

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA INC
Form 10-Q
August 14, 2003

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 June 30, 2003

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 ☒ No ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date (August 10, 2003).

Common Stock: 33,178,019 shares

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA, INC.
FORM 10-Q

INDEX

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2003 and December 31, 2002

Consolidated Statements of Operations for the Three and Six Months Ended
June 30, 2003 and 2002

Condensed Consolidated Statements of Cash Flows for the Six Months Ended
June 30, 2003 and 2002

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

Item 6. Exhibits and Reports on Form 8-K

Signature

Edgar Filing: PENTON MEDIA INC - Form 10-Q

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2003

ASSETS	(unaudited)
Current assets:	
Cash and cash equivalents	\$ 40,370
Restricted cash	410
Accounts receivable, less allowance for doubtful accounts of \$3,818 and \$4,323 in 2003 and 2002, respectively	34,588
Income taxes receivable	53
Notes receivable	575
Inventories	953
Prepayments, deposits and other	8,459
Current assets of discontinued operations	-

Total current assets	85,408

Property, plant and equipment:	
Land, buildings and improvements	8,580
Machinery and equipment	61,587

	70,167
Less: accumulated depreciation	49,878

	20,289

Other assets:	
Goodwill	251,979
Other intangibles, less accumulated amortization of \$15,754 and \$13,137 in 2003 and 2002, respectively	29,190
Other	324

	281,493

	\$ 387,190
	=====

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

Edgar Filing: PENTON MEDIA INC - Form 10-Q

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

	June 30, 2003 ----- (unaudited)
LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current liabilities:	
Senior secured credit facility	\$ -
Accounts payable	5,848
Accrued compensation and benefits	7,401
Other accrued expenses	20,168
Unearned income, principally trade show and conference deposits	25,212
Current liabilities of discontinued operations	-

Total current liabilities	58,629 -----
Long-term liabilities and deferred credits:	
Senior secured notes, net of discount	156,854
Senior subordinated notes, net of discount	171,557
Note payable	-
Net deferred pension credits	14,262
Other accrued expenses	12,187

	354,860 -----
Commitments and contingencies	
Mandatorily redeemable convertible preferred stock, par value \$0.01 per share; 50,000 shares authorized, issued and outstanding; redeemable at \$1,000 per share	48,689
Redeemable common stock, par value \$0.01 per share; 111,401 and 1,068,343 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	48
Stockholders' deficit:	
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; 155,000,000 shares authorized; 33,066,619 and 31,687,194 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively	331
Capital in excess of par value	232,314
Retained deficit	(303,049)
Notes receivable officers, less reserve of \$7.6 million at June 30, 2003	(1,883)
Accumulated other comprehensive loss	(2,749)

	(75,036) -----
	\$ 387,190

=====

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 Months Ended June 30,	
	2003	2002
	-----	-----
Revenues	\$ 50,466	\$ 62,947
	-----	-----
Operating expenses:		
Editorial, production and circulation	23,467	27,745
Selling, general and administrative	22,592	31,332
Impairment of assets	-	136
Provision for loan impairment	7,600	-
Restructuring charges and other expenses	1,901	7,705
Depreciation and amortization	3,781	5,446
	-----	-----
	59,341	72,364
	-----	-----
Operating loss	(8,875)	(9,417)
Other income (expense):		
Interest expense	(9,412)	(9,646)
Interest income	128	235
Gain on extinguishment of debt	-	-
Gain on sale of investments	-	-
Miscellaneous, net	66	(200)
	-----	-----
	(9,218)	(9,611)
	-----	-----
Loss from continuing operations before income taxes and cumulative effect of accounting change	(18,093)	(19,028)
Benefit (provision) for income taxes	(65)	7,191
	-----	-----
Loss from continuing operations before cumulative effect of accounting change	(18,158)	(11,837)
Discontinued operations:		
Income (loss) from operations of discontinued components (including gain on disposal of \$1.2 million in 2003), net of taxes	(188)	(221)
	-----	-----
Loss before cumulative effect of accounting change	(18,346)	(12,058)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Cumulative effect of accounting change, net of taxes	-	-
	-----	-----
Net loss	(18,346)	(12,058)
Amortization of deemed dividend and accretion of preferred stock	(1,860)	(44,498)
	-----	-----
Net loss applicable to common stockholders	\$ (20,206)	\$ (56,556)
	=====	=====
Net loss per common share - basic and diluted:		
Loss from continuing operations applicable to common stockholders	\$ (0.59)	\$ (1.76)
Discontinued operations, net of taxes	(0.01)	(0.01)
Cumulative effect of accounting change, net of taxes	-	-
	-----	-----
Net loss applicable to common stockholders	\$ (0.60)	\$ (1.77)
	=====	=====
Weighted-average number of shares outstanding:		
Basic and diluted	33,508	32,033
	=====	=====

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

5

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

	Six Months June 3 2003

NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 35,182

CASH FLOWS FROM INVESTING ACTIVITIES:	
Capital expenditures	(1,343)
Earnouts paid	(7)
Proceeds from sale of Jupitermedia Corporation stock	-
Proceeds from sale of discontinued operations	3,250

Net cash provided by investing activities	1,900

CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from issuance of mandatorily redeemable convertible preferred stock	-
Proceeds from senior secured notes	-
Repurchase of senior subordinated notes	-
Repayment of senior secured credit facility	(4,500)
Proceeds from note receivable	1,549

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Payment of notes payable	(417)
Employee stock purchase plan payments	(113)
Proceeds from repayment of officers loans	250
Payment of financing costs	(200)

Net cash provided by (used for) financing activities	(3,431)

Effect of exchange rate changes on cash	(52)

Net increase in cash and cash equivalents	33,599
Cash and cash equivalents at beginning of period	6,771

Cash and cash equivalents at end of period	\$ 40,370
	=====

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

6

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

NOTE 1 - BASIS OF PRESENTATION

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. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles ("GAAP") for complete financial statements. However, in the opinion of management, the interim financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of the results of the periods presented. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying unaudited interim consolidated financial statements should be read together with the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation.

USE OF ESTIMATES

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

Edgar Filing: PENTON MEDIA INC - Form 10-Q

NEW ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS 149 is effective for contracts entered into or modified after June 30, 2003. Management does not believe that the adoption of SFAS 149 will have a significant effect on the Company's results of operations or its financial condition.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in the statement of financial position. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not require the reclassification of any financial instruments on the Company's Consolidated Balance Sheets.

NOTE 2 - GOODWILL AND OTHER INTANGIBLES

A summary of changes in the Company's goodwill during the first six months of 2003, by business segment are as follows (in thousands):

	GOODWILL		
	DECEMBER 31, 2002	EARNOUTS	JUNE 30, 2003
Industry Media	\$ 36,278	\$ -	\$ 36,278
Technology Media	96,580	7	96,587
Lifestyle Media	84,924	-	84,924
Retail Media	34,190	-	34,190
Total	\$ 251,972	\$ 7	\$ 251,979
	=====	=====	=====

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

Identifiable intangible assets, exclusive of goodwill, as of June 30, 2003, are recorded in Other Intangibles in the Consolidated Balance Sheets and are comprised of (in thousands):

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION	
	-----	-----	-----
Trade names	\$ 13,039	\$ (3,716)	\$
Mailing/exhibitor lists	9,550	(4,680)	
Advertiser relationships	8,309	(3,109)	
Subscriber relationships	2,100	(768)	
Noncompete agreements	1,286	(1,223)	
	-----	-----	-----
Balance at June 30, 2003	\$ 34,284	\$ (13,496)	\$
	=====	=====	=====

Total amortization expense for identifiable intangible assets was \$2.2 million and \$5.0 million for the six months ended June 30, 2003 and 2002, respectively. Amortization expense for these intangible assets for 2003 and each of the four succeeding years are as follows (in thousands):

YEAR ENDED DECEMBER 31,	AMOUNT
-----	-----
2003	\$ 4,127
2004	\$ 3,922
2005	\$ 3,692
2006	\$ 2,875
2007	\$ 2,043

During the third quarter of 2002, Penton completed its transitional goodwill impairment test for January 1, 2002, under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" and recorded a non-cash charge of \$39.7 million to reduce the carrying value of goodwill for two of our seven identified reporting units. The charge is reflected as a Cumulative Effect of Accounting Change in the accompanying Consolidated Statements of Operations for the six months ended June 30, 2002.

At December 31, 2002, the net assets of our Professional Trade Show group ("PTS") were classified as held for sale and reclassified to Current Assets of Discontinued Operations and Current Liabilities of Discontinued Operations, respectively, on the Consolidated Balance Sheets (See Note 3 - Disposals). Approximately \$1.0 million of goodwill related to PTS was written-off as part of the sale in January 2003.

NOTE 3 - DISPOSALS

At December 31, 2002, the net assets of PTS were classified as held for sale. The assets were sold in January 2003 for approximately \$3.8 million, including an earnout of \$0.6 million based on reaching certain performance objectives in 2003. The sale resulted in a gain of \$1.2 million, which was recorded as part of discontinued operations on the Consolidated Statements of Operations. The results of PTS are reported as discontinued operations for all periods presented. PTS was part of our Industry Media segment.

In December 2002, the Company sold the net assets of Penton Media Australia ("PM Australia"), which was part of our Technology Media segment. The results of PM Australia are reported as discontinued operations at June 30, 2002. Losses for the three months ended June 30, 2003 primarily include the settlement of certain lawsuits that were pending related to PM Australia that were in excess of our initial estimates.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

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

Operating results for the discontinued components, which include PM Australia and PTS for the three and six months ended June 30, 2003 and 2002 are as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		
	2003	2002	2001
	-----	-----	-----
Revenues	\$ -	\$ 3,062	\$ -
	=====	=====	=====
Loss from operations before income taxes	\$ (188)	\$ (221)	\$ -
Gain on sale of properties	-	-	-
	-----	-----	-----
Income (loss) from discontinued operations	\$ (188)	\$ (221)	\$ -
	=====	=====	=====

In addition to the above properties classified as discontinued operations, the Company sold four other properties in December 2002. Three of these properties, Streaming Media, Boardwatch and ISPCON, were part of our Technology Media segment. The other property, A/E/C, was part of our Industry Media segment. For the three and six months ended June 30, 2002 there are approximately \$4.8 million and \$5.3 million, respectively, included in revenues and \$4.9 million and \$7.7 million, respectively, included in Operating Expenses associated with these properties, as they did not qualify for discontinued operations treatment.

At December 31, 2002, assets and liabilities related to PTS were classified separately on the Consolidated Balance Sheets as current assets of discontinued operations and current liabilities of discontinued operations, respectively. The carrying amounts of the major classes of assets and liabilities included in these balances are as follows:

	DECEMBER 31, 2002

Goodwill	\$ 959
Other intangibles, net	759
Other assets	331

Current assets of discontinued operations	\$ 2,049
	=====
Unearned revenue	\$ 1,050

Current liabilities of discontinued operations	\$ 1,050
	=====

Edgar Filing: PENTON MEDIA INC - Form 10-Q

NOTE 4 - DEBT

SENIOR SECURED CREDIT FACILITY

In January 2003, the Company amended its senior secured credit facility. The amended agreement permits the Company to sell certain properties in excess of the \$5.0 million aggregate limit required by the original amended agreement. In return, the revolving commitment was reduced from \$40.0 million to \$32.0 million. At the end of January 2003, when the aggregate sum of Penton's cash and cash equivalents exceeded \$40.0 million, an additional one-time reduction of \$10.0 million was required under the amended credit facility. Furthermore, upon the sale of PTS (see Note 3 - Disposals), the revolving commitment was further reduced by 50% of the aggregate gross proceeds, as defined, from this sale, or approximately \$1.9 million. For any future asset dispositions, the commitment under the revolver will be reduced by 50% of the aggregate gross proceeds. The amended facility allows for additional asset sales, transfers, leases, and other dispositions and the issuance of equity interests by our subsidiaries up to a maximum of approximately \$3.6 million. The amended facility also increased the maximum commitment fee from 0.50% to 0.75%. The commitment under the credit facility decreases by 15% in 2003, 30% in 2004, 35% in 2005 and 20% in 2006.

The repayment of the credit facility term loan A and term loan B in March 2002 resulted in a non-cash extraordinary charge of \$0.7 million, net of \$0.5 million in taxes, relating to the write-off of unamortized deferred financing costs. In addition, in March 2002, the Company repurchased \$10.0 million of its 10-3/8% Senior Subordinated Notes ("Subordinated Notes") with \$8.7 million of the proceeds from the 11-7/8% Senior Secured Notes ("Secured Notes") offering completed in March 2002, resulting in an extraordinary gain of \$0.8 million, net of \$0.6 million in taxes. In the first quarter 2003, these 2002 extraordinary charges were reclassified to Gain on Extinguishment of Debt in the Consolidated Statements of Operations in accordance with the provisions of SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002" ("SFAS 145").

9

PENTON MEDIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The reduction of the revolver from \$40.0 million to \$20.1 million in January 2003 and the reduction of the revolver from \$185.0 million to \$40.0 million in March 2002 resulted in the write-off of unamortized financing fees of \$0.9 million and \$0.7 million, respectively. These charges have been classified as part of Interest Expense on the Consolidated Statements of Operations.

For the six months ended June 30, 2003 and 2002 cash paid for interest was \$18.5 million and \$11.3 million, respectively.

In August 2003, the Company replaced its senior secured credit facility with a new loan agreement (see Note 16 - Subsequent Events).

NOTE PAYABLE

In the second quarter 2003, the Company paid off the \$0.4 million Loan note B related to the acquisition of Hillgate Communications Ltd. in February 2001. There are no other loan note balances outstanding related to the Hillgate acquisition.

