemption date by exchanging the outstanding preferred stock for a new series of preferred stock that will not have a scheduled redemption date.

#### Conversion Prices:

The initial conversion price is \$7.61 per share (subject to certain anti-dilution adjustments) until the sixth anniversary of issuance, at which time the price may be adjusted to the lesser of (a) the conversion price in effect on the sixth anniversary, or (b) the greater of 90% of the market price of the Company's common stock on the conversion date or \$4.50.

If Penton does not obtain the stockholder approval of (i) the issuance of common stock upon the conversion of the Series B preferred stock and upon exercise of the warrants and (ii) authorization of an increase to the number of authorized common shares on or prior to June 28, 2002, the conversion price will be automatically reduced by 20%. Thereafter, until Penton obtains such approval, every 90 days the conversion price will be reduced by 20% of the conversion price then in effect. In no event will the conversion price reduction related to the failure to timely obtain the stockholder approval exceed 50% of the conversion price that would have been in effect had Penton not failed to obtain the stockholder approval, and upon the Company's receipt of the stockholder approval, the conversion price will be readjusted as if no adjustments for failure to timely obtain the stockholder approval had occurred.

In addition, if Penton fails to comply with specific covenants contained in the purchase agreement, the conversion price of the preferred stock will be reduced by \$0.76 (adjusted for stock splits and similar transactions). The conversion price will adjust to what it would have been absent such breach (to the extent of any shares of preferred stock still outstanding) once the breach is cured. No such reduction to the conversion price will be made at any time that representatives of the investors constitute a majority of the board of directors. Finally, if Penton's leverage ratio (as defined in the purchase agreement) exceeds 7.5 to 1.0 for any quarterly period beginning on December 31, 2002, and such leverage ratio remains in excess of 7.5 to 1.0 for a period of 90 days, the conversion price of the preferred stock will be reduced by \$0.76 (adjusted for stock splits and similar transactions). Thereafter, until the leverage ratio reduces below 7.5 to 1.0, every 90 days the conversion price will be reduced by another \$0.76 (adjusted for stock splits and similar transactions), subject to a maximum reduction not to exceed \$3.80 (adjusted for stock splits and similar transactions). The conversion price will adjust to what it would have been absent such event (to the extent of any shares of preferred stock still outstanding) once the leverage ratio reduces below 7.5 to 1.0. No such reduction to the conversion price will be made at any time that

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

representatives of the investors constitute a majority of the board of directors.

### Board Representation:

The preferred stock entitles the holders thereof initially to three board seats. On March 19, 2008, the holders of a majority of the preferred stock then outstanding, if any, will be entitled to appoint one less than a minimum majority of the board of directors. However, at such time as the holders of preferred stock cease to hold shares of preferred stock having an aggregate liquidation preference of at least \$25 million, they will lose the right to appoint the director for one of these board seats. At such time as the holders of preferred stock cease to hold shares of preferred stock having an aggregate liquidation preference of at least \$10 million, and such holders' beneficial ownership of Penton's preferred stock and common stock constitutes less than 5% of the aggregate voting power of the Company's voting securities, the holders of preferred stock will no longer have the right to appoint any directors to the board of directors.

In addition, upon the occurrence of certain triggering events, the holders of a majority of the preferred stock may appoint a minimum majority of Penton's board of directors. At such time as the holders of preferred stock cease to hold shares of preferred stock having an aggregate liquidation preference of at least \$10 million and such holders' beneficial ownership of Penton's preferred stock and common stock constitutes less than 5% of the

14

### PENTON MEDIA, INC.

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

aggregate voting power of the Company's voting securities, the holders of preferred stock will no longer have the right to appoint additional directors upon these events.

Penton has also granted the holders of the preferred stock the right to have representatives attend meetings of the board of directors after such time as they are no longer entitled to appoint any members to the board of directors until such time as they no longer own any preferred stock, warrants or shares of common stock issued upon conversion of the preferred stock and exercise of the warrants.

### Voting Rights:

The holders of the preferred stock are entitled to vote on all matters submitted to a vote of Penton's stockholders, voting as a single class with the common stockholders on an as-converted basis. In addition, Penton may not, without the affirmative vote of the holders of not less than 75% of the preferred stock then outstanding, declare and pay dividends, impact the existing classes of capital stock, and increase the size of the board, among other conditions.

### Covenant:

The terms of the preferred stock have several financial and non-financial covenants. As of March 31, 2002, Penton was in compliance with all such covenants.

### Sales Rights:



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

In addition, the terms of the preferred stock require that Penton maintain a leverage ratio, defined as debt less cash balances in excess of \$5.0 million plus the accreted value of the preferred stock, to EBITDA of 7.5 to 1.0 for the 12 month period ending on the last day of December, March, June, and September of each year beginning with the period ending on December 31, 2002. If Penton is in violation of this covenant for four consecutive fiscal quarters, then the holders of a majority of the preferred stock have the right to cause the Company to seek a buyer for all of its assets or all of its issued and outstanding capital stock. The holders of preferred stock will not have this right if their representatives constitute a majority of the board of directors.

### Warrants:

The initial exercise price of the warrants is \$7.61 per share. The warrants are subject to anti-dilution and other adjustments that mirror those applicable to the preferred stock. The warrants are immediately exercisable and expire 10 years after issuance.

15

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

### NOTE 7 - EARNINGS PER SHARE

Earnings per share have been computed pursuant to the provisions of SFAS No. 128, "Earnings Per Share." Computations of basic and diluted earnings per share for the three months ended March 31, 2002 and 2001 are as follows (in thousands, except per share amounts):

	THREE MONTHS ENDED MARCH 31	
	2002	2001
	-----	-----
Net loss applicable to common stockholders	\$ (4,596)	\$ (4,596)
	=====	=====
Number of shares:		
Weighted average shares outstanding - (basic and diluted)	31,970	31,970
	=====	=====
Per share amount:		
Loss from operations - (basic and diluted)	\$ (0.14)	\$ (0.14)
	=====	=====

The preferred stock is a participating security, in that in the event a dividend is declared or paid on the common stock, the Corporation must simultaneously declare and pay a dividend on the preferred stock as if the preferred stock had been converted into common stock. Topic D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share" requires that the preferred stock be included in the computation of basic earnings per share if the effect of inclusion is dilutive. The Company's accounting policy requires the use of the two-class method for its participating securities for earnings per share calculations. For the three months ended March 31, 2002 and 2001, preferred stock was excluded from the calculation of basic earnings per share as the result was not dilutive. The preferred stock is included in diluted

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

earnings per share under the "if-converted" method.

Due to the net loss applicable to common stockholders for the three months ended March 31, 2002 and 2001, stock options, performance shares and preferred stock were excluded from the calculation of diluted earnings per share, as the result would have been anti-dilutive.

### NOTE 8 - COMMON STOCK AND COMMON STOCK AWARD PROGRAMS

#### STOCKHOLDERS RIGHTS AGREEMENT

The Company adopted a Stockholders Rights Agreement (the "Rights Agreement") to protect stockholder rights in the event of a proposed takeover of the Company. Under the plan, the rights will initially trade together with the Company's common stock and will not be exercisable. In the absence of further board action, the rights generally will become exercisable and allow the holder to acquire the Company's common stock at a discounted price if any person or group acquires 20% or more of the outstanding shares of the Company's common stock. Rights held by the persons who exceed the applicable threshold will be void.

Under certain circumstances, the rights will entitle the holder to buy shares in an acquiring entity at a discounted price. The plan also includes an exchange option. In general, after the rights become exercisable, the Penton board may, at its option, effect an exchange of part or all of the rights, other than rights that have become void, for shares of Penton common stock. Under this option, Penton would issue one share of common stock for each right, subject to adjustment in certain circumstances.

The Penton board may, at its option, redeem all rights for \$0.01 per right, generally at any time prior to the rights becoming exercisable. The rights will expire June 27, 2010, unless earlier redeemed, exchanged or amended by the Penton board. The Rights Agreement has no impact on the consolidated financial statements or earnings per

16

#### PENTON MEDIA, INC.

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

share. In 2002, the Rights Agreement was amended by the board to permit the sale of convertible preferred stock. (See Note 6 - Mandatorily Redeemable Convertible Preferred Stock.)

#### EMPLOYEE STOCK PURCHASE PLAN

The Company has an Employee Stock Purchase Plan, which allows employees the opportunity to purchase shares of Penton at a discount. The plan allows employees to purchase common stock at 85% of the lower of the market price at the beginning or end of each quarter. This plan was deemed to be non-compensatory pursuant to the appropriate sections of the Internal Revenue Service Codes.

#### MANAGEMENT STOCK PURCHASE PLAN

The Company has a Management Stock Purchase Plan for designated officers and other key employees. Participants in the plan may elect to receive restricted stock units ("RSUs") in lieu of a designated portion of up to 100% of their annual incentive bonus. Each RSU represents the right to receive one share of Penton common stock. RSUs are granted at a 20% discount from fair market value

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

on the date awarded. RSUs vest two years after the date of grant and are settled in shares of common stock after a period of deferral (of no less than two years) selected by the participant, or upon termination of employment. In February 2002 and 2001, 21,976 and 31,942 RSUs were granted at a fair market value of \$7.38 and \$25.10 per share, respectively. At March 31, 2002, 63,398 RSUs were outstanding. The discount is recorded as compensation expense over the minimum vesting period. At March 31, 2002 and 2001, approximately \$0.02 and \$0.04 respectively, was recognized as expense related to the discount. During the first quarter of 2002, 14,704 shares of the Company's common stock were issued under this plan.