NOTE 5 - MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED STOCK

Edgar Filing: PENTON MEDIA INC - Form 10-Q

At June 30, 2003, an event of non-compliance continues to exist under our Series B Convertible Preferred Stock because the Company's leverage ratio (defined as debt less cash balances in excess of \$5.0 million plus the liquidation value of the preferred stock and unpaid dividends divided by adjusted EBITDA) exceeded 7.5 to 1.0. When an event of non-compliance occurs, the holders of a majority of the preferred stock may nominate two additional members to our board of directors, which they did effective April 1, 2003. Furthermore, since the event of non-compliance was not cured by June 30, 2003, the holders of a majority of the preferred stock then outstanding had the right to elect one less than a minimum majority of our board of directors. As the holders of the preferred stock already maintain one less than a minimum majority of our board, no change was necessary. In addition, upon the occurrence of this event of non-compliance, the 5% dividend rate on the preferred stock increased by one percentage point as of April 1 and July 1, 2003 and the rate increases by one percentage point each subsequent quarter, up to a maximum rate of 10%. Consequently the dividend rate is currently 7%. The conversion price on the preferred stock decreased by \$0.76 as of April 1 and July 1, 2003 and will decrease by \$0.76 each subsequent quarter up to a maximum reduction of \$3.80. Consequently, the conversion price is currently \$6.09. 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 is less than 7.5 to 1.0. Furthermore, the dividend rate will adjust back to 5% as of the date on which the leverage ratio is less than 7.5 to 1.0. Under the preferred stock agreement, if the leverage ratio exceeds 7.5 to 1.0 for four consecutive quarters, the preferred stockholders will have the right to cause the Company to seek a buyer for all of the assets or issued and outstanding capital stock of the Company. The Company is not expected to be able to correct the event of non-compliance before the maximum dividend rate and conversion price reduction are reached. The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the senior secured credit facility. As such, there will not be an acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences do not result in any cash outflow from the Company.

Under the conversion terms of the preferred stock, the holder has a right to convert dividends into additional shares of common stock. At June 30, 2003, no dividends have been declared. However, in light of the holder's conversion right and considering the increase in the dividend rate and the concurrent reduction of the conversion price as noted above, the Company has recognized a deemed dividend at June 30, 2003 for the beneficial conversion feature inherent in the accumulated dividend based on the original commitment date(s). All such accruals have been reported as an increase in the carrying value of the preferred stock and a charge to Additional Paid in Capital in light of the stockholder's deficit.

NOTE 6 - COMMON STOCK AND COMMON STOCK AWARD PROGRAMS

In June 2003, the Company was notified by the New York Stock Exchange ("NYSE") that it would begin delisting procedures of the Company's common stock. The NYSE reached its decision because Penton has been unable to comply with the NYSE's continued listing criteria, which include minimal levels of stock price, market capitalization, and stockholders' equity. The NYSE took this action at this time because Penton was not expected to be able to increase its book equity to the minimum listing requirements. On June 17, 2003, Penton's stock began trading on the Over-the-Counter Bulletin Board under the symbol PTON.

In February 2003, Penton's Board of Directors approved a proposal to effect a reverse stock split to be submitted for stockholder approval at the Company's annual meeting on June 12, 2003. This corrective share action was part of a plan submitted by Penton to the NYSE to meet the Exchange's \$1.00 stock price listing requirement. At its annual meeting, stockholders voted to approve the

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

reverse stock split which gave the Company's Board of Directors the authority to effect a reverse split at one of three ratios within one year. Due to the Company's delisting, as noted above, the Board of Directors does not currently expect to act on its authority to effect the reverse split in the near term.

REDEEMABLE COMMON STOCK

Redeemable common stock relates to common stock that may be subject to rescissionary rights. The purchase of common stock by certain employees in the Company's 401(k) plan from May 2001 through March 2003 was not registered under the federal securities laws (the "unregistered purchases"). As a result, such purchasers of our common stock may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. Any rescissionary rights will lapse one year from the date of any such purchase. The Company may also be subject to civil and other penalties by regulatory authorities. The unregistered purchases do not cause an event of default under the Subordinated Notes, the Secured Notes or the senior secured credit facility. However, an event of default could occur as an indirect result of the unregistered purchases, if for instance, such unregistered purchases lead to restricted payments under the indentures and/or the credit facility. On March 31, 2003, the Company filed a Form S-8 registration and registered 6.0 million additional shares to be offered under the 401(k) plan.

In April 2003, the Company offered to reimburse employees who had purchased Penton common stock through the Company's 401(k) plan between March 25, 2002 and March 25, 2003. Employees who signed a release were reimbursed the amount by which the price they paid for the common stock exceeded the closing price of the stock on the date they executed the release, or if the stock had been sold, the amount by which the price paid by the employee exceeded the sales price. Employees who did not sign the release by May 22, 2003, retain any rights they may have under the Federal securities laws. Over eighty percent of the employees who were offered the reimbursement have accepted the terms of the release, representing a liability of approximately \$0.6 million, which was deposited into each individuals 401(k) account in July 2003. This amount is included in Restructuring Charges and Other Expenses in the Consolidated Statements of Operations.

At June 30, 2003, the Company has classified 111,401 shares related to the potential rescissionary rights outside of stockholders' deficit, because the redemption of the stock is not within the control of the Company.

EMPLOYEE STOCK PURCHASE PLAN

In the first quarter of 2003, 65,711 shares were purchased for employees under the Company's Employee Stock Purchase Plan for employees who participated in the plan during the fourth quarter of 2002. With this purchase, the maximum number of shares available to employees under the plan of 750,000 shares was reached. The plan was subsequently terminated by the Company.

MANAGEMENT STOCK PURCHASE PLAN

For the six months ended June 30, 2003 and 2002, respectively, an immaterial amount of expense was recognized related to the Management Stock Purchase Plan.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

In February 2003, a total of 99,876 restricted stock units ("RSUs") were granted at \$0.34 per share, which represents 80% of fair market value on the date of grant. At June 30, 2003, 136,905 RSUs were outstanding. During the first six months of 2003, 19,050 shares of the Company's common stock were issued under this plan.

EXECUTIVE LOAN PROGRAM

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

At June 30, 2003 the outstanding balance under the executive loan program was approximately \$9.5 million (including \$1.1 million of accrued interest). In 2002, executive loans of \$1.1 million were repaid and in January 2003, executive loans of \$0.3 million were repaid. The loan balance is classified in the Stockholders' Deficit section of the Consolidated Balance Sheets as Notes Receivable Officers.

The Company's ability to collect amounts due from each executive is largely dependent on the fair market value of assets held by each executive, including stock of the Company. Factors such as the length of time before the loans are due; the value of the

11

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

executives' assets, including Company stock; the continued employment by the executives with the Company, and other relevant factors, were considered in assessing the collectibility of these loans.

During the second quarter of 2003, the Company determined that these executives would probably be unable to repay a significant portion of the outstanding balance due under their loans without a significant recovery in the Company's stock price. The notes are full recourse loans and the Company intends to pursue collection of all amounts when due. In addition to the factors noted above, additional considerations in determining whether a reserve was necessary included the continued low price of the Company's stock, the delisting of the Company's stock from the NYSE in the second quarter, and the continued uncertainty for an economic recovery in the markets served by the Company.

The Company recorded a provision for loan impairment in the amount of \$7.6 million during the second quarter of 2003, reflecting the amount by which the carrying value of each individual's loan exceeded the underlying estimated fair value of the assets available to repay the loan. The Company will recognize any recoveries of amounts reserved only upon payment of the loans.

EQUITY AND PERFORMANCE INCENTIVE PLAN

Stock Options

In July 2002, Penton filed a Tender Offer Statement related to the exchange by eligible employees of outstanding options to purchase shares of Penton's common

Edgar Filing: PENTON MEDIA INC - Form 10-Q

stock issued under the Penton Media, Inc. 1998 Equity and Performance Incentive Plan with exercise prices greater than or equal to \$16.225 per share for new options to purchase shares of common stock to be issued under the Option Plan ("New Options"). Each eligible employee received a New Option to acquire one share of Penton's common stock for every two shares of Penton's common stock subject to an eligible option. In February 2003, 334,850 New Options were granted at an exercise price of \$0.37 per share.

In addition, in February 2003, 264,000 options were granted to certain executives and other eligible employees and 20,000 options were granted to Penton's Directors under the 1998 Director Stock Option Plan at an exercise price of \$0.37 per share. As of June 30, 2003, a total of 2,110,455 options were outstanding. No options were exercised in the first six months of 2003.

Deferred Shares

For the six months ended June 30, 2003 and 2002, approximately \$1.3 million and \$1.8 million, respectively, were recognized as expense related to deferred shares. In February 2003, 391,360 deferred shares were granted. In April 2003, 372,916 shares of the Company's common stock were issued under this plan. As of June 30, 2003, 400,056 deferred shares were outstanding.

Performance Shares

For the six months ended June 30, 2002, approximately \$0.2 million was credited to compensation expense related to performance shares. For the six months ended June 30, 2003, the amount charged to expense was not material. During the first six months of 2003, 30,516 shares of common stock were issued under this plan. At June 30, 2003, a total of 471,487 performance shares were outstanding. Performance shares are not issuable until earned.

ACCOUNTING FOR STOCK-BASED COMPENSATION

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

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

Had compensation cost for Penton's stock-based compensation plans been determined based on the fair value methodologies pursuant to SFAS 123, Penton's net loss and earnings per share for the three and six months ended June 30, 2003 and 2002 would have been as follows (in thousands, except per share data):

THREE MONTHS ENDED JUNE 30,	
2003	2002
----	----

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Net loss applicable to common stockholders:		
As reported	\$ (20,206)	\$ (56,556)
Add: Compensation expense included in net loss, net of related tax effects	339	713
Less: Total stock-based compensation expense determined under fair value based methods for all awards, net of related tax effects	(939)	(1,077)
	-----	-----
Pro forma	\$ (20,806)	\$ (56,920)
	=====	=====
Basic and diluted earnings per share:		
As reported	\$ (0.60)	\$ (1.77)
Pro forma	\$ (0.62)	\$ (1.78)

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 and six months ended June 30, 2003 and 2002 are as follows (in thousands, except per share amounts):

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
	----	----
Net loss applicable to common stockholders	\$ (20,206)	\$ (56,556)
	=====	=====
Number of shares:		
Weighted average shares outstanding - basic and diluted	33,508	32,033
	=====	=====
Per share amount:		
Loss applicable to common stockholders - basic and diluted	\$ (0.60)	\$ (1.77)
	=====	=====

The preferred stock and RSUs are participating securities, such that in the event a dividend is declared or paid on the common stock, the Company must simultaneously declare and pay a dividend on the preferred stock and the RSUs as if the preferred stock and the RSUs had been converted into common stock. Topic D-95, "Effect of Participating Convertible Securities on the Computation of Basic Earnings per Share" requires that the participating securities be included in the computation of basic earnings per share if the effect of inclusion is dilutive. Vested RSUs are always included in the computation of basic earnings per share as they are considered equivalent to common stock. For all other participating securities, the Company's accounting policy requires the use of the two-class method to determine whether the inclusion of such securities is dilutive or not. For the three and six months ended June 30, 2003 and 2002, preferred stock and non-vested RSUs were excluded from the calculation of basic earnings per share as the results were anti-dilutive.

Due to the loss from continuing operations after amortization of deemed dividend and accretion of preferred stock for the three and six months ended June 30, 2003, 2,110,455 stock options, 471,487 performance shares, 332,890 non-vested

Edgar Filing: PENTON MEDIA INC - Form 10-Q

deferred shares, 120,329 non-vested RSUs, 50,000 redeemable preferred shares and 1,600,000 warrants were excluded from the calculation of diluted earnings per share, as the result would have been anti-dilutive. Due to the loss from continuing operations after amortization of deemed dividend and accretion of preferred stock for the three and six months ended June 30, 2002, 2,669,655 stock options, 665,272 performance shares, 727,038 non-vested deferred shares, 50,101 non-vested RSUs, 50,000 redeemable preferred shares, and 1,600,000 warrants were excluded from the calculation of diluted earnings per share as the result would have been anti-dilutive.

13

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

NOTE 8 - COMPREHENSIVE LOSS

The after-tax component of comprehensive loss for the three and six months ended June 30, 2003 and 2002 are as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2003 ----	2002 ----
Net loss	\$ (18,346)	\$ (12,058)
Other comprehensive loss:		
Reclassification adjustment for realized gain on securities sold, net of taxes of \$0.3 million	-	-
Reclassification adjustment for cash flow hedges, net of taxes of \$0.6 million	-	-
Change in accumulated translation adjustment	(108)	(77)
	-----	-----
Total comprehensive loss	\$ (18,454)	\$ (12,135)
	=====	=====

NOTE 9 - RELATED PARTY TRANSACTIONS

In January 2003, the Company sold PTS to Cygnus Expositions, a division of Cygnus Business Media, Inc., (see Note 3 - Disposals) which is owned by ABRY Partners IV, L.P. ABRY Partners, LLC and its affiliates hold a significant portion of our preferred stock and currently have two partners who are on the Company's Board of Directors.

In March 2003, Neue Medien Ulm Holdings GmbH ("Neue Medien") paid down \$1.8 million of the notes receivable balance owed to Penton Media Germany ("PM Germany"). Neue Medien has ownership interests in PM Germany. In the second quarter 2003, Neue Medien borrowed an additional \$0.6 million from PM Germany, of which \$0.3 million was repaid in June 2003, leaving a note receivable balance from Neue Medien of \$0.5 million as of June 30, 2003. This amount is included in the Notes Receivable balance on the Consolidated Balance Sheets.

In the second quarter 2003, the Company granted 490,155 performance units to certain key executives. Subject to the attainment of certain performance goals over a three-year period from January 1, 2003 through December 31, 2005, each grantee can earn a cash award in respect to each performance unit. In the second

Edgar Filing: PENTON MEDIA INC - Form 10-Q

quarter 2003 an immaterial amount was recognized as expense related to these performance units.

NOTE 10 - RESTRUCTURING CHARGES

SECOND QUARTER 2003 CHARGE

Due to continued revenue challenges, the Company has implemented several additional expense reduction and restructuring initiatives to align its cost structure with the prevailing business environment. In the second quarter 2003, the Company recorded a restructuring charge of \$0.8 million. The charge includes \$0.4 million of employee termination costs, primarily severance and benefits costs.

The charge also includes \$0.3 million of facility closing costs associated with the partial closure of office space at one location under a long term lease expiring in 2009, net of an assumed sublease. Charges for other exit costs include costs associated with the cancellation of certain contractual obligations.