### EXECUTIVE LOAN PROGRAM

The Company established the Executive Loan Program, which allowed Penton to issue an aggregate of up to 400,000 shares of Penton common stock at fair market value to six key executives, in exchange for full recourse notes. In December 2001, the loan notes were amended such that interest was no longer compounded semi-annually at a rate equal to the applicable interest rate as published by the Internal Revenue Service. Furthermore, the maturity dates were changed from the fifth anniversary of the first loan date to six months following the seventh anniversary of the first loan date. No principal or interest payments are required until maturity, at which time all outstanding amounts are due. The Executive Loan Program will be accounted for using variable plan accounting from the amendment date forward.

At March 31, 2002, the outstanding loan balance under the Executive Loan Program was approximately \$10.8 million (including \$1.2 million of accrued interest). The loan balance is classified in the Stockholders' Equity section of the Consolidated Balance Sheets as Notes Receivable Officers/Directors.

### EQUITY AND PERFORMANCE INCENTIVE PLAN

In May 2001, the stockholders approved an amendment to increase the number of shares of common stock reserved for issuance under the 1998 Equity and Performance Incentive Plan from 2.5 million shares to 5.5 million shares.

### STOCK OPTIONS

The Company has a stock option plan under which employees and directors may be granted options to purchase shares of the Company's common stock. In May 2001, the stockholders approved an amendment to increase the number of shares of common stock reserved for issuance under the 1998 Director Stock Option Plan from 100,000 shares to 250,000 shares.

17

### PENTON MEDIA, INC.

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

In February and November 2001, 539,500 and 1,029,000 options, respectively, were granted under the Company's Performance Incentive Plan. Options granted under the plan generally vest equally over three years from the date of grant. However, most options granted are not exercisable until the third anniversary. All options granted pursuant to the plan will expire no later than 10 years from the date the option was granted. Option grants do not have any associated compensation charge, as all grants are issued at fair market value.

### DEFERRED SHARES

The Company's long-term incentive plan also provides for the award of deferred

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

shares. At March 31, 2002, deferred shares of 397,749 were outstanding. Of the shares outstanding at March 31, 2002, 341,500 shares vest one-fourth on each three-month anniversary following the date of grant, 47,553 shares vest on the third anniversary of the grant date and the remaining 8,696 shares vest at the rate of 20% per year over a five-year period from date of grant. In August 2001, 6,780 fully vested deferred shares were issued for common stock of Penton. Compensation expense is being recognized over the related vesting period based on the fair value of the shares on the date of grant. For the three months ended March 31, 2002 and 2001, approximately \$0.6 million and \$0.09 million, respectively, were charged to expense under this plan.

### PERFORMANCE SHARES

In February 2002, the board of directors approved a grant of 495,000 performance shares to certain key executives, subject to the attainment of certain performance goals over a three-year period from January 1, 2002 through December 31, 2004. Each grantee is eligible to receive between 50% and 150% of the granted shares.

In February 2001, the board of directors approved a grant of 101,485 performance shares to certain key executives, subject to the attainment of certain performance goals over a three-year period from January 1, 2001 through December 31, 2003. Each grantee is eligible to receive between 50% and 150% of the granted shares.

In October 2000, the board of directors approved a grant of 15,000 performance shares to a key executive, subject to the attainment of certain performance goals over a three-year period from January 1, 2001 through December 31, 2003. The grantee is eligible to receive between 17% and 150% of the granted shares.

In June 2000, the board of directors approved a grant of 20,000 performance shares to two key executives, subject to the attainment of certain performance goals over a three-year period from January 1, 2000 through December 31, 2002. Each grantee is eligible to receive between 10% and 150% of the granted shares.

In February 2000, the board of directors approved a grant of 136,054 performance shares to certain key executives, subject to the attainment of certain performance goals over a three-year period from January 1, 2000 through December 31, 2002. For 99,000 of the shares, each grantee is eligible to receive between 50% and 150% of the granted shares.

Performance shares are not issuable until earned. Compensation expense related to these shares is recorded, pursuant to variable plan accounting, over the performance period based on an estimate, at the end of each reporting period, of the probable number of shares that will be earned by the grantee. For the three months ended March 31, 2002 and 2001, approximately \$(0.2) million and \$0.6 million, respectively, were charged (credited) to expense for these shares.

18

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

### NOTE 9 - COMPREHENSIVE LOSS

Total comprehensive loss for the three months ended March 31, 2002 and 2001 was \$3.9 million and \$8.1 million, respectively, (in thousands).

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	COMMON STOCK	CAPITAL IN EXCESS OF PAR VALUE	RETAINED EARNINGS	NOTES RECEIVABLE OFFICERS/ DIRECTORS	AC COM INCO
Balance at December 31, 2001	\$ 319	\$ 227,245	\$ 6,724	\$ (10,824)	\$
Comprehensive loss:					
Net loss before amortization of deemed dividend and accretion of preferred stock	-	-	(4,233)	-	
Other comprehensive loss:					
Reclassification adjustment for realized gain on securities	-	-	-	-	
Net loss on cash flow hedges	-	-	-	-	
Foreign currency translation adjustment	-	-	-	-	
Comprehensive loss					
Issuance of common stock:					
Deferred shares and stock options	-	396	-	-	
Employee stock purchase plan	-	(299)	-	-	
Issuance of 50,000 shares of preferred stock	-	42,037	-	-	
Warrants issued with preferred stock	-	4,085	-	-	
Amortization of deemed dividend and accretion of preferred stock	-	-	(363)	-	
Balance at March 31, 2002	\$ 319	\$ 273,464	\$ 2,128	\$ (10,824)	\$

NOTE 10 - HEDGING ACTIVITIES

RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to fluctuations in interest rates and foreign currency rates. The Company maintains assets and operations in Europe and Asia, and as a result, may be exposed to cost increases relative to the markets in which it sells; however, the Company does not manage this risk using derivative instruments.

The Company was exposed to interest rate risk due to the variable interest rate of the senior secured credit facility. In March 2002, the Company paid down term loans A and B of the credit facility with certain debt and equity offerings (see Note 5 - Debt). As a result, as of March 31, 2002, the Company has no variable-interest rate debt outstanding.

The Company is also exposed to changes in the fair value of its fixed-rate senior secured notes and senior subordinated notes. As of March 31, 2002, the Company did not manage this risk using derivative instruments.

CASH FLOW HEDGES

Effective March 2002, the Company discontinued hedge accounting for its cash flow hedges as the Company paid down its outstanding variable rate debt. The entire net deferred loss on cash flow hedges of \$1.4 million recorded in Other Comprehensive Income was reclassified to earnings.

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

19

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

Management has decided to continue to hold the derivative instruments until their maturity, and will carry the derivatives at their fair market value on the balance sheet, recognizing changes in the fair value in current period earnings. As of March 31, 2002, the Company recognized a gain of \$0.4 million related to change in fair value of the derivative instruments.

At March 31, 2002, the Company had the following interest rate instruments in effect (in thousands):

	NOTIONAL AMOUNT -----	FIXED RATE ----	PERIOD -----
Interest rate swap	\$26,875	6.22%	1/00-10/02
Interest rate swap	\$35,832	6.77%	5/00-11/02
Interest rate swap	\$17,916	5.95%	9/99-10/02
Interest rate cap	\$26,875	8.50%	10/99-10/02

At March 31, 2002, the interest rate instruments had a negative fair value of \$3.0 million recorded as a liability in Other Accrued Expenses on the Consolidated Balance Sheet.

The Company is exposed to credit loss in the event of non-performance by the other parties to the interest rate swap agreements. However, the Company does not anticipate non-performance by the other counter-parties as they are major financial institutions. The weighted average implied forward variable interest rate is approximately 6.58% for 2002.

#### NOTE 11 - RESTRUCTURING CHARGES

##### FIRST QUARTER 2002 CHARGE

The restructuring charge credit of \$0.3 million (\$0.2 million after tax, or \$0.1 per diluted share) as of March 31, 2002, comprises approximately \$1.4 million of additional employee termination benefits accrued in the first quarter of 2002, offset by the reversal of approximately \$1.6 million related to lease reserves established in the third quarter of 2001 for Penton's New York, NY and Burlingame, CA, offices, for long-term leases which the Company was able to sublease. Personnel costs of \$1.4 million are associated with the elimination of approximately 50 positions in the U.S. Personnel costs include payments for severance, costs of outplacement services and a provision for continued benefits to personnel. The New York and Burlingame office closure costs totaling \$3.4 million were charged in the second half of 2001. At that time, no assumptions for subleases were made by the Company, due to the inherent limitations in estimating the future trends of the real estate marketplace, the economic conditions present in New York city at the time, and the remote probability of a successful sublease. However, in March 2002, due to continuing efforts by the Company, it finalized a contract to sublease its New York office space for the remainder of the lease term, or approximately 7.25 years. In addition, in April 2002, Penton subleased its Burlingame office for the remainder of the lease term, or approximately 3.8 years. Penton remains ultimately responsible for the payment of both of these leases.

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

### 2001 CHARGE

In February 2001, Penton announced a restructuring program with the intent of discontinuing certain Internet operations that had not demonstrated revenue growth, customer acceptance and near-term opportunity for profit. The charge of \$5.6 million (\$3.3 million after tax, or \$0.10 per share on a basic and diluted basis) included the write-off of capitalized software development costs associated with the discontinuance of the industry exchange component of New Hope Natural Media's Healthwell.com; personnel costs, including the reduction of approximately 60 employees at Healthwell.com as well as a reduction of workforce related to a number of other Internet initiatives throughout Penton; and exit costs associated with existing office spaces under lease and other contractual obligations. In the third-quarter of 2001, the Company determined that some first-quarter

20

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

restructuring initiatives would not require the level of spending that had been originally estimated. Based on the Company's third-quarter estimates, approximately \$1.0 million was reversed from the first-quarter charge and the total amount of the charge was adjusted to \$4.6 million (\$2.7 million after tax, or \$0.09 per share on a basic and diluted basis). The majority of the remaining costs incurred in connection with the first-quarter restructuring plan have been paid.

In the second half of 2001, the Company implemented a number of expense reduction and restructuring initiatives to more closely align its cost structure with the business environment. Restructuring charges of \$9.5 million (\$5.7 million after tax, or \$0.18 per share on a diluted basis), net of the \$1.0 million reversal noted above in the third quarter and \$3.7 million (\$2.3 million after tax, or \$0.07 per share on a diluted basis) in the fourth quarter resulted primarily from strategic decisions to restructure a number of businesses and support departments, including reducing Penton's overhead infrastructure by consolidating and closing several branch offices, centralizing information technology and outsourcing certain corporate functions. Of the total charges, \$4.7 million relates to employee termination benefits for the elimination of nearly 340 positions, of which 294 terminations and \$2.7 million in payments had been completed by year end. Approximately 84% of the positions eliminated or to be eliminated are in the U.S., with the remaining positions predominantly in the United Kingdom and Germany. The remaining \$8.5 million of the restructuring charges relates to the closing of more than 20 Penton offices worldwide, and includes costs associated with existing office spaces under lease and other contractual obligations.

The following table summarizes the restructuring and impairment charges, the amounts paid and the ending accrual balances for the period ended March 31, 2002 (in thousands):

	FIRST QUARTER CHARGES	CASH PAYMENTS	ACCRUAL 3/31/02
DESCRIPTION	-----	-----	-----
ACCRUAL 12/31/01	-----	-----	-----

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Severance, outplacement and other personnel costs	\$ 2,115	\$ 1,382	\$ (2,369)	\$ 1,128
Facility closing costs	9,134	(1,645)	(523)	6,966
Other exit costs	383	-	-	383
	-----	-----	-----	-----
Total	\$ 11,632	\$ (263)	\$ (2,892)	\$ 8,477
	=====	=====	=====	=====

The majority of the severance costs are expected to be paid by the end of September 2002, while the balance of facility costs, which include long-term leases, is expected to be paid through the end of the respective lease term.

NOTE 12 - SEGMENT INFORMATION

Penton has four segments, which derive their revenues from the production of trade shows, publications and online media products, including Web sites serving customers in 12 distinct industry sectors. Penton measures segment profitability using adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) before interest, taxes, depreciation and amortization, non-cash compensation and unusual items. Adjusted EBITDA for segments also excludes corporate-level costs. Corporate-level costs include costs for centralized functions, such as finance, accounting and information systems, which cannot be reasonably allocated to each segment.

21

PENTON MEDIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (UNAUDITED)

Summary information by segment for the three months ended March 31, 2002 and 2001 is as follows (in thousands):

	INDUSTRY MEDIA -----	TECHNOLOGY MEDIA -----	LIFESTYLE MEDIA -----	OTHER -----	TOTAL -----
2002					
Revenues	\$ 23,037	\$ 21,083	\$ 14,470	\$ 4,585	\$ 63,175
Adjusted EBITDA	\$ 3,197	\$ (2,058)	\$ 8,694	\$ 1,026	\$ 10,869
2001					
Revenues	\$ 31,382	\$ 61,839	\$ 14,429	\$ 5,043	\$ 112,693
Adjusted EBITDA	\$ 5,041	\$ 14,775	\$ 8,384	\$ 1,115	\$ 29,315

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

	THREE MONTHS ENDED MARCH 31,	
	2002 -----	2001 -----
Total segment adjusted EBITDA	\$ 10,859	\$ 29,315



Edgar Filing: PENTON MEDIA INC - Form 10-Q

Depreciation and amortization	(4,456)	(11,579)
Restructuring charge	263	(5,567)
Non-cash compensation	(355)	(765)
Gain on sale of investments	1,491	-
Interest expense, net of interest earned	(9,056)	(6,001)
Miscellaneous, net	(139)	51
Corporate costs	(5,829)	(8,642)
	-----	-----
Consolidated loss before taxes and extraordinary item	\$ (7,222)	\$ (3,188)
	=====	=====

NOTE 13 - GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

The following schedules set forth condensed consolidating balance sheets as of March 31, 2002 and December 31, 2001, and condensed consolidating statements of operations and condensed consolidating statements of cash flows for the three months ended March 31, 2002 and 2001. In the following schedules, "Parent Company" refers to the combined balances of Penton Media, Inc., "Guarantor Subsidiaries" refers to Penton's wholly owned domestic subsidiaries and "Non-guarantor Subsidiaries" refers to Penton's foreign subsidiaries. "Eliminations" represents the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in Penton's subsidiaries.

22

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

NOTE 13 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATING BALANCE SHEETS  
AS OF MARCH 31, 2002

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	DOLLARS IN THOUSANDS)		
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 32,125	\$ 879	\$ 3,543
Accounts and notes receivable, net	29,599	91,107	11,271
Income taxes receivable	2,480	-	-
Inventories	844	245	11
Deferred tax asset	4,715	1,962	(32)
Prepayments, deposits and other	5,639	2,955	2,743
	-----	-----	-----
	75,402	97,148	17,536
	-----	-----	-----
Property, plant and equipment, net	21,070	4,847	2,505
Goodwill, net	123,646	333,165	37,026
Other intangibles, net	19,929	39,115	2,102
Deferred tax asset	6,961	1,045	-
Investments	221,902	146,303	-

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	-----	-----	-----
	393,508	524,475	41,633
	-----	-----	-----
	\$ 468,910	\$ 621,623	\$ 59,169
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Note payable	\$ -	\$ -	\$ 2,804
Accounts payable and accrued expenses	36,985	(3,626)	8,826
Accrued compensation and benefits	11,664	1,208	742
Unearned income	6,934	17,202	6,749
	-----	-----	-----
	55,583	14,784	19,121
	-----	-----	-----
Long-term liabilities and deferred credits:			
Senior secured notes, net of discount	156,717	-	-
Senior subordinated notes, net of discount	171,236	-	-
Note payable	82,000	-	417
Net deferred pension credits	15,441	-	-
Deferred tax liability	(9,501)	9,501	-
Intercompany advances	(312,531)	267,990	44,541
Other	2,001	404	898
	-----	-----	-----
	105,363	277,895	45,856
	-----	-----	-----
Mandatorily redeemable convertible preferred stock	363	-	-
Stockholders' equity:			
Common stock	273,838	355,888	1,465
Retained earnings	44,779	(26,944)	(4,910)
Notes receivable officers/directors	(10,824)	-	-
Accumulated other comprehensive loss	(192)	-	(2,363)
	-----	-----	-----
	307,601	328,944	(5,808)
	-----	-----	-----
	\$ 468,910	\$ 621,623	\$ 59,169
	=====	=====	=====

23

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

NOTE 13-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATING BALANCE SHEETS  
AS OF DECEMBER 31, 2001

PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
-----	-----	-----

(DOLLARS IN THOUSANDS)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

ASSETS

Current assets:

Cash and cash equivalents	\$ 14,518	\$ 1,993	\$ 3,680	\$
Accounts and notes receivable, net	32,973	93,247	12,232	
Income tax receivable	14,750	-	-	
Inventories	1,090	248	13	
Deferred tax asset	4,683	1,962	-	
Prepayments, deposits and other	3,893	3,961	-	
	-----	-----	-----	
	71,907	101,411	15,925	
	-----	-----	-----	
Property, plant and equipment, net	22,563	4,694	2,919	
Goodwill, net	124,828	331,570	36,743	
Other intangibles, net	13,624	40,684	2,492	
Deferred tax asset	16,462	(8,994)	-	
Investment in subsidiaries	221,915	146,235	-	
Investments	-	5,649	-	
	-----	-----	-----	
	399,392	519,838	42,154	
	-----	-----	-----	
	\$ 471,299	\$ 621,249	\$ 58,079	
	=====	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Senior secured credit facility	\$ 16,489	\$ -	\$ -	\$
Note payable	-	-	2,804	
Accounts payable and accrued expenses	38,969	(1,580)	9,656	
Accrued compensation and benefits	10,562	1,226	623	
Unearned income	15,339	16,723	4,877	
	-----	-----	-----	
	81,359	16,369	17,960	
	-----	-----	-----	

Long-term liabilities and deferred credits:

Senior secured credit facility	164,098	-	-	
Senior subordinated notes, net of discount	180,957	-	-	
Note payable	82,000	-	417	
Net deferred pension credits	15,140	-	-	
Intercompany advances	(310,773)	266,714	44,059	
Other	2,097	384	1,166	
	-----	-----	-----	
	133,519	267,098	45,642	
	-----	-----	-----	

Stockholders' equity:

Common stock	227,564	355,888	1,465	
Retained earnings	41,251	(18,914)	(4,816)	
Notes receivable officers/directors	(10,824)	-	-	
Accumulated other comprehensive income (loss)	(1,570)	808	(2,172)	
	-----	-----	-----	
	256,421	337,782	(5,523)	
	-----	-----	-----	
	\$ 471,299	\$ 621,249	\$ 58,079	
	=====	=====	=====	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

24

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

NOTE 13-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.  
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31, 2002

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
REVENUES	\$ 46,806	\$ 12,862	\$ 3,507
	-----	-----	-----
OPERATING EXPENSES:			
Editorial, production and circulation	16,971	7,542	1,340
Selling, general and administrative	21,787	7,454	3,406
Restructuring charges	1,020	(1,283)	-
Depreciation and amortization	2,095	2,001	360
	-----	-----	-----
	41,873	15,714	5,106
	-----	-----	-----
OPERATING INCOME (LOSS)	4,933	(2,852)	(1,599)
	-----	-----	-----
OTHER INCOME (EXPENSE):			
Interest expense, net of income earned	(9,714)	722	(64)
Gain on sale of investments	1,491	-	-
Miscellaneous, net	(329)	-	190
	-----	-----	-----
	(8,552)	722	126
	-----	-----	-----
LOSS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	(3,619)	(2,130)	(1,473)
BENEFIT FOR INCOME TAXES	1,529	852	442
	-----	-----	-----
LOSS BEFORE EXTRAORDINARY ITEM	(2,090)	(1,278)	(1,031)
EXTRAORDINARY ITEM, NET OF TAXES	166	-	-
	-----	-----	-----
NET LOSS	\$ (1,924)	\$ (1,278)	\$ (1,031)
	=====	=====	=====