2002 AND 2001 CHARGES

As of June 30, 2003, a majority of the restructuring initiatives undertaken in 2002 and 2001, including the elimination of nearly 716 positions, the closure of nearly 30 Penton offices worldwide and the cancellation of other contractual obligations, primarily trade show venue contracts, hotel contracts and service agreements, have been completed. As of June 30, 2003, all employees whose positions were eliminated have left the Company, however, severance payments will continue to be paid to some of those

14

PENTON MEDIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

employees through the end of 2003. The Company has vacated the offices for which a restructuring charge has been recorded. However, Penton remains ultimately liable for all lease payments, which are expected to continue through 2013.

In the second quarter 2003, the Company made an adjustment of \$0.5 million to the restructuring charge for an office lease originally recorded in the second quarter 2002 resulting primarily from the bankruptcy filing by the sublessor of the property.

SUMMARY OF 2003 RESTRUCTURING ACTIVITIES

The following table summarizes quarterly adjustments, charges, amounts paid and the ending accrual balance at June 30, 2003 for all restructuring activity (in thousands):

DESCRIPTION	ACCRUAL 12/31/02	FIRST QUARTER ADJUSTMENTS	SECOND QUARTER CHARGES	SECOND QUARTER ADJUSTMENTS	CASH PAYMENT
-----	-----	-----	-----	-----	-----
Severance and other					
personnel costs	\$ 5,123	\$ (9)	\$ 428	\$ 2	\$ (
Facility closing costs	10,786	48	322	474	(

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Other exit costs	1,015	(112)	99	(2)	
	-----	-----	-----	-----	-----
Total	\$ 16,924	\$ (73)	\$ 849	\$ 474	\$ (
	=====	=====	=====	=====	=====

The severance costs are expected to be fully paid by the end of the first quarter of 2004. Facility closing costs include long-term leases and are expected to be paid through 2013, while the balance of other exist costs are expected to be paid by the end of 2003.

Restructuring charges incurred in 2003 by segment, net of adjustments, are as follows:

	FIRST QUARTER ADJUSTMENTS	SECOND QUARTER NET CHARGES	YTD NET CHARGES AS OF JUNE 30, 2003
	-----	-----	-----
Industry Media	\$ (48)	\$ 216	\$ 168
Technology Media	45	1,103	1,148
Lifestyle Media	-	45	45
Retail Media	-	-	-
Corporate	(70)	(41)	(111)
	-----	-----	-----
Total	\$ (73)	\$ 1,323	\$ 1,250
	=====	=====	=====

For the three and six months ended June 30, 2003, adjustments to the restructuring charges of \$0.02 million and \$0.03 million, respectively, were classified as part of discontinued operations as these costs related to discontinued properties. The remaining charges are presented as Restructuring Charges and Other Expenses in the accompanying Consolidated Statements of Operations.

NOTE 11 - 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 segment EBITDA. Adjusted segment EBITDA is defined as operating income (loss) before depreciation and amortization, provision for loan impairment, restructuring charges and other expenses, non-cash compensation, impairment of assets and corporate and shared service general and administrative costs. Corporate and shared service general and administrative costs include functions such as finance, accounting, human resources, and information systems, which cannot reasonably be allocated to each segment. Previously, certain shared service costs were allocated to segments. Adjusted segment EBITDA for the three and six months ended June 30, 2002 has been restated to conform to the current year presentation, which does not allocate these costs. Management believes that this is a more meaningful presentation.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

PENTON MEDIA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Summary information by segment for the three months ended June 30, 2003 and 2002, adjusted for discontinued operations, are as follows (in thousands):

	INDUSTRY MEDIA -----	TECHNOLOGY MEDIA -----	LIFESTYLE MEDIA -----	RETAIL MEDIA -----
2003				
Revenues	\$ 20,998	\$ 20,064	\$ 3,362	\$ 6,042
Adjusted EBITDA	\$ 4,788	\$ 3,272	\$ (667)	\$ 1,451
2002				
Revenues	\$ 23,697	\$ 30,604	\$ 4,284	\$ 4,362
Adjusted EBITDA	\$ 4,256	\$ 4,929	\$ (484)	\$ 659

Summary information by segment for the six months ended June 30, 2003 and 2002, adjusted for discontinued operations, are as follows (in thousands):

	INDUSTRY MEDIA -----	TECHNOLOGY MEDIA -----	LIFESTYLE MEDIA -----	RETAIL MEDIA -----
2003				
Revenues	\$ 40,360	\$ 35,276	\$ 18,411	\$ 10,811
Adjusted EBITDA	\$ 8,064	\$ 4,065	\$ 8,635	\$ 2,182
2002				
Revenues	\$ 45,162	\$ 51,213	\$ 18,754	\$ 8,946
Adjusted EBITDA	\$ 7,600	\$ 3,768	\$ 8,534	\$ 1,224

Segment revenues, all of which are realized from external customers, equal Penton's consolidated revenues. The following is a reconciliation of Penton's total adjusted segment EBITDA to loss from continuing operations before income taxes and cumulative effect of accounting change (in thousands):

	THREE MONTHS ENDED JUNE 30,		
	2003	2002	
	----	----	----
Total segment adjusted EBITDA	\$ 8,844	\$ 9,360	\$
Depreciation and amortization	(3,781)	(5,446)	
Provision for loan impairment	(7,600)	-	
Restructuring charges and other expenses	(1,901)	(7,705)	
Impairment of assets	-	(136)	
Non cash compensation	(347)	(1,189)	
Gain on sale of investments	-	-	
Interest expense	(9,412)	(9,646)	
Interest income	128	235	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Gain on extinguishment of debt	-	-	
Miscellaneous, net	66	(200)	
General and administrative costs	(4,090)	(4,301)	
	-----	-----	-----
Loss from continuing operations before income taxes and cumulative effect of accounting change	\$ (18,093)	\$ (19,028)	\$
	=====	=====	=====

NOTE 12 - GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

The following schedules set forth condensed consolidating balance sheets as of June 30, 2003, and December 31, 2002, and condensed consolidating statements of operations for the three and six months ended June 30, 2003 and 2002, and condensed consolidating statements of cash flows for the six months ended June 30, 2003 and 2002. In the following schedules, "Parent"

16

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

refers to Penton Media, Inc., "Guarantor Subsidiaries" refers to Penton's wholly owned domestic subsidiaries and "Non-guarantor Subsidiaries" refers to Penton's foreign subsidiaries. "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in Penton's subsidiaries.

17

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

NOTE 12 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC. CONDENSED CONSOLIDATING BALANCE SHEETS AS OF JUNE 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIM
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 38,262	\$ 225	\$ 1,883	\$
Restricted cash	227	-	183	
Accounts receivable, net	21,149	8,051	5,388	
Income taxes receivable	35	8	10	
Notes receivable	-	-	575	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Inventories	541	406	6	
Prepayments, deposits and other	5,221	182	3,056	
	-----	-----	-----	-----
	65,435	8,872	11,101	
	-----	-----	-----	-----
Property, plant and equipment, net	16,013	2,706	1,570	
Goodwill	122,651	124,898	4,430	
Other intangibles, net	13,832	12,106	3,252	
Other assets	-	-	324	
Investments (1)	(127,517)	-	-	
	-----	-----	-----	-----
	24,979	139,710	9,576	
	-----	-----	-----	-----
\$	90,414	\$ 148,582	\$ 20,677	\$
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable and accrued expenses	\$ 21,075	\$ 3,390	\$ 1,551	\$
Accrued compensation and benefits	5,862	1,392	147	
Unearned income	13,737	4,223	7,252	
	-----	-----	-----	-----
	40,674	9,005	8,950	
	-----	-----	-----	-----
Long-term liabilities and deferred credits:				
Senior secured notes, net of discount	79,996	76,858	-	
Senior subordinated notes, net of discount	87,494	84,063	-	
Net deferred pension credits	14,262	-	-	
Intercompany advances	(110,428)	60,839	32,872	
Other accrued expenses	4,715	2,817	4,655	
	-----	-----	-----	-----
	76,039	224,577	37,527	
	-----	-----	-----	-----
Mandatorily redeemable convertible preferred stock	48,689	-	-	
Redeemable common stock	48	-	-	
Stockholders' deficit:				
Common stock and capital in excess of par value	232,645	209,653	16,615	
Retained deficit	(303,049)	(294,653)	(39,666)	
Notes receivable officers	(1,883)	-	-	
Accumulated other comprehensive loss	(2,749)	-	(2,749)	
	-----	-----	-----	-----
	(75,036)	(85,000)	(25,800)	
	-----	-----	-----	-----
\$	90,414	\$ 148,582	\$ 20,677	\$
	=====	=====	=====	=====

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

23

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Mandatorily redeemable convertible preferred stock	46,174	-	-
Redeemable common stock	1,118	-	-
Stockholders' deficit:			
Common stock and capital in excess of par value	230,096	209,653	16,614
Retained deficit	(279,600)	(278,624)	(36,677)
Notes receivable officers	(9,720)	-	-
Accumulated other comprehensive loss	(2,977)	-	(2,977)
	<u>(62,201)</u>	<u>(68,971)</u>	<u>(23,040)</u>
	<u>\$ 124,113</u>	<u>\$ 171,568</u>	<u>\$ 20,993</u>

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

19

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

NOTE 12 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

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

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELI
	-----	-----	-----	----
		(DOLLARS IN THOUSANDS)		
REVENUES	\$ 31,718	\$ 12,876	\$ 5,872	\$
	-----	-----	-----	----
OPERATING EXPENSES:				
Editorial, production and circulation	15,117	5,988	2,362	
Selling, general and administrative	10,755	8,531	3,306	
Provision for loan impairment	7,600	-	-	
Restructuring charges and other expenses	798	562	541	
Depreciation and amortization	2,316	994	471	
	-----	-----	-----	----
	36,586	16,075	6,680	
	-----	-----	-----	----
OPERATING LOSS	(4,868)	(3,199)	(808)	
	-----	-----	-----	----
OTHER INCOME (EXPENSE):				
Interest expense, net of income earned	(4,634)	(4,565)	(85)	
Equity in losses of subsidiaries	(8,617)	-	-	

Miscellaneous, net	(68)	(145)	279
	<u>(13,319)</u>	<u>(4,710)</u>	<u>194</u>
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(18,187)	(7,909)	(614)
Benefit (provision) for income taxes	(67)	(5)	7
	<u>(18,254)</u>	<u>(7,914)</u>	<u>(607)</u>
LOSS FROM CONTINUING OPERATIONS	(18,254)	(7,914)	(607)
Income (loss) from operations of discontinued components	(92)	9	(105)
	<u>(18,346)</u>	<u>(7,905)</u>	<u>(712)</u>
LOSS	\$ (18,346)	\$ (7,905)	\$ (712)

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

PENTON MEDIA, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2002

25

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Equity in losses of subsidiaries	(5,110)	-	-	
Miscellaneous, net	(42)	-	(158)	
	<u>(11,147)</u>	<u>(3,328)</u>	<u>(246)</u>	
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(20,218)	(2,952)	(968)	
Benefit (provision) for income taxes	8,381	(852)	(338)	
LOSS FROM CONTINUING OPERATIONS	<u>(11,837)</u>	<u>(3,804)</u>	<u>(1,306)</u>	
Loss from operations of discontinued components	(221)	-	-	
NET LOSS	<u>\$ (12,058)</u>	<u>\$ (3,804)</u>	<u>\$ (1,306)</u>	<u>\$</u>

21

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

NOTE 12-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELI
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
REVENUES	\$ 73,830	\$ 23,017	\$ 8,011	\$
	-----	-----	-----	-----
OPERATING EXPENSES:				
Editorial, production and circulation	31,112	11,186	3,522	
Selling, general and administrative	24,630	15,703	5,900	
Provision for loan impairment	7,600	-	-	
Restructuring charges and other expenses	669	607	541	
Depreciation and amortization	4,677	1,949	877	
	-----	-----	-----	-----
	68,688	29,445	10,840	
	-----	-----	-----	-----
OPERATING INCOME (LOSS)	5,142	(6,428)	(2,829)	
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				
Interest expense, net of income earned	(9,901)	(9,453)	(159)	

Equity in losses of subsidiaries	(19,018)	-	-
Miscellaneous, net	(369)	(147)	208
	<u>(29,288)</u>	<u>(9,600)</u>	<u>49</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(24,146)	(16,028)	(2,780)
Provision for income taxes	(137)	(10)	(44)
	<u>(24,283)</u>	<u>(16,038)</u>	<u>(2,824)</u>
Income (loss) from operations of discontinued components	834	9	(165)
LOSS	<u>\$ (23,449)</u>	<u>\$ (16,029)</u>	<u>\$ (2,989)</u>

22

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

NOTE 12-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2002

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELI
	-----	-----	-----	-----
			(DOLLARS IN THOUSANDS)	
REVENUES	\$ 78,868	\$ 33,896	\$ 11,311	\$
	-----	-----	-----	-----
OPERATING EXPENSES:				
Editorial, production and circulation	33,154	14,936	4,453	
Selling, general and administrative	37,612	18,002	7,177	
Impairment of assets	136	-	-	
Restructuring charges and other expenses	6,300	-	1,142	
Depreciation and amortization	4,240	4,725	725	
	-----	-----	-----	-----
	81,442	37,663	13,497	
	-----	-----	-----	-----
OPERATING LOSS	(2,574)	(3,767)	(2,186)	
	-----	-----	-----	-----
OTHER INCOME (EXPENSE):				

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Interest expense, net of income earned	(10,583)	(7,736)	(148)	
Gain on extinguishment of debt	277	-	-	
Gain on sale of investments	1,491	-	-	
Equity in losses of subsidiaries	(53,412)	-	-	
Miscellaneous, net	(361)	-	21	
	-----	-----	-----	-----
	(62,588)	(7,736)	(127)	
	-----	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECTS OF ACCOUNTING CHANGE	(65,162)	(11,503)	(2,313)	
Benefit for income taxes	9,799	-	104	
	-----	-----	-----	-----
LOSS FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(55,363)	(11,503)	(2,209)	
Loss from operations of discontinued components	(628)	-	-	
	-----	-----	-----	-----
LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	(55,991)	(11,503)	(2,209)	
Cumulative effect of accounting change, net of taxes	-	(34,572)	(5,128)	
	-----	-----	-----	-----
NET LOSS	\$ (55,991)	\$ (46,075)	\$ (7,337)	\$
	=====	=====	=====	=====

23

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

NOTE 12-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC. CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 2003