25

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

NOTE 13-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA, INC.  
 CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2001

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	EL
(DOLLARS IN THOUSANDS)				
REVENUES	\$ 60,070	\$ 47,556	\$ 5,067	
OPERATING EXPENSES:				
Editorial, production and circulation	20,675	15,620	4,546	
Selling, general and administrative	32,129	18,654	1,161	
Restructuring charges	5,567	-	-	
Depreciation and amortization	9,797	1,646	136	
	68,168	35,920	5,843	
OPERATING INCOME (LOSS)	(8,098)	11,636	(776)	
OTHER INCOME (EXPENSE):				
Interest expense, net of income earned	(7,213)	1,313	(101)	
Miscellaneous, net	51	-	-	
	(7,162)	1,313	(101)	
INCOME (LOSS) BEFORE INCOME TAXES	(15,260)	12,949	(877)	
BENEFIT (PROVISION) FOR INCOME TAXES	9,137	(7,758)	531	
NET INCOME (LOSS)	\$ (6,123)	\$ 5,191	\$ (346)	

26

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

NOTE 13-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC  
 CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW  
 FOR THE THREE MONTHS ENDED MARCH 31, 2002

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	EL
(DOLLARS IN THOUSANDS)				

Edgar Filing: PENTON MEDIA INC - Form 10-Q

CASH FLOWS PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES	\$ 13,112	\$ (7,006)	\$ (96)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(531)	(2)	(45)
Acquisitions, including earnouts paid, net of cash acquired	(300)	-	-
Proceeds from sale of INT Media Group, Inc. stock and interests	-	5,801	-
	-----	-----	-----
Net cash provided by (used for) investing activities	(831)	5,799	(45)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of mandatorily redeemable convertible preferred stock	50,000	-	-
Proceeds from senior secured notes	156,717	-	-
Purchase of senior subordinated notes	(8,375)	-	-
Repayment of senior credit facility	(180,587)	-	-
Employee stock purchase plan	(292)	-	(7)
Payment of financing costs	(12,023)	-	-
	-----	-----	-----
Net cash provided by (used for) financing activities	5,440	-	(7)
	-----	-----	-----
Effect of exchange rate	(10)	-	-
	-----	-----	-----
Net increase (decrease) in cash and equivalents	17,711	(1,207)	(148)
Cash and equivalents at beginning of period	14,518	1,993	3,680
	-----	-----	-----
Cash and equivalents at end of period	\$ 32,229	\$ 786	\$ 3,532
	=====	=====	=====

27

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

NOTE 13-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC  
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW  
FOR THE THREE MONTHS ENDED MARCH 31, 2001

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
CASH FLOWS PROVIDED BY (USED FOR)			
OPERATING ACTIVITIES	\$ (19,877)	\$ 3,689	\$ 5,218
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,360)	(13)	(1,012)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Acquisitions, including earnouts paid, net of cash acquired	(12,062)	(3,529)	(1,402)
	-----	-----	-----
Net cash used for investing activities	(13,422)	(3,542)	(2,414)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of senior credit facility	(1,938)	-	-
Proceeds from senior credit facility	35,000	-	-
Employee stock purchase plan payments	(23)	-	-
Proceeds from deferred shares and options exercised	888	-	-
Dividends paid	(955)	-	-
	-----	-----	-----
Net cash provided by financing activities	32,972	-	-
	-----	-----	-----
Effect of exchange rate	(79)	-	-
	-----	-----	-----
Net increase (decrease) in cash and equivalents	(406)	147	2,804
Cash and equivalents at beginning of period	-	8,678	3,970
	-----	-----	-----
Cash and equivalents at end of period	\$ (406)	\$ 8,825	\$ 6,774
	=====	=====	=====

28

NOTE 14 -- SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING  
ACTIVITIES

For the three months ended March 31, 2002, Penton issued 14,704 common shares to several officers and other key employees under the Management Stock Purchase Plan and reported amortization of deemed dividend and accretion on preferred stock of \$0.4 million.

For the three months ended March 31, 2001, Penton marked to market its investment in INT Media Group, Inc. stock by approximately \$6.5 million, and declared dividends of \$1.0 million. In addition, Penton acquired Hillgate Communications Ltd. for approximately \$4.1 million, of which \$3.5 million was in the form of notes payable.

The foregoing transactions did not provide for or require the use of cash and, accordingly, are not reflected in the Consolidated Statements of Cash Flows.

29

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

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

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 operations. Penton considers portions of this information to be forward-looking statements within the meaning of Section 27A of the Securities Exchange 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 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, pending litigation, government regulation, competition, technological change, intellectual property rights, capital spending, international operations and Penton's acquisition and Internet strategies.

### OVERVIEW

We believe we are a leading, global 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 maintain Web businesses, including electronic newsletters. Our products serve 12 industry sectors, which we group into four segments:

#### INDUSTRY MEDIA

-----

Manufacturing  
Design/Engineering  
Mechanical Systems/Construction  
Supply Chain  
Government/Compliance  
Aviation

#### LIFESTYLE MEDIA

-----

Natural Products

#### TECHNOLOGY MEDIA

-----

Internet/Broadband  
Information Technology  
Electronics

#### OTHER MEDIA

-----

Food/Retail  
Leisure/Hospitality

We believe we have leading media products in each of the industry sectors we serve. We are 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.

### RECENT DEVELOPMENTS

### FINANCING

On March 19, 2002, the Company issued 40,000 shares of its Series B Convertible Preferred Stock, par value \$0.01 per share (the "preferred stock"), and warrants (the "warrants") to purchase 1,280,000 shares of Penton's common stock, par value \$0.01 per share, for \$40.0 million in a private placement to institutional investors and affiliated entities. On March 28, 2002, the Company issued an additional 10,000 shares of preferred stock, par value \$0.01 per share, and



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

warrants to purchase an additional 320,000 shares of Penton's common stock, par

30

value \$0.01 per share, for \$10.0 million to the same group of investors. The net proceeds from the sale of the preferred stock and warrants were used to repay the term loan indebtedness under our senior credit facility.  
(See Note 5 - Debt.)

A copy of the amended and restated Series B Convertible Preferred Stock and Warrant Purchase Agreement and the Certificate of Designations and Form of Warrants Agreement were filed with the Securities and Exchange Commission on March 19, 2002 as exhibits to a Current Report on Form 8-K. The following is a description of the material terms of the preferred stock and warrants, and is qualified in its entirety by reference to that Current Report on Form 8-K and the applicable agreements. Significant terms of the new preferred stock are as follows:

- Holders of the preferred shares will have a liquidation preference over holders of common stock.
- The initial liquidation value per share will be \$1,000. If the preferred stock is not converted or redeemed prior to the sixth anniversary of the date of issuance, the liquidation value will increase to \$4,570 per share if stockholder approval has been obtained on certain matters. If the stockholder approval has not been obtained, the liquidation value will increase to \$9,140 per share.
- Dividends accrue at an annual rate of 7% from issuance until year six unless stockholder approval is obtained on certain matters, at which time the rate will decrease to 5% per annum. If the stockholder approval is obtained within six months of the date of issuance, the rate will decrease retroactive to the date of issuance. After the sixth anniversary, dividends accrue at an annual rate of 15%. Upon certain triggering events, the dividend rate may increase by one percentage point per quarter up to a maximum increase of five percentage points.
- The dividends are payable semi-annually in cash only if declared by our board of directors and approved by holders of no less than 75% of the convertible preferred stock then outstanding. The provisions of our debt instruments limit our ability to pay dividends in cash. Currently we have no intention to pay dividends in cash.
- Shares of preferred stock will be convertible at any time at each investor's option into a number of shares of our common stock equal to the liquidation value plus accrued but unpaid dividends, divided by the conversion price. The conversion price will initially be \$7.61, and is subject to certain anti-dilution and other adjustments. Subject to certain restrictions, we have the option to convert the preferred stock at any time.
- If stockholder approval of certain matters is not obtained by June 28, 2002, the conversion price will automatically be reduced by 20%. Thereafter, until such approval is obtained, every 90 days the conversion price will be reduced by 20% of the conversion price then in effect. In no event will the conversion price reduction related to the failure to timely obtain stockholder approval exceed 50% of the conversion price that would have been in effect had we obtained stockholder approval. Upon our receipt of the stockholder approval, the conversion price will be readjusted as if no adjustments had occurred for failure to timely obtain stockholder approval.

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

- If we fail to comply with specific covenants contained in the purchase agreement, the conversion price will be reduced by \$0.76 (adjusted for stock splits and similar transactions). The conversion price will adjust to what it would have been, absent such breach, once the breach is cured.
- We may redeem the preferred stock at any time, in whole or in part, provided that the redemption price is equivalent to the amount the holders would receive on an as-converted basis using a trailing 30-day period and subject to certain minimum share prices based on the year redeemed.
- The preferred stock initially entitles the holders to three seats on our board of directors. Upon the occurrence of certain triggering events, the holders may appoint up to one less than a minimum majority of our board of directors or a minimum majority upon the occurrence of certain events of bankruptcy or insolvency. See the further discussion of these triggering events in the "Risk Factors" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2001.
- The holders of the convertible preferred stock are entitled to vote on all matters submitted to a vote of our common stockholders.