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	
	-----	-----	-----	
				(DOLLARS IN THOUSANDS)
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 35,337	\$ 182	\$ (337)	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(881)	(410)	(52)
Earnouts paid	-	(7)	-
Proceeds from sale of discontinued components	3,250	-	-
	-----	-----	-----
Net cash provided by (used for) investing activities	2,369	(417)	(52)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of senior secured credit facility	(4,500)	-	-
Proceeds from note receivable	-	-	1,549
Payment of note payable	-	-	(417)
Employee stock purchase plan payments	(107)	-	(6)
Proceeds from repayment of officers loans	250	-	-
Payment of financing costs	(200)	-	-
	-----	-----	-----
Net cash provided by (used for) financing activities	(4,557)	-	1,126
	-----	-----	-----
Effect of exchange rate changes on cash	(52)	-	-
	-----	-----	-----
Net increase (decrease) in cash and equivalents	33,097	(235)	737
Cash and equivalents at beginning of period	5,165	460	1,146
	-----	-----	-----
Cash and equivalents at end of period	\$ 38,262	\$ 225	\$ 1,883
	=====	=====	=====

24

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

NOTE 12-- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2002

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELI
	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)			
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 1,086	\$ (7,393)	\$ 3,899	\$
	-----	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital expenditures	(1,412)	(91)	(270)	
Earnouts paid	(687)	(24)	(775)	

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Proceeds from sale of Jupitermedia Corporation stock	-	5,801	-	
	-----	-----	-----	-----
Net cash provided by (used for) investing activities	(2,099)	5,686	(1,045)	
	-----	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of mandatorily redeemable convertible preferred stock	46,111	-	-	
Proceeds from senior secured notes	79,926	76,791	-	
Repurchase of senior subordinated notes	(4,271)	(4,104)	-	
Repayment of senior secured credit facility	(180,587)	-	-	
Payment of short term note payable	-	-	(2,804)	
Employee stock purchase plan payments	(368)	-	(8)	
Proceeds from repayment of officers loans	703	-	-	
Payment of financing costs	(9,189)	-	-	
	-----	-----	-----	-----
Net cash provided by (used for) financing activities	(67,675)	72,687	(2,812)	
	-----	-----	-----	-----
Effect of exchange rate changes on cash	64	-	-	
	-----	-----	-----	-----
Net increase (decrease) in cash and equivalents	(68,624)	70,980	42	
Cash and equivalents at beginning of period	14,518	1,993	3,680	
	-----	-----	-----	-----
Cash and equivalents at end of period	\$ (54,106)	\$ 72,973	\$ 3,722	\$
	=====	=====	=====	=====

25

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

NOTE 13 - SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

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

For the six months ended June 30, 2003, Penton issued 19,050 shares under the Management Stock Purchase Plan, 372,916 deferred shares and 30,516 performance shares to several officers and other key employees. In addition, in February 2003, 618,850 stock options, 99,876 RSUs and 391,360 deferred shares were granted. Furthermore, for the six months ended June 30, 2003, Penton recorded amortization of deemed dividend and accretion on preferred stock of \$2.5 million.

For the six months ended June 30, 2002, Penton issued 15,436 common shares under the Management Stock Purchase Plan and 9,100 deferred shares to certain officers and other key employees. In addition, one executive returned 52,332 shares to the Company to pay down a portion of his executive loan balance. The returned shares were recorded as treasury stock. Furthermore, in the second quarter 2002, Penton recorded amortization of deemed dividend and accretion on preferred stock of \$44.9 million.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

NOTE 14 - INCOME TAXES

The Company assesses the recoverability of its deferred tax assets in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes" ("SFAS 109"). As of June 30, 2003 the valuation allowance for its net deferred tax assets and net operating loss carryforwards totaled \$44.2 million.

In January 2003, the Company received a tax refund of \$52.7 million and in February 2002, the Company received a tax refund of \$12.2 million. These amounts are included in net cash provided by operating activities in the Condensed Consolidated Statements of Cash Flows.

NOTE 15 - CONTINGENCIES

In connection with the acquisition of Mecklermedia Corporation on December 1, 1998, a lawsuit was brought against the Company by Ariff Alidina (the "Plaintiff"), a former stockholder of Mecklermedia Corporation, in the United States Federal District Court in the Southern District of New York for an unspecified amount, as well as other relief. The Plaintiff has claimed that the Company violated the federal securities laws by selling Mr. Meckler, a beneficial owner of approximately 26% of the shares of Mecklermedia, an 80.1% interest in Jupitermedia Corporation for what the Plaintiff alleges was a below-market price, thereby giving to Mr. Meckler more consideration for his common stock in Mecklermedia Corporation than was paid to other stockholders of Mecklermedia Corporation. The Company intends to vigorously defend this suit.

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

In connection with the tax-free spinoff of our common stock by Pittway to its stockholders in August 1998, we agreed not to take any action that would cause the spinoff to be taxable to Pittway under Section 355 of the Internal Revenue Code, and to indemnify Pittway for any liability suffered by it in that event. The spinoff would be taxable to Pittway if, as part of a plan or series of related transactions, as determined under a facts and circumstances test, one or more persons, acting independently or in concert, have acquired 50.0% or more of our common stock. Since August 1998, our common stock has been involved in a number of transactions. Because of the open-ended nature of the facts and circumstances test, we believe, but we cannot assure you, that the Internal Revenue Service could not successfully assert that one or more transactions involving our common stock were part of a plan or series of related transactions that has caused the spinoff to be taxable to Pittway. If the spinoff were taxable to Pittway, our payment to Pittway under our indemnity agreement could have a material adverse effect on our financial condition.

NOTE 16 - SUBSEQUENT EVENTS

Edgar Filing: PENTON MEDIA INC - Form 10-Q

In August 2003, the Company replaced its senior secured credit facility with a new four-year loan and security agreement (the "Loan Agreement"). Under the Loan Agreement, which is a revolving credit facility, the Company can borrow up to the lesser of (i) \$40.0 million; (ii) 2.5x the Company's last twelve months EBITDA measured monthly during the first year, 2.25x during the second year and 2.0x thereafter; (iii) forty percent of the Company's last six months of revenues; or (iv) 25% of the Company's enterprise value, as determined by a third party. The revolving credit facility bears interest at LIBOR plus 5.0% subject to a LIBOR minimum of 1.5%. Unamortized financing fees related to the previous credit facility of approximately \$0.9 million, will be written off in the third quarter.

27

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

The following discussion should be read in conjunction with the consolidated financial statements and the notes thereto. Historical results and percentage relationships set forth in the consolidated financial statements, including trends that might appear, should not be taken as indicative of future results. Penton considers portions of this information to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended, with respect to expectations for future periods. Although Penton believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates" and similar expressions are intended to identify forward-looking statements. A number of important factors could cause Penton's results to differ materially from those indicated by such forward-looking statements, including, among other factors, fluctuations in advertising revenue with general economic cycles; economic uncertainty exacerbated by potential terrorist attacks on the United States or the impact of the war with Iraq, and related geopolitical events; the performance of Internet trade shows and conferences; the seasonality of revenue from trade shows and conferences; our ability to launch new products that fit strategically with and add value to our business; our ability to penetrate new markets internationally; increases in paper and postage costs; the effectiveness of our cost-saving efforts; the infringement or invalidation of Penton's intellectual property rights; pending litigation; government regulation; competition; technological change; and international operations.

OVERVIEW

We are a diversified business-to-business media company. We provide media products that deliver proprietary business information to owners, operators, managers and professionals in the industries we serve. Through these products, we offer industry suppliers multiple ways to reach their customers and prospects as part of their sales and marketing efforts. We publish specialized trade magazines, produce trade shows and conferences, and maintain a variety of online media products, including Web businesses and electronic newsletters. Our products serve 12 industry sectors, which we group into four segments:

Edgar Filing: PENTON MEDIA INC - Form 10-Q

INDUSTRY MEDIA

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

LIFESTYLE MEDIA

Natural Products

TECHNOLOGY MEDIA

Internet Technologies
Information Technology
Electronics

RETAIL MEDIA

Food/Retail
Leisure/Hospitality

We believe we have leading media products in most 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

DELISTING

On June 11, 2003, the Company received notice from the New York Stock Exchange ("NYSE") that it would begin delisting procedures related to the Company's common stock. The NYSE reached its decision because the Company was unable to comply with the NYSE's continued listing criteria, which included minimal levels for stock price, market capitalization, and stockholders' equity. On June 17, 2003, trading of the Company's common stock was transferred from the NYSE to the Over-the-Counter Bulletin Board and is currently traded under the symbol PTON.

28

DISPOSITIONS

In January 2003, we completed the sale of the assets of our Professional Trade Show group ("PTS"), which was part of our Industry Media segment, to Cygnus Expositions, a division of Cygnus Business Media, Inc., for total consideration of approximately \$3.8 million, including a potential earnout of \$0.6 million based on reaching certain performance objectives in 2003. The cash received from the sale was used to pay down the amounts outstanding under the Company's credit facility. The Company recognized a gain of approximately \$1.2 million on the sale, which is included as a component of discontinued operations in the accompanying Consolidated Statements of Operations.

AMENDED CREDIT FACILITY

In January 2003, the Company amended its senior secured credit facility, which was replaced in August 2003, as discussed below. The amended agreement permitted the Company to sell certain properties in excess of the \$5.0 million aggregate limit required by the original amended agreement. In return, the revolving commitment was reduced from \$40.0 million to \$32.0 million. At the end of January 2003, when the aggregate sum of Penton's cash and cash equivalents exceeded \$40.0 million, an additional one-time reduction of \$10.0 million was required under the amended credit facility. Furthermore, upon the sale of PTS,

Edgar Filing: PENTON MEDIA INC - Form 10-Q

as discussed above, the revolving commitment was further reduced by 50% of the aggregate gross proceeds, as defined, from this sale, or approximately \$1.9 million. The amended facility allowed for additional asset sales, transfers, leases, and other dispositions and the issuance of equity interests by our subsidiaries up to a maximum of approximately \$3.6 million. The amended facility also increased the maximum commitment fee from 0.50% to 0.75%. The commitment under the credit facility was scheduled to decrease by 15% in 2003 (7.5% at September 30, 2003 and 7.5% at December 31, 2003), 30% in 2004, 35% in 2005 and 20% in 2006.

The reduction of the revolver from \$40.0 million to \$20.1 million in January 2003 resulted in the write-off of unamortized financing fees of \$0.9 million. This charge has been classified as part of Interest Expense on the Consolidated Statements of Operations.

NEW CREDIT FACILITY

In August 2003, the Company replaced its senior secured credit facility with a new four-year loan and security agreement (the "Loan Agreement"). Under the Loan Agreement, which is a revolving credit facility, the Company can borrow up to the lesser of (i) \$40.0 million; (ii) 2.5x the Company's last twelve months EBITDA measured monthly during the first year, 2.25x during the second year and 2.0x thereafter; (iii) forty percent of the Company's last six months of revenues; or (iv) 25% of the Company's enterprise value, as determined by a third party. The revolving credit facility bears interest at LIBOR plus 5.0% subject to a LIBOR minimum of 1.5%. Unamortized financing fees related to the previous credit facility of approximately \$0.9 million, will be written off in the third quarter.

TAX REFUND

In January 2003, the Company received a tax refund of \$52.7 million.

REVERSE STOCK SPLIT

In February 2003, Penton's Board of Directors approved a proposal to effect a reverse stock split to be submitted for stockholder approval at the Company's annual meeting on June 12, 2003. This corrective share action was part of a plan submitted by Penton to the NYSE to meet the Exchange's \$1.00 stock price listing requirement. At its annual meeting, stockholders voted to approve the reverse stock split which gave the Company's Board of Directors the authority to effect a reverse split at one of three ratios within one year. Due to the Company's delisting, as noted above, the Board of Directors does not currently expect to act on its authority to effect the reverse split in the near term.

PREFERRED STOCK LEVERAGE RATIO EVENT OF NON-COMPLIANCE

An event of non-compliance continues to exist under our Series B Convertible Preferred Stock because the Company's leverage ratio (defined as debt less cash balances in excess of \$5.0 million plus the liquidation value of the preferred stock and unpaid dividends divided by adjusted EBITDA) exceeded 7.5 to 1.0. When an event of non-compliance occurs, the holders of a majority of the preferred stock may nominate two additional members to our board of directors, which they did effective April 1, 2003. Furthermore, since the event of non-compliance was not cured by June 30, 2003, the holders of a majority of the preferred stock then outstanding had the right to elect one less than a minimum majority of our board of directors. As the holders of the preferred stock already maintain one less than a minimum majority of our board, no change was necessary. In addition, upon the occurrence

Edgar Filing: PENTON MEDIA INC - Form 10-Q

of this event of non-compliance, the 5% dividend rate on the preferred stock increased by one percentage point as of April 1 and July 1, 2003, and the rate increases by one percentage point each subsequent quarter, up to a maximum rate of 10%. Consequently, the dividend rate is currently at 7%. The conversion price on the preferred stock decreased by \$0.76 as of April 1 and July 1, 2003, and will decrease by \$0.76 each subsequent quarter up to a maximum reduction of \$3.80. Consequently, the conversion price is currently at \$6.09. 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 is less than 7.5 to 1.0. Furthermore, the dividend rate will adjust back to 5% as of the date on which the leverage ratio is less than 7.5 to 1.0. Under the preferred stock agreement, if the leverage ratio exceeds 7.5 to 1.0 for four consecutive quarters, the preferred stockholders will have the right to cause the Company to seek a buyer for all of the assets or issued and outstanding capital stock of the Company. The Company is not expected to be able to correct the event of non-compliance before the maximum dividend rate and conversion price reduction are reached. The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the senior secured credit facility. As such, there will not be an acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences do not result in any cash outflow from the Company.

Under the conversion terms of the preferred stock, the holder has a right to convert dividends into additional shares of common stock. At June 30, 2003, no dividends have been declared. However, in light of the holder's conversion right and considering the increase in the dividend rate and the concurrent reduction of the conversion price as noted above, the Company has recognized a deemed dividend at June 30, 2003 for the beneficial conversion feature inherent in the accumulated dividend based on the original commitment date(s). All such accruals have been reported as an increase in the carrying value of the preferred stock and a charge to Additional Paid in Capital in light of the stockholder's deficit.

REDEEMABLE COMMON STOCK

In March 2003, it was discovered that certain Company employees had purchased approximately 1.1 million shares of common stock in the Company's 401(k) plan, from May 2001 through March 2003, which were not registered under the federal securities laws (the "unregistered purchases"). As a result, such purchasers of our common stock may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. Any rescissionary rights will lapse one year from the date of any such purchase. The Company may also be subject to civil and other penalties by regulatory authorities. The unregistered purchases do not cause an event of default under the 10-3/8% Senior Subordinated Notes, the 11-7/8% Senior Secured Notes or the credit facility. However, an event of default could occur as an indirect result of the unregistered purchases, if for instance, such unregistered purchases lead to restricted payments under the indentures and/or the credit facility. On March 31, 2003, the Company filed a Form S-8 registration and registered 6.0 million additional shares to be offered under the 401(k) plan.

In April 2003, the Company offered to reimburse employees who had purchased Penton common stock through the Company's 401(k) plan between March 25, 2002 and March 25, 2003. Employees who signed the release were reimbursed the amount by which the price they paid for the common stock exceeded the closing price of the stock on the date they executed the release, or if the stock had been sold, the amount by which the price paid by the employee exceeded the sale price. Employees who did not sign the release by May 22, 2003, retain any rights they

Edgar Filing: PENTON MEDIA INC - Form 10-Q

may have under the Federal securities laws. Over eighty percent of the employees who were offered the reimbursement have accepted the terms of the release, representing a liability of approximately \$0.6 million, which was deposited into each individual's 401(k) account in July 2003. This amount is included in Restructuring Charges and Other Expenses in the Consolidated Statements of Operations.

At June 30, 2003, the Company classified 111,401 shares related to the potential rescissionary rights outside of stockholders' deficit, because the redemption of the stock is not within the control of the Company.

30

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2003 COMPARED WITH THE THREE MONTHS ENDED JUNE 30, 2002

CONSOLIDATED RESULTS

The following table summarizes our results of operations for the three months ended June 30, 2003 and 2002 (in thousands). Results in 2002 have been adjusted for discontinued operations.

	2003 ----	2002 ----	VAR ----
Revenues	\$ 50,466 =====	\$ 62,947 =====	\$ () =====
Operating expenses	\$ 59,341 =====	\$ 72,364 =====	\$ () =====
Loss from continuing operations before cumulative effect of accounting change	\$ (18,158)	\$ (11,837)	\$
Discontinued operations	(188) -----	(221) -----	 -----
Net loss	\$ (18,346) =====	\$ (12,058) =====	\$ =====
Net loss applicable to common stockholders	\$ (20,206) =====	\$ (56,556) =====	\$ =====
Net loss per diluted share applicable to common stockholders	\$ (0.60) =====	\$ (1.77) =====	\$ =====

REVENUES

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Total revenues decreased \$12.5 million, or 19.8%, from \$62.9 million for the three months ended June 30, 2002, to \$50.5 million for the same period in 2003. The decrease was primarily due to a decrease in trade show and conference revenues of \$9.8 million, or 57.7%, from \$16.8 million for the three months ended June 30, 2002, to \$7.1 million for the same period in 2003, and a decrease in publishing revenues of \$3.3 million, or 7.8%, from \$42.8 million for the three months ended June 30, 2002, to \$39.4 million for the same period in 2003. Online media revenues increased \$0.6 million, or 16.7%, from \$3.4 million for the three months ended June 30, 2002, to \$3.9 million for the same period in 2003. Included in total revenues for the three months ended June 30, 2002 were revenues of \$4.8 million associated with properties sold in December 2002, which were not classified as discontinued operations.

The decrease in our trade show and conference revenues was due primarily to a decrease of \$8.2 million in our Technology Media segment, a decrease of \$1.4 million in our Industry Media segment and a \$0.9 million decrease in our Lifestyle Media segment. These decreases were partially offset by revenue improvements in our Retail Media segment. Our Internet information sector trade shows accounted for \$9.2 million of the Technology Media segment revenue decrease, which was partially offset by an increase of nearly \$1.0 million in the information technology sector.

The decrease in publishing revenues was primarily due to a \$1.5 million decrease in our Industry Media segment and a \$2.8 million decrease in our Technology Media segment. Our design/engineering, manufacturing, electronics, Internet information and information technology markets accounted for \$4.1 million of the decrease. These decreases were partially offset by our Retail Media segment where publishing revenues increased by approximately \$1.0 million in the second quarter of 2003 when compared with the same 2002 period.

OPERATING EXPENSES

Operating expenses decreased \$13.0 million, or 18.0%, from \$72.4 million for the three months ended June 30, 2002, to \$59.3 million for the same period in 2003. Included in operating expenses for the three months ended June 30, 2003 are restructuring charges and other expenses of \$1.9 million, depreciation and amortization charges of \$3.8 million and a provision for loan

31

impairment of \$7.6 million. Included in operating expenses for the three months ended June 30, 2002 are restructuring charges of \$7.7 million, impairment of asset charges of \$0.1 million, and depreciation and amortization charges of \$5.4 million. The overall decrease in operating expenses was due primarily to the effects of cost reduction initiatives and restructuring activities throughout 2002 and 2003.

EDITORIAL, PRODUCTION AND CIRCULATION

Editorial, production and circulation expenses decreased to \$23.5 million for the three months ended June 30, 2003, compared to \$27.7 million for the same period in 2002, representing a decrease of \$4.3 million, or 15.4%. The decrease was due to the effects of properties sold in December 2002 that were not classified as discontinued operations, which accounted for \$1.1 million of the decrease; and our expense reduction initiatives, including: the elimination of unprofitable properties; reduction of production costs through process improvements and selective reduction in frequency and circulation levels; outsourcing of various functions in the organization; and staff reductions made in 2002 and 2003.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Editorial, production and circulation expenses as a percentage of revenues increased from 44.1% for the three months ended June 30, 2002, to 46.5% for the same period in 2003. The increase was due to the general decrease in revenues, which was not fully offset by expense reduction initiatives.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses declined \$7.9 million, or 26.2%, from \$31.3 million for the three months ended June 30, 2002, to \$22.6 million in the same period in 2003. Selling, general and administrative expenses as a percentage of revenues decreased from 49.8% for the three months ended June 30, 2002, to 44.8% for the same period in 2003. These decreases were due primarily to cost savings associated with office closings and staff reductions in 2002 and 2003.

PROVISION FOR LOAN IMPAIRMENT

During the second quarter of 2003, the Company determined that certain executives, who have loans under the Company's executive loan program, would probably be unable to repay a significant portion of the outstanding balances due under their loans without a significant recovery in the Company's stock price. The notes are full-recourse loans and the Company intends to pursue collection of all amounts when due. The Company recorded a provision for loan impairment in the amount of \$7.6 million, reflecting the amount by which the carrying value of each individual's loan exceeds the underlying estimated fair value of the assets available to repay the loan. The Company will recognize any recoveries of amounts reserved only upon payment of the loans.

RESTRUCTURING CHARGES AND OTHER EXPENSES

Due to continued revenue challenges, the Company has implemented several additional expense reduction and restructuring initiatives to align its cost structure with the prevailing business environment. In the second quarter 2003, the Company recorded a restructuring charge of \$0.8 million. The cost reduction initiatives have included workforce reductions, the partial shutdown of one facility and the cancellation of certain contractual obligations. The charge includes \$0.4 million of employee severance and termination benefits, \$0.3 million related to non-cancelable obligations under a continuing lease contract, and the remaining \$0.1 million relates to other contractual obligations. The following sets forth additional detail concerning the principal components of the charge:

- Personnel costs of \$0.4 million are associated with the elimination of 26 positions, of which approximately 77% were in the United States and the remaining positions in the United Kingdom and Germany. Payments for severance and benefits related to these positions are expected to be completed by the end of the first quarter 2004.
- Office closure costs of \$0.3 million, net of estimated sublease income of \$0.4 million, relate to the partial closure in the second quarter of 2003 of one office in the United States and include costs associated with existing office space under lease. For properties that the Company no longer occupies, management makes assumptions including the number of years a property will be subleased, square footage, market trends, property location and the price per square foot, to estimate sublease income. These assumptions involve significant judgements and estimations. Where possible, management bases its assumptions on discussions with real estate brokers and/or parties that have shown interest in the space. Actual and estimated future lease and sublease payments are recorded on a discounted basis.

- Other exit costs of \$0.1 million include costs associated with the cancellation of certain contractual obligations.

In addition, the Company made an adjustment of \$0.5 million in the second quarter 2003 to the restructuring charge primarily for an office lease originally recorded in the second quarter of 2002 resulting from the bankruptcy filing by the sublessor of the property.

Also included in expense for the three months ended June 30, 2003 is approximately \$0.6 million relating to the settlement with employees with rescissionary rights under the Company's 401(k) plan. See the redeemable common stock section of Note 6 - Common Stock and Common Stock Award Programs, for additional details.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization declined \$1.7 million, or 30.6%, from \$5.4 million for the three months ended June 30, 2002, to \$3.8 million for the same period in 2003 due to lower amortization expense related to intangible assets of properties sold in December 2002 and in the first quarter of 2003, as well as the write-off of approximately \$20.0 million of intangibles in the third quarter of 2002.

OTHER INCOME (EXPENSE)

Interest expense decreased \$0.2 million from \$9.6 million for the three months ended June 30, 2002, to \$9.4 million for the same period in 2003.

EFFECTIVE TAX RATES

The effective tax rates for the three months ended June 30, 2003 and 2002 were a provision of 0.4% and a benefit of 37.8%, respectively. The effective tax rate for the three months ended June 30, 2003 is due to the net operating loss available for carryforward being offset by a valuation allowance for the Company's net deferred tax assets and net operating loss carry-forwards not expected to be utilized. The difference in the effective tax rate between years is due to the establishment of the valuation allowance in the third-quarter of 2002. The tax provision for the three months ended June 30, 2003 relates to state and foreign taxes.

DISCONTINUED OPERATIONS

Discontinued operations for all periods presented include the results of Penton Media Australia ("PM Australia"), which was sold in December 2002, and the results of PTS, which was sold in January 2003. PM Australia was part of our Technology Media segment and PTS was part of our Industry Media segment. Losses for the three months ended June 30, 2003 primarily include the settlement of certain lawsuits that were pending related to PM Australia. Revenues for these properties were approximately \$3.1 million for the three months ended June 30, 2002.

NET LOSS

Due to the factors noted above, we reported a net loss for the three months ended June 30, 2003 of \$18.3 million compared to a net loss of \$12.1 million for the same period in 2002.

NET LOSS APPLICABLE TO COMMON STOCKHOLDERS

Edgar Filing: PENTON MEDIA INC - Form 10-Q

The net loss applicable to common stockholders of \$20.2 million, or \$0.60 per diluted share, for the three months ended June 30, 2003, includes \$1.9 million of accrued dividends and beneficial conversion accretion on our preferred stock. For the three months ended June 30, 2002, the net loss applicable to common stockholders of \$56.6 million, or \$1.77 per diluted share, includes a \$42.1 million non-cash charge related to the immediate recognition in retained earnings of the unamortized beneficial conversion feature resulting from stockholders' approval to remove Penton's preferred stock mandatory redemption date.

SEGMENTS

We manage our business based on four operating segments: Industry Media, Technology Media, Lifestyle Media and Retail Media. All four segments derive their revenues from publications, trade shows and conferences, and online media products. See Note 11 -

33

Segment Information, for the definition of adjusted segment EBITDA and a reconciliation of total adjusted segment EBITDA to loss from continuing operations before income taxes and cumulative effect of accounting change.

Financial information by segment for the three months ended June 30, 2003 and 2002, is summarized in the following table (in thousands):

	REVENUES		ADJUSTED SEGMENT EBITDA	
	2003	2002	2003	2002
	----	----	----	----
Industry Media	\$ 20,998	\$ 23,697	\$ 4,788	\$ 4,256
Technology Media	20,064	30,604	3,272	4,929
Lifestyle Media	3,362	4,284	(667)	(484)
Retail Media	6,042	4,362	1,451	659
	-----	-----	-----	-----
Total	\$ 50,466	\$ 62,947	\$ 8,844	\$ 9,360
	=====	=====	=====	=====

INDUSTRY MEDIA

Our Industry Media segment, which represented 41.6% of total Company revenues for the three months ended June 30, 2003, serves customers in the manufacturing, design/engineering, mechanical systems/construction, government/compliance, supply chain and aviation industries. Revenues for this segment decreased \$2.7 million, or 11.4%, from \$23.7 million in the second quarter of 2002, to \$21.0 million for the same period in 2003. The decrease was due primarily to lower revenues from publications of \$1.5 million and lower revenues from trade show and conferences of \$1.4 million. These decreases were partially offset by an increase of approximately \$0.2 million from online media products. The decrease in publication revenues was due primarily to year-on-year advertising declines in products serving the design/engineering and manufacturing sectors, which accounted for approximately \$1.4 million of the segment's publishing decrease. These two sectors continue to be impacted by the downturn in the U.S. economy. The decrease in trade shows and conferences was due primarily to the absence of

Edgar Filing: PENTON MEDIA INC - Form 10-Q

revenues from the A/E/C Spring show, which was held in the second quarter of 2002 but was not held in 2003 because the property was sold in December 2002.

Adjusted segment EBITDA for Industry Media increased \$0.5 million, or 12.5%, from \$4.3 million for the three months ended June 30, 2002, to \$4.8 million for the same period in 2003. Performance of online media and improvements in the segment's general and administrative costs accounted for \$0.6 million of the increase, which was partially offset by lower adjusted segment EBITDA from publications and trade shows and conferences. The improvement in the segment's general and administrative costs was due primarily to the effects of our 2002 and 2003 expense reduction initiatives, including eliminating unprofitable properties and staff reductions. Results for the three months ended June 30, 2002 include adjusted segment EBITDA of approximately \$0.4 million related to the A/E/C properties, which was sold in December 2002.