31

- We have agreed to register the common stock issuable upon conversion of the convertible preferred stock and exercise of the warrants within 45 days after closing and use our best efforts to have the registration statement declared effective within 90 days of filing.
- The terms of the convertible preferred stock subject us to various covenants, which among other things, limits our ability to sell assets, make any restricted payments or restricted investments, enter into various agreements and grant certain options.
- Warrants were issued to purchase an aggregate of 1.6 million shares of our common stock at an initial exercise price of \$7.61 per share, subject to certain anti-dilution and other adjustments that mirror those applicable to the convertible preferred stock. The warrants are immediately exercisable and expire 10 years after issuance.

In March 2002, Penton issued \$157.5 million of 11 7/8% senior secured notes (the "Secured Notes") due 2007 to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. Interest is payable on the Secured Notes semi-annually on April 1 and October 1. The Secured Notes are fully and unconditionally guaranteed on a senior basis by all of our domestic subsidiaries. We may redeem the Secured Notes, in whole or in part, during the periods October 1, 2005 through September 30, 2006 and October 1, 2006 and thereafter at redemption prices of 105.9375% and 100.0000% of the principal amount, respectively, together with accrued and unpaid interest. In addition, at any time prior to October 1, 2005, up to 35% of the aggregate principal amount of the Secured Notes may be redeemed at our option, within 90 days of certain public equity offerings of our common stock, at a redemption price equal to 111.875% of the principal amount, together with accrued and unpaid interest.

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. Net proceeds of \$150.9 million were used to pay down \$83.6 million of our term loan A facility, and \$49.0 million of our term loan B facility, and to repurchase \$10.0 million of our 10 3/8% senior subordinated notes for \$8.7 million. The remaining net proceeds of \$9.6 million were used for general corporate purposes. The Secured Notes rank senior in right to all of our subordinated indebtedness, including our 10 3/8% senior subordinated notes due in 2011, and equal in right

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

of payment with all of our other senior indebtedness, which is approximately \$3.2 million at March 31, 2002. The Secured Notes contain covenants that will, among other things, limit the Company's ability to pay dividends, incur additional debt, sell assets, and enter into mergers or consolidations.

In March 2002, we amended our senior credit facility and paid off our term loan A and term loan B facilities from the proceeds received from the sale of preferred shares (see Note 6 - Mandatorily Redeemable Convertible Preferred Stock), proceeds received from the sale of our INT Media Group, Inc. common stock (see Note 4 - Investments), cash on hand from a tax refund of approximately \$12.2 million, and the issuance of \$157.5 million in Secured Notes mentioned above. The amended and restated facility provides for a maximum revolving credit facility of \$40.0 million, which is limited to 80% of eligible receivables. In order to access the revolver, the Company must not have more than \$7.5 million of cash and cash equivalents available, it must be in compliance with the loan documents and must submit a borrowing base certificate immediately prior to each extension of credit. In addition, the Company is required to prepay the revolver in the event that it is overextended on its eligible receivables, or it has more than \$7.5 million in cash and cash equivalents at the end of any month. The amended agreement has no financial covenants, however, the amendment increases the interest rate on the revolver and places additional restrictions on certain payments, limits additional debt and contingent obligations, requires additional collateral, restricts additional acquisitions and investments, limits our ability to sell assets and limits capital expenditures.

### EXPENSE REDUCTION INITIATIVES

Results for the first quarter of 2002 show some of the benefits of our aggressive cost reduction programs implemented in 2001 and the first quarter of 2002. We have implemented a number of expense reduction and restructuring initiatives to more closely align our cost structure with the current business environment. The cost reduction initiatives included workforce reductions, elimination of unprofitable properties, significant reductions in

32

capital spending, the shutdown and consolidation of certain facilities and other cost reductions. Specific actions taken, most of which occurred in the second half of 2001, are as follows:

- We reduced staffing through terminations.
- We imposed a company-wide hiring freeze, as well as a salary freeze for higher-paid employees, until we return to profitability.
- We shut down and consolidated more than 20 offices worldwide.
- We reduced benefit costs by increasing employee contributions for health care, temporarily suspending the company match for our defined contribution plan, and eliminating year-end discretionary bonuses.
- We eliminated unprofitable properties, including seven magazines, more than 20 events and nearly 20 Web sites.
- We reduced the production cost of various under-performing magazines through process improvements, automation of pre-press work, new printing and paper supply contracts, and selective reduction in frequency and circulation levels.
- We restructured various under-performing events by either eliminating these events or by co-locating with other events and realigning management structures.
- We implemented a plan to centralize all information technology services.

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

- We effectively outsourced various corporate and division functions.

### RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 COMPARED WITH THE THREE MONTHS ENDED MARCH 31, 2001

#### TOTAL COMPANY

In the analysis that follows, we have used adjusted EBITDA, which we define as net income (loss) before interest, taxes, depreciation and amortization, non-cash compensation and unusual items, as the primary measure of profitability in evaluating our operations. We believe that investors find adjusted EBITDA to be a useful tool for measuring a company's ability to generate cash. Adjusted EBITDA does not represent cash flow from operations, as defined by generally accepted accounting principles, and is not calculated in the same way by all companies. In addition, you should not consider adjusted EBITDA a substitute for net income or net loss, or as an indicator of our operating performance or cash flow, or as a measure of liquidity. Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by total revenues.

Our revenues, net loss, adjusted EBITDA, diluted earnings per share and adjusted EBITDA margins for the three months ended March 31, 2002 and 2001 are as follows:

	2002 ----	2001 ----	VARIANCE -----
Revenues	\$63,175 =====	\$112,693 =====	\$(49,518) =====
Net loss	\$(4,233) =====	\$ (1,278) =====	\$ (2,955) =====
Adjusted EBITDA	\$ 5,030 =====	\$ 20,673 =====	\$(15,643) =====
Net loss per common share - diluted	\$ (0.14) =====	\$ (0.04) =====	
Adjusted EBITDA margins	8.0% =====	18.3% =====	

Operating results for the three months ended March 31, 2002 continue to be impacted by the downturn in the U.S. economy and, to a lesser extent, by the slowing of economies throughout Europe and Asia. The weakness in the market we experienced in the fourth quarter of 2001 carried over into the first quarter of 2002. However, we have

seen a modest recovery in a number of our media sectors. Our media properties serving the technology markets, including information technology, Internet, and telecommunications, continue to show a downward trend.

Our revenues decreased \$49.5 million, or 43.9%, from \$112.7 million for the

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

three months ended March 31, 2001 to \$63.2 million for the same period in 2002. The decrease was due primarily to: (i) a decrease in publishing revenues of \$15.6 million, or 27.3%, from \$57.2 million for the three months ended March 31, 2001 to \$41.6 million for the same period in 2002; (ii) a decrease in trade show and conference revenues of \$33.5 million, or 64.1%, from \$52.3 million for the three months ended March 31, 2001 to \$18.7 million for the same period in 2002; (iii) and a decrease in online media revenues of \$0.4 million, from \$3.3 million for the three months ended March 31, 2001 to \$2.9 million for the same period in 2002. Results for the first quarter of 2002 were impacted by the timing of our Internet World Spring and CRM trade shows, which took place in the first quarter of 2001 but were held in the second quarter of 2002. Adjusting for the timing shift of the 2001 first quarter events, revenues declined by \$29.6 million.

We reported a net loss for the three months ended March 31, 2002 of \$4.2 million, or \$0.13 per diluted share. These results reflect the elimination of the amortization of goodwill pursuant to our adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. First quarter 2001 net income, adjusted as if the Company had adopted the accounting change at the beginning of 2001, would have been \$2.4 million, or \$0.08 per diluted share, compared with a reported net loss of \$1.3 million, or \$0.04 per diluted share. Unusual items in the first quarter of 2002 included: (i) a restructuring charge credit of \$0.3 million (or \$0.01 per diluted share) related to staff reductions, which were more than offset by the sublease of two offices, for which we had previously taken reserves; (ii) a pretax gain of \$1.5 million (\$0.03 per diluted share after tax) on our sale of INT Media Group, Inc. common stock; and (iii) an extraordinary item of \$0.2 million (less than \$0.01 per diluted share after tax) related to a gain on the repurchase of \$10.0 million of senior subordinated notes, partially offset by the write-off of unamortized finance fees associated with the refinancing of our senior credit facility. Unusual items in the first quarter of 2001 included a restructuring charge of \$5.6 million (or \$0.10 per diluted share after tax) related to the discontinuation of certain online media properties.

Total adjusted EBITDA decreased \$15.6 million, or 75.7%, from \$20.7 million for the three months ended March 31, 2001 to \$5.0 million for the same period in 2002. Adjusted EBITDA margins decreased from 18.3% for the first quarter of 2001 to 8.0% for the same period in 2002. The decrease in both our adjusted EBITDA and adjusted EBITDA margins were primarily due to a decrease in adjusted EBITDA from our trade show and conference operations of \$18.8 million, or 74.2%, from \$25.4 million in the first quarter of 2001 to \$6.6 million for the same period in 2002. Margins for trade shows and conferences decreased from 48.5% in the first quarter of 2001 to 34.9% for the same period in 2002. The decrease in our adjusted EBITDA was somewhat offset by a decrease in general and administrative costs of \$3.1 million, or 29.3%, from \$10.5 million in the first quarter of 2001 to \$7.4 million for the same period in 2002. As noted previously, results for the quarter were impacted by the shift in the timing of the Internet World Spring and CRM trade shows. Adjusting for this shift of trade show timing, total adjusted EBITDA declined by \$0.4 million for the three months ended March 31, 2002 compared to the same prior year period.