TECHNOLOGY MEDIA

Our Technology Media segment, which represented 39.8% of total Company revenues for the second quarter of 2003, serves customers in the electronics, information technology and Internet technologies markets. Revenues for this segment decreased \$10.5 million, or 34.4%, from \$30.6 million for the three months ended June 30, 2002, to \$20.1 million for the same period in 2003. The decrease was due primarily to lower revenues from publications of \$2.8 million and lower revenues from trade shows and conferences of \$8.2 million. Advertising weakness in our information technology and electronics sectors and the elimination of revenues from properties sold in December 2002 of approximately \$0.4 million, accounted for the majority of the publishing decrease. Lower trade show and conference revenues were due primarily to the absence of revenues from trade shows that were held in the second quarter of 2002 but were sold in December 2002, which accounted for \$3.0 million of the decrease; the change in timing of the Internet World Berlin trade show from the second quarter of 2002 to the fourth quarter in 2003, which accounted for \$2.2 million of the decrease; lower revenues year-over-year from the Internet World Spring show and the elimination of revenues from technology events that were held in the second quarter of 2002 but not repeated in the second quarter of 2003 due to unfavorable market conditions. Online revenues increased by \$0.4 million in the second quarter of 2003 compared with the same 2002 period.

Adjusted segment EBITDA for Technology Media decreased \$1.7 million from \$4.9 million for the three months ended June 30, 2002, to \$3.3 million for the same period in 2003. Trade shows and conferences accounted for \$2.5 million of the decrease which was offset by modest adjusted EBITDA improvements in publications and online media, as well as a \$0.7 million improvement in

34

the segment's general and administrative costs due primarily to the impact of cost reduction measures implemented in 2002 and 2003. The trade show and conference decrease was primarily due to the sale of unprofitable technology properties in December 2002, which accounted for \$0.8 million of the decrease, the change in timing of the event previously noted from the second quarter of 2002 to the fourth quarter of 2003, which accounted for \$0.8 million of the decrease, and lower year-over-year adjusted EBITDA from the Internet World Spring show.

LIFESTYLE MEDIA

Our Lifestyle Media segment, which represented 6.7% of total Company revenues for the second quarter of 2003, serves customers in the natural products industry sector. Revenues for this segment decreased \$0.9 million, or 21.5%,

Edgar Filing: PENTON MEDIA INC - Form 10-Q

from \$4.3 million for the three months ended June 30, 2002, to \$3.4 million when compared with the same period in 2003. The decrease was due primarily to lower revenues from trade shows and conferences caused by the change in show dates for Natural Products Expo Asia from the second quarter of 2002 to the fourth quarter of 2003.

Adjusted segment EBITDA for the Lifestyle Media segment decreased \$0.2 million, or 37.8%, from a loss of \$0.5 million for the three months ended June 30, 2002, to a loss of \$0.7 million for the same period in 2003. The decrease was due primarily to the change in timing of the Natural Products Expo Asia show, as noted previously.

RETAIL MEDIA

Our Retail Media segment, which represented 12.0% of total Company revenues for the second quarter of 2003, serves customers in the food/retail and leisure/hospitality sectors. Revenues for this segment increased \$1.7 million, or 38.5%, from \$4.4 million for the three months ended June 30, 2002, to \$6.0 million for the same period in 2003. The revenue increase was due to the strength of publishing properties serving our foodservice and hospitality markets, which accounted for \$0.7 million of the increase.

Adjusted segment EBITDA for the Retail Media segment increased nearly \$0.8 million, or 120.2%, from \$0.7 million for the three months ended June 30, 2002, to \$1.5 million for the same period in 2003. The increase was due primarily to improved revenues for the second quarter of 2003 over the second quarter of 2002 and cost reduction efforts undertaken in 2002 and 2003.

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. Revenues by product line for the three months ended June 30, 2003 and 2002 were as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,	
	2003	2002
	----	----
Publishing	\$ 39,432	\$ 42,779
Trade Shows and Conferences	7,101	16,798
Online Media	3,933	3,370
	-----	-----
Total revenues	\$ 50,466	\$ 62,947
	=====	=====

Publishing revenues decreased by \$3.3 million from \$42.8 million for the three months ended June 30, 2002, to \$39.4 million for the same period in 2003. The decrease in Publishing revenues was due primarily to year-over-year advertising declines in products serving the design/engineering and manufacturing sectors, which accounted for \$1.3 million of the decrease. These two markets continue to be impacted by the downturn in the U.S. economy. Advertising weakness in our information technology and electronics sectors accounted for another \$2.0 million of the decrease, which included revenues from properties sold in December 2002 of \$0.4 million.

Trade Show and Conference revenues decreased by \$9.7 million from \$16.8 million

Edgar Filing: PENTON MEDIA INC - Form 10-Q

for the three months ended June 30, 2002, to \$7.1 million for the same period in 2003. The decrease in Trade Show and Conference revenues was due primarily to a year-over-year decline of nearly \$2.9 million from an event in the Internet information market, the elimination of \$4.2 million in revenues from technology properties sold in December 2002, the change in show dates from the second quarter of 2002 to the fourth quarter of 2003, which accounted for \$2.8 million of the decrease, and the elimination of technology events that were held in the second

35

quarter of 2002 but not repeated in the second quarter of 2003 due to unfavorable market conditions.

Online media revenues increased \$0.6 million, or 16.7%, from \$3.4 million for the three months ended June 30, 2002, to \$3.9 million for the same period in 2003. The increase was due to the success of online products across several of our markets.

SIX MONTHS ENDED JUNE 30, 2003 COMPARED WITH THE SIX MONTHS ENDED JUNE 30, 2002

CONSOLIDATED RESULTS

The following table summarizes our results of operations for the six months ended June 30, 2003 and 2002 (in thousands). Results in 2002 have been adjusted for discontinued operations.

	2003 ----	2002 ----	VAR ----
Revenues	\$ 104,858 =====	\$ 124,075 =====	\$
Operating expenses	\$ 108,973 =====	\$ 132,602 =====	\$
Loss from continuing operations before cumulative effect of accounting change	\$ (24,127)	\$ (15,663)	\$
Discontinued operations	678	(628)	
Cumulative effect of an accounting change, net of taxes	- -----	(39,700) -----	-----
Net loss	\$ (23,449) =====	\$ (55,991) =====	\$
Net loss applicable to common stockholders	\$ (25,964) =====	\$ (100,852) =====	\$
Net loss per diluted share applicable to common stockholders	\$ (0.78) =====	\$ (3.15) =====	\$

Edgar Filing: PENTON MEDIA INC - Form 10-Q

REVENUES

Total revenues decreased \$19.2 million, or 15.5%, from \$124.1 million for the six months ended June 30, 2002, to \$104.9 million for the same period in 2003. The decrease was due primarily to a decrease in trade show and conference revenues of \$12.2 million, or 36.0%, from \$33.9 million for the six months ended June 30, 2002, to \$21.7 million for the same period in 2003, and a decrease in publishing revenues of \$7.8 million, or 9.3%, from \$84.0 million for the six months ended June 30, 2002, to \$76.2 million for the same period in 2003. Online media revenues increased \$0.8 million, or 12.9%, from \$6.2 million for the six months ended June 30, 2002, to \$7.0 million for the same period in 2003. Included in total revenues for the six months ended June 30, 2002 were revenues of \$5.3 million associated with properties sold in December 2002, which were not classified as discontinued operations.

The decrease in our trade show and conference revenues was due primarily to a decrease of \$11.4 million in our Technology Media segment, a decrease of \$1.2 million in our Industry Media segment and a decrease of \$0.6 million in the Lifestyle Media segments. These declines were partially offset by revenue improvements in our Retail Media segment. Our Internet information sector trade shows accounted for \$11.9 million of the decrease in the Technology Media segment.

The decrease in publishing revenues was due primarily to the \$9.0 million decrease in our Industry Media and Technology Media segments. Our design/engineering, manufacturing, electronics, Internet information and information technology sectors accounted for \$8.4 million of the decrease. These decreases were partially offset by our Lifestyle Media and Retail Media segments, whose publishing revenues increased by approximately \$1.2 million in the first six months of 2003 when compared with the same 2002 period.

36

OPERATING EXPENSES

Operating expenses decreased \$23.6 million, or 17.8%, from \$132.6 million for the six months ended June 30, 2002, to \$109.0 million for the same period in 2003. Included in operating expenses for the six months ended June 30, 2003 are restructuring charges and other expenses of \$1.8 million, depreciation and amortization charges of \$7.5 million, and a provision for loan impairment of \$7.6 million. Included in operating expenses for the six months ended June 30, 2002 are restructuring charges of \$7.4 million, impairment of asset charges of \$0.1 million, and depreciation and amortization charges of \$9.7 million. The overall decrease in operating expenses was due primarily to the effects of cost reduction initiatives and restructuring activities throughout 2002 and 2003 and the effect of properties sold in December 2002 and in the first quarter of 2003.

EDITORIAL, PRODUCTION AND CIRCULATION

Editorial, production and circulation expenses decreased \$6.7 million, or 12.8%, from \$52.5 million for the six months ended June 30, 2002, to \$45.8 million for the same period in 2003. The decrease was due to the effects of our expense reduction initiatives, including the effect of properties sold in December 2002 and in the first quarter of 2003, which accounted for \$2.1 million of the decrease; the elimination of unprofitable properties; reduction of production costs through process improvements and selective reduction in frequency and circulation levels; outsourcing of various functions in the organization; and staff reductions made in 2002 and 2003.

Editorial, production and circulation expenses as a percentage of revenues

Edgar Filing: PENTON MEDIA INC - Form 10-Q

increased from 42.3% for the six months ended June 30, 2002, to 43.7% for the same period in 2003. The slight increase was due to the general decrease in revenues, which was only partially offset by our expense reduction initiatives.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses declined \$16.6 million, or 26.4%, from \$62.8 million for the six months ended June 30, 2002, to \$46.2 million in the same period in 2003. Selling, general and administrative expenses as a percentage of revenues decreased from 50.6% for the six months ended June 30, 2002, to 44.1% for the same period in 2003. These decreases were due primarily to cost savings associated with office closings and staff reductions in 2002 and 2003.

PROVISION FOR LOAN IMPAIRMENT

During the second quarter of 2003, the Company determined that certain executives, who have loans under the Company's executive loan program, would probably be unable to repay a significant portion of the outstanding balances due under their loans without a significant recovery in the Company's stock price. The notes are full-recourse loans and the Company intends to pursue collection of all amounts when due. The Company recorded a provision for loan impairment in the amount of \$7.6 million, reflecting the amount by which the carrying value of each individual's loan exceeds the underlying estimated fair value of the assets available to repay the loan. The Company will recognize any recoveries of amounts reserved only upon payment of the loans.

37

RESTRUCTURING CHARGES AND OTHER EXPENSES

Due to continued revenue challenges, the Company has implemented several additional expense reduction and restructuring initiatives to align its cost structure with the prevailing business environment. In the first half of 2003, the Company recorded a restructuring charge of \$0.8 million. The cost reduction initiatives have included workforce reductions, the partial shutdown of one facility and the cancellation of certain contractual obligations. The charge includes \$0.4 million of employee severance and termination benefits, \$0.3 million related to non-cancelable obligations under a continuing lease contract, and the remaining \$0.1 million related to other contractual obligations. The following sets forth additional detail concerning the principal components of the charge:

- Personnel costs of \$0.4 million are associated with the elimination of 26 positions, of which approximately 77% were in the United States and the remaining positions in the United Kingdom and Germany. Payments for severance and benefits related to these positions are expected to be completed by the end of the first quarter 2004.
- Office closure costs of \$0.3 million, net of estimated sublease income of \$0.4 million, relate to the partial closure in the second quarter 2003 of one office in the United States and include costs associated with existing office space under lease. For properties that the Company no longer occupies, management makes assumptions including the number of years a property will be subleased, square footage, market trends, property location and the price per square foot to estimate sublease income. These assumptions involve significant judgements and estimations. Where possible, management bases its assumptions on discussions with real estate brokers and/or parties that have shown

Edgar Filing: PENTON MEDIA INC - Form 10-Q

interest in the space. Actual and estimated future lease and sublease payments are recorded on a discounted basis.

- Other exit costs of \$0.1 million include costs associated with the cancellation of certain contractual obligations.

In addition, the Company made an adjustment of \$0.5 million in the first half of 2003 to the restructuring charge primarily for an office lease originally recorded in the second quarter 2002 resulting from the bankruptcy filing by the sublessor of the property.

Also included in expense for the six months ended June 30, 2003 is approximately \$0.6 million relating to the settlement with employees with rescissionary rights under the Company's 401(k) plan. See Redeemable Common Stock for additional details.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization declined \$2.2 million, or 22.6%, from \$9.7 million for the six months ended June 30, 2002, to \$7.5 million for the same period in 2003 due to lower amortization expense related to intangible assets of properties sold in December 2002 and January 2003, as well as the write-off of approximately \$20.0 million of intangibles in the third quarter of 2002.

OTHER INCOME (EXPENSE)

Interest expense increased \$0.8 million from \$18.9 million for the six months ended June 30, 2002, to \$19.8 million for the same period in 2003. Included in interest expense in 2003 is approximately \$0.9 million related to the write-off of unamortized financing fees associated with the commitment reduction of our credit facility revolver in January 2003 from \$40.0 million to \$20.1 million. Included in interest expense in 2002 is approximately \$0.7 million related to the write-off of unamortized finance fees associated with the commitment reduction of our credit facility revolver from \$185.0 million to \$40.0 million in March 2002 and approximately \$1.4 million related to hedging activities. The increase in interest expense reflects the higher weighted-average interest rate in the first six months of 2003 compared with the same period in 2002.

In 2002, the gain on extinguishment of debt of \$0.3 million was classified as an extraordinary item. In 2003, in accordance with the provisions of Statement of Financial Accounting Standard ("SFAS") No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS 13, and Technical Corrections as of April 2002" ("SFAS 145"), this gain was reclassified to Other Income (Expense). The balance consisted of two items. 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. This gain was offset by the write-off of unamortized deferred financing costs of approximately \$1.1 million associated with the payoff of our term loan A and term loan B facilities, which also occurred in March 2002.

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

38

EFFECTIVE TAX RATES

The effective tax rates for the six months ended June 30, 2003 and 2002 were provision of 0.8% and a benefit of 38.7%, respectively. The effective tax rate for the six months ended June 30, 2003 is due to the net operating loss

Edgar Filing: PENTON MEDIA INC - Form 10-Q

available for carryforward being offset by a valuation allowance for the Company's net deferred tax assets and net operating loss carry-forwards not expected to be utilized. The difference in the effective tax rate between years is due to the establishment of the valuation allowance in the third-quarter of 2002. The tax provision for the six months ended June 30, 2003 relates to state and foreign taxes.

DISCONTINUED OPERATIONS

Discontinued operations for all periods presented include the results of PM Australia, which was sold in December 2002, and the results of PTS, which was sold in January 2003. PM Australia was part of our Technology Media segment and PTS was part of our Industry Media segment. The income recognized for the six months ended June 30, 2003 is primarily due to a gain of approximately \$1.2 million associated with the sale of PTS, offset by one month of operations for PTS, and costs related to the settlement of certain lawsuits that were pending related to PM Australia. Revenues for these properties were approximately \$5.1 million for the six months ended June 30, 2002.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE

During the third quarter of 2002, Penton completed its transitional goodwill impairment test for January 1, 2002, under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets" and recorded a non-cash charge of \$39.7 million to reduce the carrying value of goodwill for two of our seven identified reporting units. The charge is reflected as a Cumulative Effect of Accounting Change in the accompanying Consolidated Statements of Operations.

NET LOSS

Due to the factors noted above, we reported a net loss for the six months ended June 30, 2003 of \$23.4 million compared to a net loss of \$56.0 million for the same period in 2002.

NET LOSS APPLICABLE TO COMMON STOCKHOLDERS

The net loss applicable to common stockholders of \$26.0 million, or \$0.78 per diluted share, for the six months ended June 30, 2003, includes \$2.5 million of accrued dividends and beneficial conversion accretion on our preferred stock. For the six months ended June 30, 2002, the net loss applicable to common stockholders of \$100.9 million, or \$3.15 per diluted share, includes a \$42.1 million non-cash charge related to the immediate recognition in retained earnings of the unamortized beneficial conversion feature resulting from stockholders' approval to remove Penton's preferred stock mandatory redemption date.

SEGMENTS

We manage our business based on four operating segments: Industry Media, Technology Media, Lifestyle Media and Retail Media. All four segments derive their revenues from publications, trade shows and conferences, and online media products. See Note 11 - Segment Information, for the definition of adjusted segment EBITDA and a reconciliation of total adjusted segment EBITDA to loss from continuing operations before income taxes and cumulative effect of accounting change.

Financial information by segment for the six months ended June 30, 2003 and 2002, adjusted for discontinued operations, is summarized in the following table (in thousands):

ADJUSTED

Edgar Filing: PENTON MEDIA INC - Form 10-Q

	REVENUES		SEGMENT EBITDA	
	2003 ----	2002 ----	2003 ----	2002 ----
Industry Media	\$ 40,360	\$ 45,162	\$ 8,064	\$ 7,600
Technology Media	35,276	51,213	4,065	3,768
Lifestyle Media	18,411	18,754	8,635	8,534
Retail Media	10,811	8,946	2,182	1,224
	-----	-----	-----	-----
Total	\$ 104,858	\$ 124,075	\$ 22,946	\$ 21,126
	=====	=====	=====	=====

39

INDUSTRY MEDIA

Our Industry Media segment, which represented 38.5% of total Company revenues for the six months ended June 30, 2003, serves customers in the manufacturing, design/engineering, mechanical systems/construction, government/compliance, supply chain and aviation industries. Revenues for this segment decreased \$4.8 million, or 10.6%, from \$45.2 million for the six months ended June 30, 2002, to \$40.4 million for the same period in 2003. The decrease was due primarily to lower revenues from publications of \$3.8 million and lower revenues from trade shows and conferences of \$1.2 million. These decreases were partially offset by the increases in revenues of approximately \$0.2 million from online media products. The decrease in publication revenues was due primarily to year-on-year advertising declines in products serving the design/engineering and manufacturing sectors, which accounted for approximately \$3.1 million of the segment's publishing decrease. These two sectors continue to be impacted by the downturn in the U.S. economy. The decrease in trade show and conference revenues was due primarily to the absence the A/E/C Spring show, which was held in the second quarter of 2002 but was sold in December 2002.

Adjusted segment EBITDA for Industry Media increased \$0.5 million, or 6.1%, from \$7.6 million for the six months ended June 30, 2002, to \$8.1 million for the same period in 2003. Performance of online media and improvements in the segment's general and administrative costs accounted for \$1.2 million of the increase, which was offset by lower adjusted segment EBITDA of \$0.7 million from publications. The increase in the segments general and administrative costs was due primarily to the effects of our 2002 and 2003 expense reduction initiatives, including the elimination of unprofitable properties and staff reductions. The decrease in the segment's publishing was due primarily to the continued year-on-year advertising declines in products serving the design/engineering and manufacturing sectors.

TECHNOLOGY MEDIA

Our Technology Media segment, which represented 33.6% of total Company revenues for the six months ended June 30, 2003, serves customers in the electronics, information technology and Internet technologies markets. Revenues for this segment decreased \$15.9 million, or 31.1%, from \$51.2 million for the six months ended June 30, 2002, to \$35.3 million for the same period in 2003. The decrease was due primarily to lower revenues from publications of \$5.2 million and lower revenues from trade shows and conferences of \$11.2 million. Advertising weakness in our information technology and electronics sectors and the elimination of revenues from properties sold in December 2002 of approximately \$0.8 million, accounted for the majority of the publishing decrease. Lower trade show and conference revenues were due primarily to the absence of revenues from trade

Edgar Filing: PENTON MEDIA INC - Form 10-Q

shows that were held in the first half of 2002 but were sold in December 2002, which accounted for \$4.2 million of the decrease; the change in timing of a trade show from the second quarter of 2002 to the fourth quarter in 2003, which accounted for \$2.2 million of the decrease; lower revenues year-over-year from the Internet World Spring show, and the elimination of revenues from technology events that were held in the first half of 2002 but not repeated in the first half of 2003 due to unfavorable market conditions. Online revenues increased by \$0.5 million in the first half of 2003 compared with the same 2002 period.

Adjusted segment EBITDA for Technology Media increased \$0.3 million from \$3.8 million for the six months ended June 30, 2002, to \$4.1 million for the same period in 2003. Publishing and online media accounted for \$0.8 million of the increase, while the segment's general and administrative costs improved by \$1.5 million due primarily to the impact of cost reduction measures implemented in 2002 and 2003. These increases were offset by lower adjusted EBITDA of nearly \$2.0 million from trade shows and conferences due primarily to the sale of unprofitable technology properties in December 2002, which accounted for \$0.2 million of the decrease, the change in timing of the event previously noted from the second quarter of 2002 to the fourth quarter of 2003, which accounted for \$0.8 million of the decrease, and lower year-over-year adjusted EBITDA from the Internet World Spring show.

LIFESTYLE MEDIA

Our Lifestyle Media segment, which represented 17.6% of total Company revenues for the six months ended June 30, 2003, serves customers in the natural products industry sector. Revenues for this segment decreased \$0.3 million, or 1.8%, from \$18.8 million for the six months ended June 30, 2002, to \$18.4 million when compared with the same period in 2003. The decrease was due primarily to lower revenues from trade shows and conferences caused by the change in show dates for an Expo from the second quarter of 2002 to the fourth quarter of 2003, which accounted for \$0.6 million of the decrease. This decrease was partially offset by higher publishing revenues of \$0.2 million.

Adjusted segment EBITDA for the Lifestyle Media segment increased \$0.1 million, or 1.2%, from \$8.5 million for the six months ended June 30, 2002, to \$8.6 million for the same period in 2003. The increase was primarily due to higher publishing revenues.

40

RETAIL MEDIA

Our Retail Media segment, which represented 10.3% of total Company revenues for the six months ended June 30, 2003, serves customers in the food/retail and leisure/hospitality sectors. Revenues for this segment increased \$1.9 million, or 20.8%, from \$8.9 million for the six months ended June 30, 2002, to \$10.8 million for the same period in 2003. The revenue increase was due to the strength of publishing properties serving our foodservice and hospitality related markets and the segment's spring event serving the convenience store retail market.

Adjusted segment EBITDA for the Retail Media segment increased nearly \$1.0 million, or 78.3%, from \$1.2 million for the six months ended June 30, 2002, to \$2.2 million for the same period in 2003. The increase was due primarily to improved revenues for the first half of 2003 over the second quarter of 2002 as noted above and cost reduction efforts undertaken in 2002 and 2003.

PRODUCTS

Edgar Filing: PENTON MEDIA INC - Form 10-Q

We publish specialized trade magazines, produce trade shows and conferences, and maintain a variety of online media products, including Web businesses and electronic newsletters. Revenues by product line for the six months ended June 30, 2003 and 2002 were as follows (in thousands):

	SIX MONTHS ENDED JUNE 30,	
	2003 ----	2002 ----
Publishing	\$ 76,202	\$ 84,014
Trade Shows and Conferences	21,668	33,869
Online Media	6,988	6,192
	-----	-----
Total revenues	\$ 104,858 =====	\$ 124,075 =====

Publishing revenues decreased nearly \$7.8 million from \$84.0 million for the six months ended June 30, 2002, to \$76.2 million for the same period in 2003. The decrease in Publishing revenues was due primarily to year-on-year advertising decline of \$2.5 million in products serving the design/engineering and manufacturing sectors, which continue to be impacted by the downturn in the U.S. economy; advertising weakness in our information technology and electronics sectors, which accounted for \$2.0 million of the decrease; the elimination of revenues from technology events that were held in the first half of 2002 but not repeated in the first half of 2003 due to unfavorable market conditions; and the elimination of revenues from properties sold in December 2002, which accounted for \$0.8 million of the decrease.

Trade Show and Conference revenues decreased by \$12.2 million from \$33.9 million for the six months ended June 30, 2002, to \$21.7 million for the same period in 2003. The decrease in Trade Show and Conference revenues was due primarily to a year-over-year decline of an event in the electronics market and an event in the Internet information market; the elimination of revenues from technology properties sold in December 2002, which accounted for \$4.2 million of the decrease; and the elimination of technology events that were held in the first half of 2002 but not repeated in the first half of 2003 due to unfavorable market conditions.

Online Media revenues increased \$0.8 million, or 12.9%, from \$6.2 million for the six months ended June 30, 2002, to \$7.0 million for the same period in 2003. The increase was due to the success of online products across several of our markets.

LIQUIDITY AND CAPITAL RESOURCES

ANALYSIS OF CASH FLOWS

Penton's total cash and cash equivalents was \$40.4 million at June 30, 2003, compared with \$6.8 million at December 31, 2002. Cash provided by operating activities was \$35.2 million for the six months ended June 30, 2003, compared with cash used by operating activities of \$2.4 million for the same period in 2002. Operating cash flows for the six months ended June 30, 2003, reflected a net loss of \$23.4 million, offset by a net decrease in working capital items (primarily due to a tax refund of \$52.7 million) of approximately \$38.7 million and non-cash charges (primarily depreciation and amortization and provision for loan impairment) of approximately \$19.9 million. Operating cash flows for the

Edgar Filing: PENTON MEDIA INC - Form 10-Q

six months ended June 30, 2002, reflected a net loss of \$56.0 million and a net working

41

capital decrease of approximately \$3.4 million, which were offset by non-cash charges (primarily depreciation and amortization and the cumulative effect of accounting change) of approximately \$56.9 million.

The increase in operating cash flows for the six months ended June 30, 2003, compared with the same 2002 period was due primarily to the tax refund received in January 2003 of approximately \$52.7 million, compared with a tax refund of \$12.2 million received in February of 2002.

Investing activities provided \$1.9 million of cash for the six months ended June 30, 2003, and included proceeds of \$3.3 million from the sale of PTS in January 2003. These proceeds were partially offset by capital expenditures of approximately \$1.3 million. Investing activities provided \$2.5 million of cash for the six months ended June 30, 2002, primarily from proceeds of \$5.8 million from the sale of approximately 3.0 million shares of Jupitermedia Corporation common stock. These proceeds were partially offset by earnout payments of approximately \$1.5 million and capital expenditures of \$1.8 million.

Financing activities used \$3.4 million of cash for the six months ended June 30, 2003, due primarily to the repayment of \$4.5 million on our senior secured credit facility, the payment of finance fees, and the payoff of a note payable of \$0.4 million. These uses were partially offset by proceeds of \$1.5 million received on notes receivable and proceeds of approximately \$0.3 million from the repayment of an officers loan. Financing activities provided cash of \$2.2 million for the six months ended June 30, 2002, due to the issuance of our 11-7/8% senior secured notes ("Secured Notes") and the sale of 50,000 shares of mandatorily redeemable convertible preferred stock. These proceeds were primarily offset by the paydown of the balance of our senior secured credit facility term loans; the purchase of \$10.0 million face value of our 10-3/8% senior subordinated notes ("Subordinated Notes") at prevailing market prices; the payment of financing fees associated with the amendment to our senior secured credit facility; and the issuance of our Secured Notes.

Capital expenditures in the first six months of 2003 were approximately \$1.3 million. We anticipate that we will spend approximately \$3.0 million to \$4.0 million on capital expenditures in 2003, primarily for expenditures related to computers and management information systems.

FINANCING ACTIVITIES

In June 2001, we issued \$185.0 million of Subordinated Notes due June 2011. Interest on the notes is payable semiannually, on June 15 and December 15. The Subordinated Notes are fully and unconditionally, jointly and severally guaranteed, on a senior subordinated basis, by the assets of our domestic subsidiaries, which are 100% owned by the Company, and may be redeemed, in whole or in part, 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 were offered at a discount of \$4.2 million. This discount is being amortized using the interest method, 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

Edgar Filing: PENTON MEDIA INC - Form 10-Q

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 Secured Notes discussed below.

In January 2002, we received \$5.8 million in net proceeds from the sale of our remaining investment in Jupitermedia Corporation common stock.

In March 2002, we entered into an agreement with a group of investors 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 shares of our common stock on March 28, 2002 (see Note 5 - Mandatorily Redeemable Convertible Preferred Stock). Net proceeds from the sale of the preferred stock, along with the net proceeds from the sale of our Jupitermedia Corporation common stock, and cash on hand from a 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% Secured Notes due in 2007. Interest is payable on the Secured Notes semiannually on April 1 and October 1. The Secured Notes are fully and unconditionally, jointly and severally guaranteed, on a senior basis, by all of our domestic subsidiaries, which are 100% owned by the Company, and also the stock of certain subsidiaries. We may redeem the Secured Notes, in whole or in part, during the period October 1, 2005 through October 1, 2006,

42

and thereafter at redemption prices of 105.9375% and 100.0000% of the principal amount, respectively, together with accrued and unpaid interest to the date of redemption. 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 Secured 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 to the date of redemption.