34

A reconciliation of our net loss to our total adjusted EBITDA is as follows (in thousands):

THREE MONTHS ENDED	
MARCH 31,	
-----	
2002	2001

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	----	----
Net loss	\$ (4,233)	\$ (1,278)
Interest expense, net of interest earned	9,056	6,001
Gain on sale of investments	(1,491)	-
Restructuring charge	(263)	5,567
Non-cash compensation	355	765
Benefit for income taxes	(2,823)	(1,910)
Depreciation and amortization	4,456	11,579
Extraordinary item	(166)	-
Miscellaneous, net	139	(51)
	-----	-----
Adjusted EBITDA	\$ 5,030	\$ 20,673
	=====	=====

OPERATING EXPENSES

Operating expenses decreased \$47.2 million, or 43.0%, from \$109.9 million for the three months ended March 31, 2001 to \$62.7 million for the same period in 2002. As a percentage of revenues, after excluding restructuring charges and depreciation and amortization charges, operating costs increased from 82.3% in 2001 to 92.6% in 2002. The increase in operating expenses as a percentage of revenues was primarily due to the \$49.5 million decline in revenues, which is attributed to the impact of the economy on our business, along with the shift in timing of the Internet World Spring and CRM shows from March 2001 to April 2002.

Editorial, Production and Circulation

Editorial, production and circulation expenses decreased to \$25.9 million for the three months ended March 31, 2002, compared to \$40.8 million for the same period in 2001, representing a change of \$15.0 million, or 36.7%. The decrease was due to the shift in the timing of the Internet World Spring and CRM shows noted previously since direct show costs are deferred and recognized in the month the shows are held. The decrease was also due to the effects of editorial and production staff reductions made in the second half of 2001 and the first quarter of 2002.

As a percentage of revenues, editorial, production and circulation expenses increased from 36.2% in the first quarter of 2001 to 40.9% in the same period of 2002. The increase was due to the shift in timing of the Internet World Spring and CRM shows, both of which produced high margins in 2001.

Selling, General and Administrative

Selling, general and administrative expenses declined \$19.3 million, or 37.1%, from \$51.9 million for the three months ended March 31, 2001 to \$32.6 million for the same period in 2002. The decrease was primarily due to the timing of the Internet World Spring and CRM shows since direct show costs are deferred and recognized in the month the shows are held, and to cost savings associated with office closings and staff reductions realized from the restructuring actions taken in 2001 and 2002.

As a percentage of revenues, selling, general and administrative expenses increased from 46.1% in 2001 to 51.7% in 2002. The increase was due to lower margins on trade shows held in the quarter as a result of the shift in timing of the Internet World Spring and CRM shows, both of which produced high margins in 2001.

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

### Restructuring Charge

The restructuring charge credit of \$0.3 million (\$0.2 million after tax, or \$0.1 per diluted share) was comprised of approximately \$1.4 million of employee termination benefits costs in the first quarter of 2002, offset by the reversal of approximately \$1.6 million related to lease reserves recorded in the second half of 2001 for our New York, NY and Burlingame, CA, offices, for long-term leases which we were able to sublease. See Note 11 - Restructuring Charges for information on related cash payments. Additional detail concerning the principal components of the first quarter 2002 charge is as follows:

- Personnel costs of \$1.4 million are associated with the elimination of approximately 50 positions located in the U.S. Personnel costs include payments for severance, costs of outplacement services and a provision for continued health benefits.
- The New York, NY, and Burlingame, CA, office closing costs totaling \$3.4 million were charged in the second half of 2001. At that time, no assumptions for subleases were made by the Company, due to the inherent limitations in estimating the future trends of the real estate marketplace, the economic conditions present in New York city at the time, and the remote probability of a successful sublease. However, in March 2002, due to continuing efforts by the Company, we finalized a contract to sublease our New York office space for the remainder of the lease term, or approximately 7.3 years. In addition, in April 2002, we subleased our Burlingame office for the remainder of the lease term, or approximately 3.8 years. Penton remains ultimately responsible for both of these leases.

### Depreciation and Amortization

Depreciation and amortization declined \$7.1 million, or 61.5%, from \$11.6 million for the three months ended March 31, 2001 to \$4.5 million for the three months ended March 31, 2002. Lower amortization expense was due to the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. Depreciation expense was also lower due to the impact of more than 20 office closings that occurred in 2001.

### OPERATING INCOME

Overall, Penton's operating income decreased \$2.3 million, from \$2.8 million for the three months ended March 31, 2001, to \$0.5 million for the same period in 2002. Operating income as a percentage of revenue decreased from 2.5% in 2001 to 0.8% in 2002.

36

### OTHER INCOME (EXPENSE)

Interest expense, net of interest earned, increased \$3.1 million from \$6.0 million for the three months ended March 31, 2001, to \$9.1 million for the three months ended March 31, 2002. The increase was primarily due to a higher average debt balance during the first quarter of 2002 when compared with the same period in 2001 and an increase in the average interest rates of our debt from approximately 7.0% in 2001 to just over 11.0% in 2002.

In January 2002, Penton sold its remaining 11.8% ownership interest in INT Media for \$5.8 million and recognized a \$1.5 million gain from its sale.

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

### EXTRAORDINARY ITEM, NET

The extraordinary item for the three months ended March 31, 2002, of \$0.2 million consisted of two separate items, which net to a gain. With respect to the first item, in March 2002, we purchased \$10.0 million face value of our 10 3/8% senior subordinated notes at prevailing market prices, resulting in a gain of \$1.4 million or \$0.8 million, net of taxes. The second item involved the payoff of our term loan A and term loan B facilities, which resulted in the write-off of unamortized deferred finance costs of approximately \$1.1 million or \$0.7 million, net of taxes.

### EFFECTIVE TAX RATES

The effective tax rates were 59.9% and 39.1% for the three months ended March 31, 2001 and 2002, respectively. Penton used the annual effective tax rate approach for March 31, 2001 and 2002. The related decrease in the effective tax rate year over year was primarily due to the effect of the accounting change for goodwill amortization, effective January 1, 2002.

### SEGMENTS

We manage our business based on four operating segments: Industry Media, Technology Media, Lifestyle Media and Other Media. All four segments derive their revenues from the production of publications, trade shows and conferences, and online media products, and serve customers in 12 industry sectors. Adjusted EBITDA for segments is calculated as previously defined except that segment adjusted EBITDA also excludes corporate-level costs. Corporate-level costs include costs for centralized functions, such as finance, accounting and information systems, which cannot be reasonably allocated to each segment. See Note 12 - Segment Information, for a reconciliation of segment total adjusted EBITDA to consolidated loss before taxes and extraordinary item. Financial information by segment for the three months ended March 31, 2002 and 2001 is summarized in the following table (in thousands):

	REVENUE		ADJUSTED EBITDA	
	2002	2001	2002	2001
	-----	-----	-----	-----
Industry Media	\$ 23,037	\$ 31,382	\$ 3,197	\$ 5,041
Technology Media	21,083	61,839	(2,058)	14,775
Lifestyle Media	14,470	14,429	8,694	8,384
Other Media	4,585	5,043	1,026	1,115
	-----	-----	-----	-----
Total	\$ 63,175	\$ 112,693	\$ 10,859	\$ 29,315
	=====	=====	=====	=====

### Industry Media

Our Industry Media segment, which represented 36.5% of total company revenues in the first quarter of 2002, serves customers in the manufacturing, design/engineering, mechanical systems/construction, government/compliance, supply chain and aviation industries. Total revenues for this segment for the three months ended March 31, 2002, decreased \$8.3 million, or 26.6%, from \$31.4 million in 2001 to \$23.0 million in



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

2002. The decrease was primarily due to lower revenues from publications serving the manufacturing, supply chain and design/engineering sectors, which were impacted by the downturn in the U.S. economy. IndustryWeek, Machine Design, American Machinist, New Equipment Digest, Transportation & Distribution and Material Handling Management magazines were most significantly affected. The decline was also due to lower revenues from our trade shows serving the industrial markets.

Total adjusted EBITDA for the Industry Media segment decreased \$2.2 million, or 40.8%, from \$5.4 million for the three months ended March 31, 2001, to \$3.2 million during the same 2002 period. Adjusted EBITDA margins decreased from 17.2% in 2001 to 13.9% in 2002. The decrease in adjusted EBITDA was primarily due to declines in the aforementioned magazines and trade shows. Adjusted EBITDA for the segment's online media portfolio increased \$0.09 million for the three months ended March 31, 2002, when compared with the same period in 2001.

### Technology Media

Our Technology Media segment, which represented 33.4% of total company revenues in the first quarter of 2002, serves customers in the electronics, information technology and Internet/broadband markets. Total revenues for this segment decreased \$40.8 million, or 65.9%, from \$61.8 million for the three months ended March 31, 2001 to \$21.1 million for the same period in 2002. Revenue declines for the first quarter in 2002 compared with 2001 results were significantly impacted by the shift of the Internet World Spring and CRM trade shows from the March time slot in 2001 to April in 2002, as well as by current depressed market conditions, especially in the information technology, Internet and telecommunications markets. Declines in advertising revenues significantly impacted Electronic Design, EE Product News, Windows & .Net Magazine, Internet World and Boardwatch magazines. Online advertising revenues declined \$0.1 million from \$2.4 million for the three months ended March 31, 2001 to \$2.3 million in the same 2002 period.

Total adjusted EBITDA for the Technology Media segment decreased \$16.8 million, or 113.9%, from \$14.8 million for the three months ended March 31, 2001 to a loss of \$2.1 million for the same period in 2002. Adjusted EBITDA declines mirrored revenue trends for publishing, trade shows and conferences and online media products. Overall, 2002 results continue to be impacted by the decline in the technology market.

### Lifestyle Media

Our Lifestyle Media segment, which represented 22.9% of total company revenues in the first quarter of 2002, serves customers in our natural products industry sector. Total revenues for this segment grew by \$0.04 million, or 0.3%, from \$14.4 million for the three months ended March 31, 2001 to \$14.5 million for the same period in 2002. Trade show revenues increased for the three months ended March 31, 2002 compared to the same period in 2001 due to the move of the Nutracon event from the third quarter in 2001 to the first quarter in 2002. Publication revenues for Lifestyle Media were positively impacted by The Natural Foods Merchandiser magazine which was offset by revenue declines in New Product Review, Nutrition Science News, and Delicious Living magazines.

Total adjusted EBITDA for Lifestyle Media increased \$0.3 million, or 3.7%, from \$8.4 million for the three months ended March 31, 2001, to \$8.7 million for the same period in 2002. Adjusted EBITDA margins increased from 58.1% in 2001 to 60.1% in 2002. The increase was due primarily to the shutdown of Healthwell.com Industry Exchange in February 2001.

### Other Media

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

Our Other Media segment, which represented 7.3% of total company revenues for the first quarter of 2002, serves customers in the food/retail and leisure/hospitality sectors. Total revenues for this segment decreased \$0.5

38

million, or 9.1%, from \$5.0 million for the three months ended March 31, 2001 to \$4.6 million for the comparable period in 2002. The decrease was due primarily to year-over-year revenue declines for Lodging Hospitality and Convenience Store Decisions magazines and the discontinuance of the Leisure Hospitality conference in 2001 resulting from the economic slowdown.

Total adjusted EBITDA for Other Media decreased \$0.1 million, or 8.0%, from \$1.1 million for the three months ended March 31, 2001, to \$1.0 million for the same 2002 period.

### PRODUCTS

We publish specialized trade magazines, produce trade shows and conferences, and maintain a variety of online media products, including Web businesses and electronic newsletters. Adjusted EBITDA for products is calculated as previously defined, except that product adjusted EBITDA also excludes general and administrative costs. General and administrative costs include corporate-level costs, as defined previously under Segments, and other general and administrative costs related to product offerings, which cannot be reasonably allocated. Our calculation of adjusted EBITDA by product is as follows (in thousands):

	THREE MONTHS ENDED	
	MARCH 31,	
	2002	2001
	-----	-----
Publishing	\$ 5,558	\$ 6,769
Trade shows & conferences	6,550	25,360
Online media	323	(987)
	-----	-----
Subtotal	12,431	31,142
General and administrative	(7,401)	(10,469)
	-----	-----
Adjusted EBITDA	\$ 5,030	\$ 20,673
	=====	=====

For the three months ended March 31, 2002, adjusted EBITDA for the Company's publishing operations decreased \$1.2 million, or 17.9%, when compared with the same prior-year period. Adjusted EBITDA for publications was primarily affected by declines in Penton's technology, manufacturing and electronic magazines.

For the three months ended March 31, 2002, adjusted EBITDA for the Company's trade show and conference operations decreased \$18.8 million, or 74.2% when compared with the same prior year period. The decline was due primarily to the shift in timing of the Internet World Spring and CRM trade shows as previously noted.

Adjusted EBITDA for the Company's online media operations increased from a loss of \$1.0 million for the three months ended March 31, 2001, to income of \$0.3 million for the same period in 2002. The improvement was due primarily to the

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

elimination of unprofitable online media properties in 2001.

For the three months ended March 31, 2002, general and administrative costs decreased \$3.1 million, when compared with the same prior year period. The decrease is primarily due to staff reductions in connection with certain corporate support functions that occurred in the second half of 2001 and in the first quarter of 2002.

### 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 year. There were no significant foreign currency transaction gains or losses for the periods presented.

39

### LIQUIDITY AND CAPITAL RESOURCES

During the first quarter of 2002 and 2001, we financed our operations primarily with cash generated from operating activities, borrowings under our senior credit facility, proceeds from the issuance of senior notes, and proceeds from the sale of investments and preferred shares.

Cash provided by (used for) operating activities was \$6.0 million and \$(9.9) million for the three months ended March 31, 2002 and 2001, respectively. Operating cash flows for the three months ended March 31, 2002, reflected a net loss of \$4.3 million, offset by a net working capital increase of approximately \$5.4 million and non-cash charges (primarily depreciation and amortization) of approximately \$4.8 million. Operating cash flows for the three months ended March 31, 2001 reflect a net loss of \$1.3 million, offset by a net working capital increase of approximately \$27.1 million and non-cash charges (primarily depreciation and amortization and restructuring charges) of approximately \$18.5 million.

The increase in operating cash flows for the three months ended March 31, 2002, compared with the same 2001 period was due primarily to increases in working capital items. The most significant working capital changes in 2002 were attributable to accounts receivable, income taxes receivable, accounts payable and accrued expenses. The accounts receivable decrease reflects lower first-quarter sales in 2002 compared with 2001 and the timing of payments received. The change in the receivable for income taxes reflects the receipt of an income tax refund of \$12.2 million in the first quarter of 2002. The decrease in accounts payable and accrued expenses was due primarily to the timing of vendor and other payments, which can fluctuate based on when particular trade shows are held.

Investing activities provided \$4.9 million of cash for the three months ended March 31, 2002, and included proceeds of \$5.8 million from the sale of nearly 3.0 million shares of INT Media Group, Inc. common stock. These proceeds were partially offset by capital expenditures and earnout paid during the quarter. Investing activities used \$19.4 million for the three months ended March 31, 2001, and included earnout payments, acquisitions and investments, as well as capital expenditures.

Financing activities provided \$5.4 million for the three months ended March 31, 2002, due to the issuance of our 11 7/8% senior secured notes and the sale of

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

50,000 shares of a new series of mandatorily redeemable convertible preferred stock to an investor group led by ABRY Mezzanine Partners, L.P. These proceeds were primarily offset by the paydown of the balance of our senior secured term loans; the purchase of \$10.0 million face value of our 10 3/8% senior subordinated notes at prevailing market prices; the payment of financing fees associated with the amendment to our senior credit facility, and the issuance of our 11 7/8% senior secured notes. All of these activities took place in the first quarter. Financing activities provided \$33.0 million in the first quarter of 2001, primarily from borrowings under our revolving credit facility, offset partially by debt repayments and dividends paid to stockholders.

On September 1, 1999, we entered into a \$340.0 million credit agreement with several banks. The agreement provided for a revolving credit facility of up to \$125.0 million, a term loan A of \$140.0 million and a term loan B of \$75.0 million. In October 2000, we amended our credit facility to give us the ability to increase our term loan A facility, term loan B facility and/or revolving credit facility up to an aggregate of \$100.0 million prior to September 30, 2001. At that time, we increased the commitment under the revolving credit facility by \$60.0 million to \$185.0 million. The remaining \$40.0 million could not be requested on more than three separate occasions, and any increase had to take place by September 30, 2001. We did not exercise this option. As described in the following paragraphs, we amended our credit facility and paid off our term A and term B loans in the first quarter of 2002.

In June 2001, we issued \$185.0 million of 10 3/8% senior subordinated notes (the "Subordinated Notes") due June 15, 2011. Interest on the notes is payable semi-annually, on June 15 and December 15 of each year. The Subordinated Notes are guaranteed, on a senior subordinated basis, by our domestic subsidiaries, and may be redeemed on or after June 15, 2006. In addition, we may redeem up to 35% of the aggregate principal amount of the Subordinated Notes before June 15, 2004, with the proceeds of certain equity offerings. The Subordinated Notes,

40

which were offered at a discount of \$4.2 million, are being amortized over the term of the Subordinated Notes. Costs representing underwriting fees and other professional fees of approximately \$1.7 million are being amortized over the term of the Subordinated Notes. The net proceeds of \$180.2 million were used to pay down the \$136.0 million outstanding balance of the revolving credit facility, \$12.8 million of the term loan A facility and \$7.2 million of the term loan B facility. The remaining proceeds were used for general corporate purposes. The Subordinated Notes are our unsecured senior subordinated obligations, subordinated in right of payment to all existing and future senior indebtedness, including the senior secured credit facility and the 11 7/8% senior secured notes discussed below. The Subordinated Notes are jointly and severally irrevocably and unconditionally guaranteed on a senior subordinated basis by each of our present and future domestic subsidiaries. The indenture governing the Subordinated Notes contain covenants that, among other things, restrict our and our subsidiaries' ability to borrow money; pay dividends on or repurchase capital stock; make investments; enter into agreements that restrict our subsidiaries from paying dividends or other distributions, making loans or otherwise transferring assets to us or to any other subsidiaries; create liens on assets; engage in transactions with affiliates; sell assets, including capital stock of our subsidiaries; and merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries.

In January 2002, we received \$5.8 million in net proceeds from the sale of our remaining investment in INT Media Group, Inc. common stock.

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

In February 2002, we received a tax refund of approximately \$12.2 million. For federal income tax purposes, we were allowed to carryback losses we incurred in 2001 to previous tax years.

In March 2002, we entered into an agreement with a group of investors led by ABRY Mezzanine Partners, L.P. to sell 50,000 shares of Series B Convertible Preferred Stock and warrants to purchase 1.6 million shares of our common stock for \$50.0 million. We received gross proceeds of \$40.0 million from the sale of 40,000 shares of preferred stock and warrants to purchase 1,280,000 shares of our common stock on March 19, 2002 and gross proceeds of \$10.0 million from the sale of 10,000 shares of preferred stock and warrants to purchase 320,000 million shares of our common stock on March 28, 2002. (See Note 6 - Mandatorily Redeemable Convertible Preferred Stock.) Net proceeds from the sale of the preferred stock, along with the net proceeds from our recent sale of our INT Media Group, Inc. common stock, and cash on hand from our tax refund were used to repay \$48.0 million of amounts outstanding under our term loans.