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. Costs representing underwriting fees and other professional fees of \$6.6 million are being amortized over the term of the Secured Notes. Net proceeds of \$150.1 million were used to pay down \$83.6 million of term loan A and \$49.0 million of term loan B, and net proceeds of \$8.3 million were used to repurchase \$10.0 million of our Subordinated Notes. The remaining net proceeds of \$9.2 million were used for general corporate purposes. The Secured Notes rank senior in right to all of our senior subordinated indebtedness, including our Subordinated Notes. 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 Subordinated Notes. 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.

In March 2002, we amended and restated our senior secured credit facility and repaid our term loan A facility and our term loan B facility under our credit facility from the proceeds received from the sale of preferred stock and the issuance of the Secured Notes, as noted above. The amended and restated facility

Edgar Filing: PENTON MEDIA INC - Form 10-Q

provided for a revolving credit facility of up to a maximum amount of \$40.0 million. Availability under the revolving credit facility was subject to a borrowing base limited to 80% of eligible receivables. In order to access the revolver, Penton could not have more than \$7.5 million of cash and cash equivalents available, had to be in compliance with the loan documents and had to submit a borrowing base certificate immediately prior to each extension of credit showing compliance with the provisions of the borrowing base. Penton was required to prepay the revolver in the event that it had loans outstanding in excess of the borrowing base, or it had more than \$7.5 million in cash and cash equivalents available at the end of any month. The commitment under the amended and restated credit facility was scheduled to decrease by 15% in 2003, 30% in 2004, 35% in 2005, and 20% in 2006. The amended and restated credit facility has no financial covenants. In connection with the amendment and restatement of the credit facility, the interest rate on the revolving credit facility was increased. In addition, further restrictions were placed on Penton's ability to make certain restricted payments, to make capital expenditures in excess of certain amounts, to incur additional debt and contingent obligations, make acquisitions and investments, and to sell assets. As noted below, the credit facility was further amended in January 2003 and replaced in August 2003.

The repayment of the term loans in March 2002 resulted in a non-cash extraordinary charge of \$0.7 million, net of \$0.5 million in taxes, relating to the write-off of unamortized deferred finance costs. In the first quarter of 2003, the 2002 extraordinary charge was reclassified to Gain on Extinguishment of Debt in the Consolidated Statements of Operations in accordance with the provisions of SFAS 145.

In September 2002, Moody's Investors Service took the following rating actions regarding Penton: (i) confirmed the B3 rating on the Company's Secured Notes, (ii) downgraded the Company's Subordinated Notes due 2011 from Caa2 to Ca, (iii) downgraded the Company's senior implied rating from B3 to Caa3, and (iv) downgraded the Company's senior unsecured issuer rating from Caa1 to Ca. These changes in the rating of our debt instruments by the outside rating agencies does not negatively impact our ability to use our revolver.

In December 2002, the Company sold four properties for approximately \$0.9 million, which was used to repay outstanding amounts under the Company's credit facility.

In January 2003, the Company amended its senior secured credit facility, which was replaced in August 2003, as discussed below. The amended agreement permitted the Company to sell certain properties in excess of the \$5.0 million aggregate limit required by the original amended agreement. In return, the revolving commitment was reduced from \$40.0 million to \$32.0 million. At the end of January 2003, when the aggregate sum of Penton's cash and cash equivalents exceeded \$40.0 million, an additional one-time reduction of \$10.0 million was required under the amended credit facility. Furthermore, upon the sale of PTS, the revolving commitment was further reduced by 50% of the aggregate gross proceeds, as defined, from this sale, or approximately \$1.9 million. The amended facility allowed for additional asset sales, transfers, leases, and other dispositions and the issuance of equity interests by our subsidiaries up to a maximum of approximately \$3.6 million. The amended facility also increased the maximum commitment fee from 0.50% to 0.75%.

In January 2003, the Company paid down the \$4.5 million that was outstanding under the credit facility. At June 30, 2003, no amounts were outstanding under the revolver and the commitment was \$20.1 million. Availability under the commitment, which is subject to the Company's eligible accounts receivable, was \$19.7 million at June 30, 2003.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

The reduction of the revolver from \$40.0 million to \$20.1 million in January 2003, and the reduction of the revolver from \$185.0 million to \$40.0 million in March 2002, resulted in the write-off of unamortized finance fees related to the revolver of \$0.9 million and \$0.7 million, respectively. These charges have been classified as part of Interest Expense on the Consolidated Statements of Operations.

In January 2003, the Company also completed the sale of the assets of PTS for approximately \$3.8 million, including an earnout of \$0.6 million. The cash received from the sale was used to pay down the Company's outstanding credit facility.

In August 2003, the Company replaced its senior secured credit facility with a new loan and security agreement. Under the Loan Agreement, which is a revolving credit facility, the Company can borrow up to \$40.0 million on a revolving basis (See Note 16 - Subsequent Events).

The Company has no special purpose entities or off-balance sheet debt other than operating leases in the ordinary course of business.

CURRENT LIQUIDITY

Our primary future cash needs will be to fund working capital, debt service, capital expenditures, and our business restructuring charges and related expenses. We expect capital expenditures in 2003 to be approximately \$3.0 million to \$4.0 million, as we continue to review our spending as a result of continued economic and business uncertainty. We expect to make cash payments for the remainder of 2003 related to our business restructuring initiatives of approximately \$2.2 million, which is comprised of \$0.9 million for employee separation costs, \$1.1 million for lease obligations, and \$0.2 million for other contractual obligations.

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

We anticipate adequate liquidity from operations and have available cash on hand to meet all interest payments on our bonds and our other obligations through 2003. We have no principal repayment requirements until maturity of our Secured Notes in October 2007. In addition, we have no bank debt and no maintenance covenants on our existing bond debt. As noted above, Penton does have access to a revolving credit facility of up to \$40.0 million.

Our ability to meet cash operating requirements depends upon our future performance, which is subject to general economic conditions and to financial, competitive, business and other factors, 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 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, including the conversion price, dividend and liquidation adjustment provisions, the redemption price premiums, and board representation rights could negatively impact our ability to access the equity markets in the future.

We may from time to time seek to retire our outstanding debt through cash purchases on the open market, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on the prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

Edgar Filing: PENTON MEDIA INC - Form 10-Q

Penton did not make any cash contributions to its defined benefit pension plan in 2001 or 2002. Based on the current value of the assets in our benefit plans, we will not be required to make any cash contributions in 2003. Future funding requirements are dependent upon factors such as interest rate levels, changes to pension plan benefits, funded status, regulatory requirements for funding purposes, and the level and timing of asset returns as compared with the level and timing of expected benefit disbursements. Based on current estimates the Company expects to make a contribution of approximately \$1.5 million in the third quarter of 2004 for calendar year 2003. In addition, quarterly estimated contributions must be made in 2004 based on 2003 calculations. Due to the presence of significant variables, actual future contributions may differ materially.

The purchase of common stock under the 401(k) plan in excess of the number of shares registered by the Company on Form S-8 with the Securities and Exchange Commission under the Securities Act of 1933 could have a material adverse impact on our

44

financial condition. The unregistered purchases do not cause an event of default under the indentures governing our Subordinated Notes or Secured Notes or our senior secured credit facility. However, an event of default could occur as an indirect result of the unregistered purchases. For example, an event of default would occur under (a) the indentures if the unregistered purchases were to result in (i) unsatisfied judgments not covered by insurance aggregating in excess of \$5 million being rendered against the Company and not stayed, bonded or discharged within 60 days after such judgment became final and nonappealable or (ii) the Company's failure to observe the covenant limiting the Company's ability to make restricted payments (as defined in the indentures) if, for example, the Company made a rescission offer and as a result repurchased shares, which could be considered the payment on account of the purchase, redemption or other acquisition or retirement for value of equity interest (as defined in the indentures) or (b) the credit agreement if the unregistered purchases were to result in (i) the Company's failure to observe the covenant limiting the Company's ability to make a restricted payment (as defined in the credit agreement) if, for example, the Company made a rescission offer and as a result repurchased shares, which could be considered a restricted payment by the Company with respect to its equity interests (as defined in the credit agreement), or (ii) a material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Company taken as a whole. The foregoing is not, and no inference should be drawn that the foregoing is, an exclusive list of circumstances that could result in an event of default under the indentures or the credit agreement as a consequence of the unregistered sales. If an event of default occurs, all our indebtedness would be immediately due and payable, and we cannot assure you that our business will generate sufficient cash flow to enable us to service our debt obligations. In addition, we cannot assure you that the Company will be able to obtain alternative sources of funding (see Risk Factors section of our 2002 Annual Report on Form 10-K).

In March 2003, we classified approximately 1.1 million shares of our common stock as redeemable common stock as a result of rescissionary rights that certain of our common stockholders may have in connection with the unregistered purchases from May 2001 through March 2003 noted above. A number of remedies may be available to regulatory authorities and the employees who purchased the common stock, including, without limitation, a right of rescission and other damages that could be imposed by regulatory authorities. Pursuant to the rescission rights, employees may be entitled to return their shares to the Company and receive back from us the full price they paid, plus interest. The

Edgar Filing: PENTON MEDIA INC - Form 10-Q

rescission rights lapse one year from the date of any such purchase. Although the payments under the rescissionary rights are not anticipated to have a material adverse impact on our financial condition, we have no control over any civil or other damages that regulatory authorities could impose on the Company, the result of which could have a material adverse effect on our financial condition. Please also refer to Note 6 - Common Stock and Common Stock Award Programs of the Consolidated Financial Statements for further details.

In April 2003, the Company offered to reimburse employees who had purchased Penton common stock through the Company's 401(k) plan between March 25, 2002 and March 25, 2003. Employees who signed a release were reimbursed the amount by which the price they paid for the common stock exceeded the closing price of the stock on the date they executed the release, or if the stock had been sold, the amount by which the price paid by the employee exceeded the sales price. Employees who did not sign the release by May 22, 2003, retain any rights they may have under the Federal securities laws. Over eighty percent of the employees who were offered the reimbursement have accepted the terms of the release, representing a liability of approximately \$0.6 million, which was deposited into each individual's 401(k) account in July 2003. This amount is included in Restructuring charges and Other Expenses in the Consolidated Statement of Operations.

NEW ACCOUNTING PRONOUNCEMENTS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is effective for contracts entered into or modified after June 30, 2003. Management does not believe that the adoption of SFAS 149 will have a significant effect on the Company's results of operations or its financial condition.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). SFAS 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity and requires that those instruments be classified as liabilities in the statement of financial position. Previously, many of those financial instruments were classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not require the reclassification of any financial instruments on the Company's Consolidated Balance Sheets.

45

FOREIGN CURRENCY

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

SEASONALITY

We may experience seasonal fluctuations as trade shows and conferences held in

Edgar Filing: PENTON MEDIA INC - Form 10-Q

one period in the current year may be held in a different period in future years.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

During the six months ended June 30, 2003, there were no significant changes related to the Company's market risk exposure.

ITEM 4. CONTROLS AND PROCEDURES

Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) are effective as of the end of the quarterly period covered by this report on Form 10-Q. There have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, except as follows: the Company's employees purchased common stock under the Company's 401(k) Retirement Savings Plan (the "Plan") in excess of the number of shares registered by the Company on Form S-8 with the Securities and Exchange Commission under the Securities Act of 1933 from May 2001 through March 2003. The Company took corrective actions immediately upon discovery, and filed an amendment to the Form S-8 on March 31, 2003, to register additional shares. For further details, see:

- Liquidity and Capital Resources section of the Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Note 6 - Common Stock and Common Stock Award Programs of the consolidated financial statements.
- The Company's Annual Report on Form 10-K for the year ended December 31, 2002.

46

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

On June 12, 2003, the Company held its Annual Meeting of Stockholders. The matters presented to the stockholders for a vote and the vote on

Edgar Filing: PENTON MEDIA INC - Form 10-Q

such matters were as follows:

- a) Election of directors for a three-year term expiring in 2006.

	For -----	Withheld -----
Vincent D. Kelly	35,615,842	891,704
Daniel J. Ramella	35,590,131	917,415
Perry A. Sook	35,637,644	869,902

- b) Proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent accountants for the fiscal year ending December 31, 2003.

For -----	Against -----	Abstain -----
36,133,147	232,750	141,647

- c) Proposal to adopt an amendment to Penton's restated certificate of incorporation to effect a reverse stock split at one of three ratios.

For -----	Against -----	Abstain -----
34,765,021	1,631,815	110,710

- d) Proposal to adopt an amendment to Section 5A of the Certificate of Designations governing Penton's Series B Convertible Preferred Stock to amend the definition of "Change of Control Cap".

For -----	Against -----	Abstain -----	Broker Non-Votes -----
18,926,303	2,430,963	5,487,701	9,662,579

- e) Proposal to amend Penton's Restated Certificate of Incorporation to remove the provision limiting the number of Directors to thirteen.

For -----	Against -----	Abstain -----	Broker Non-Votes -----
19,633,444	1,725,703	5,485,820	9,662,579

No other matters were submitted to the stockholders for a vote.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

Edgar Filing: PENTON MEDIA INC - Form 10-Q

EXHIBIT NO. -----	DESCRIPTION OF DOCUMENT -----
31.1	Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxle
31.2	Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxle
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of
(B)	REPORTS ON FORM 8-K AND/OR 8-K/A

DATE OF REPORT -----	ITEMS REPORTED -----
May 1, 2003	Item 7. Financial Statements, Pro Forma Financial Information and Exhibits Item 9. Regulation FD Disclosure
June 11, 2003	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
June 12, 2003	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits
June 17, 2003	Item 5. Other Events Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

48

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

Chief Financial Officer
(Duly Authorized Officer)

Edgar Filing: PENTON MEDIA INC - Form 10-Q

and Principal Financial
Officer)

Date: August 14, 2003

49

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION OF DOCUMENT -----
31.1	Principal executive officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Principal financial officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

50