In March 2002, Penton issued \$157.5 million of 11 7/8% senior secured notes (the "Senior Notes") due in 2007 to qualified institutional buyers pursuant to Rule 144A of the Securities Act of 1933, as amended. Interest is payable on the Senior Notes semi-annually on April 1 and October 1. The Senior Notes are fully and unconditionally guaranteed on a senior basis by all of our domestic subsidiaries. We may redeem the Senior Notes, in whole or in part, during the periods October 1, 2005 through September 30, 2006 and October 1, 2006 and thereafter at redemption prices of 105.9375% and 100.0000% of the principal amount, respectively, together with accrued and unpaid interest. In addition, at any time prior to October 1, 2005, upon certain public equity offerings of our common stock, up to 35% of the aggregate principal amount of the Senior Notes may be redeemed at our option, within 90 days of such public equity offering, with cash proceeds from the offering at a redemption price equal to 111.875% of the principal amount, together with accrued and unpaid interest.

The Senior Notes were offered at a discount of \$0.8 million, which is being amortized, using the interest method, over the term of the Senior Notes. Costs representing underwriting fees and other professional fees of \$6.6 million are being amortized over the term of the Senior Notes. Net proceeds of \$150.9 million were used to pay down \$83.6 million of term loan A and \$49.0 million of term loan B, and \$8.7 million to repurchase \$10.0 million of our 10 3/8% senior subordinated notes. The remaining net proceeds of \$9.6 million were used for general corporate purposes. The Senior Notes rank senior in right to all of our senior subordinated indebtedness, including our 10 3/8% Subordinated Notes due in 2011, and equal in right of payment with all of our other senior indebtedness, which is approximately \$3.2 million at March 31, 2002. The guarantees are senior secured obligations of each of our subsidiary guarantors and rank senior in right of payment to all subordinated

indebtedness of the subsidiary guarantors, including the guarantees of our 10 3/8% Subordinated Notes, and equal in right of payment with all of our senior indebtedness. The notes and guarantees are secured by a lien on substantially all of our assets and those of our subsidiary guarantors, other than specified excluded assets. Excluded assets consist of, among other things, the capital stock of Duke Communications International, Inc. and Internet World Media, Inc., the capital stock of our foreign subsidiaries directly owned by us or the subsidiary guarantors which exceed 65% of the outstanding capital stock or equity interest of such foreign subsidiaries, and all of the capital of our other foreign subsidiaries. The Senior Notes contain covenants that will, among other things, limit the Company's and our subsidiaries' ability to pay

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

dividends; redeem capital stock; incur additional debt; enter into agreements that restrict our subsidiaries from paying dividends or other distributions, making loans or otherwise transferring assets to us or to any other subsidiaries; sell assets; and enter into mergers or consolidations.

In March 2002, we paid off our term loan A facility and our term loan B facility from the proceeds received from the sale of preferred shares and the issuance of \$157.5 million in senior notes, as noted above, and amended our credit facility. The amended and restated facility provides for a maximum revolving credit facility of \$40.0 million, which is limited to 80% of eligible receivables. At March 31, 2002, \$26.6 million was available under the revolving credit facility; however, no amounts were outstanding. In order to access the revolver, the Company must not have more than \$7.5 million of cash and cash equivalents available and it must be in compliance with the loan documents and must submit a borrowing base certificate immediately prior to each extension of credit. In addition, the Company is required to prepay the revolver in the event that it is over-extended on its eligible receivables, or it has more than \$7.5 million in cash and cash equivalents at the end of any month. The commitment under the revolving credit facility decreases by 15% in 2003, 30% in 2004, 35% in 2005 and 20% in 2006. The amended agreement has no financial covenants; however, it increases the interest rate on the revolver and places additional restrictions on certain payments, limits additional debt and contingent obligations, requires additional collateral, restricts additional acquisitions and investments, limits our ability to sell assets and limits capital expenditures.

The extinguishment of the term loans resulted in a non-cash extraordinary charge of \$0.7 million, net of \$0.5 million in taxes (\$0.02 per diluted share after tax), relating to the write-off of unamortized deferred finance costs.

Based upon current and anticipated levels of operations, we believe that cash on hand and cash flow from operations, combined with the borrowing capacity under our credit facilities, will be sufficient to enable us to meet current and anticipated cash operating requirements, including scheduled interest and principal payments, capital expenditures and working capital needs. However, actual capital requirements may change. Our ability to meet current and anticipated operating requirements will depend upon our future performance, which, in turn, will be subject to general economic conditions and to financial, competitive, business and other factors, including factors beyond our control. If we are unable to meet our debt obligations or fund our other liquidity needs, 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 that could result in substantial dilution to stockholders, the redemption price premiums and board representation rights, could negatively impact our ability to access the equity markets in the future.

### SEASONALITY

The majority of our trade shows and conferences are held in the second and fourth quarters and, accordingly, the majority of revenue is recognized in these quarters. Penton may also 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.

### INFLATION

The impact of inflation on our results of operations has not been significant in recent years.

## NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations." SFAS No. 141 requires that all business combinations be accounted for under the purchase method of accounting. In addition, this Statement addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. The Statement also provides criteria for the separate recognition of intangible assets acquired in a business combination. Penton adopted this Statement effective January 1, 2002. (See Note 2 - Goodwill and Other Intangibles.)

In July 2001, the FASB issued SFAS No. 142 "Goodwill and Other Intangible Assets." SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets at acquisition. SFAS No. 142 presumes that goodwill and certain intangible assets have indefinite useful lives. Accordingly, goodwill and certain intangibles will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 also addresses accounting and reporting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Penton adopted this statement effective January 1, 2002. (See Note 2 - Goodwill and Other Intangibles.)

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This Statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. The Company is required to adopt this Statement for fiscal 2004. The Company does not expect that the adoption of this Statement will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement, which supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," provides a single accounting model for long-lived assets to be disposed of. Although retaining many of the fundamental recognition and measurement provisions of SFAS No. 121, the Statement significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Penton adopted this statement effective January 1, 2002.

In May 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002". The provisions of this Statement related to the rescission of SFAS No. 4 are effective for fiscal years beginning after May 15, 2002, while provisions related to SFAS No. 13 are effective for transactions occurring after May 15, 2002, and all remaining provisions of this Statement shall be effective for financial statements issued on or after May 15, 2002. This Statement eliminates SFAS No. 4, as a result, gains and losses from extinguishment of debt should be classified as extraordinary items if they meet the criteria of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". This Statement also eliminates SFAS No. 44, which was established to provide accounting requirements for effects of transition for provisions of the Motor Carrier Act of 1980. The deregulation of intrastate

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

operating rights and transition to the provisions of those laws being complete has necessitated the rescission of SFAS No. 44. This Statement also eliminates the need to have SFAS 64, which was an amendment to SFAS 4 and has been rescinded with this Statement. Lastly, this Statement amends SFAS 13, requiring leases modifications that have economic effects similar to sale-leaseback transactions to be accounted for in the same manner as sales-leaseback transactions. The Company is currently in the process of evaluating this Statement and does not expect the adoption of this Statement to have a material impact on its financial statements and results of operations.

43

### EURO CONVERSION

On January 1, 2002, the introduction of the single European currency, the euro, was completed with the launch of euro bank notes and coins as legal currency within 12 of the 15 member states of the European Union. Businesses in participating countries will conduct transactions in the euro and must convert their financial records and reports to be euro based.

Although we generate revenues in some of the participating countries, we do not anticipate that the conversion to the euro will have a material effect on our results of operations or financial condition.

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

Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange and interest rates. We do not enter into financial instruments for trading or speculative purposes.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of March 31, 2002, the carrying value of our cash and cash equivalents approximates fair value.

Our long-term debt consists of senior notes with interest at fixed rates. Consequently, we do not have significant cash flow exposure on our long-term debt. However, the fair value of our senior notes fluctuates with the market.

The following table shows the fair values of our investment and long-term debt as of March 31, 2002 (in thousands):

	CARRYING VALUE	FAIR VALUE
	-----	-----
Cash and cash equivalents	\$ 36,547	\$ 36,547
Senior subordinated notes	\$ 171,236	\$ 145,250
Senior secured notes	\$ 156,717	\$ 160,650
Derivative instruments	\$ 107,498	\$ 107,498

The table below provides information about our risk exposure associated with changing interest rates on long-term debt obligations that impact the fair value of these obligations.

Expected Maturity Date

-----



Edgar Filing: PENTON MEDIA INC - Form 10-Q

	2002	2003	2004	2005	2006	Thereafter	Total
	-----	-----	-----	-----	-----	-----	-----
Long-Term Debt:							
Senior subordinated notes	-	-	-	-	-	\$175,000	\$175,000
Average interest rate	10 3/8%	10 3/8%	10 3/8%	10 3/8%	10 3/8%	10 3/8%	10 3/8%
Senior Secured notes	-	-	-	-	-	\$157,500	\$157,500
Average interest rate	11 7/8%	11 7/8%	11 7/8%	11 7/8%	11 7/8%	11 7/8%	11 7/8%

During the first quarter, we discontinued hedge accounting of our interest rate swap and cap agreements as we paid down our variable rate borrowings. At March 31, 2002, we continue to hold these derivative instruments until their maturity throughout 2002. Due to the short time period to maturity, we do not believe that the Company is exposed to significant interest rate risk. (See Note 10 - Hedging Activities)

We maintain assets and operations in the United Kingdom and in various other countries. As a result, we may be exposed to cost increases relative to the markets in which we sell. At March 31, 2002, a hypothetical 10% strengthening or weakening of the U.S. dollar relative to the currencies of foreign countries in which we operate would have resulted in an immaterial impact on our financial results.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS ON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

None

Edgar Filing: PENTON MEDIA INC - Form 10-Q

(b) REPORTS ON FORM 8-K AND/OR 8-K/A

Date of Report -----	Items Reported -----
March 12, 2002	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
March 13, 2002	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
March 19, 2002	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
March 22, 2002	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
March 28, 2002	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

45

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)

By: /s/ PRESTON L. VICE

-----  
Preston L. Vice

Interim Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

Date: May 15, 2002

46