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

## PENTON MEDIA INC

## Form 10-Q

August 15, 2005

```
                                    UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
    Washington, D.C. 20549-1004
    FORM 10-Q
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
    ACT OF 1934
    For the quarterly period ended June 30, 2005
                            OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
        EXCHANGE ACT OF 1934
            COMMISSION FILE NUMBER 1-14337
                            PENTON MEDIA, INC
            (Exact Name of Registrant as Specified in its Charter)
        DELAWARE 36-2875386
(State of Incorporation) (I.R.S. Employer Identification No.)
    1 3 0 0 \text { East Ninth Street, Cleveland, OH}
                                    4 4 1 1 4
(Address of Principal Executive Offices)
(Zip Code)
216-696-7000
(Registrant's Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or \(15(d)\) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No
Indicate by check mark whether the registrant is an accelerated filer as defined in Rule 12b-2 of the Exchange Act. Yes No X
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (August 10, 2005).
Common Stock: 34,487,872 shares
PENTON MEDIA, INC.
FORM 10-Q
INDEX
```


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

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
Consolidated Balance Sheets (Unaudited) at June 30, 2005 and December 31, 2004 ..... 3
Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2005 and 2004 ..... 5
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2005 and 2004 ..... 6
Notes to Consolidated Financial Statements (Unaudited) ..... 7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ..... 33
Item 3. Quantitative and Qualitative Disclosures About Market Risk ..... 51
Item 4. Controls and Procedures ..... 52
PART II - OTHER INFORMATION
Item 1. Legal Proceedings ..... 53
Item 6. Exhibits ..... 53
Signature ..... 54
Exhibit Index ..... 55

## 2

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PENTON MEDIA, INC<br>CONSOLIDATED BALANCE SHEETS<br>(UNAUDITED, DOLLARS IN THOUSANDS)

| June 30, | December 31, |
| :---: | :---: |
| 2005 | 2004 |

ASSETS

Current assets:
Cash and cash equivalent
Restricted cash
Accounts receivable, less allowance for doubtful accounts of $\$ 2,831$ and $\$ 2,826$ in 2005 and 2004, respectively
Inventories
26,248
30,571
1, 098
856
Deferred tax assets
276
276
Prepayments, deposits and other 5,374

```
            Total current assets
                    35,033
                            43,161
Property and equipment, less accumulated depreciation
    of $33,035 and $30,989 in 2005 and 2004, respectively
Other assets:
    Goodwill
    Other intangible assets, net
    Other non-current assets
\begin{tabular}{rr}
172,871 & 176,162 \\
6,230 & 6,846 \\
5,937 & 6,412 \\
-------- & -------- \\
185,038 & 189,420 \\
------- & ------- \\
\(\$ 231,983\) & \(\$ 247,374\) \\
\(========\) & \(========\)
\end{tabular}
The accompanying notes are an integral part of these consolidated financial statements.
3
```

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

June 30, 2005

$\$ \quad 1,200$
5,293
4,015
11,938
19,210
---------

41,656
-_-----_--

157,119
166,758
10,307
21,154
6,719
----------
362,057
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

```
Series M preferred stock, par value \(\$ 0.01\) per share; 150,000 shares authorized,
```

69,000 and 68,625 shares issued and outstanding at June 30, 2005 and December 31, 2004, respectively

```
Stockholders' deficit:
    Preferred stock, par value $0.01 per share; 1,800,000 shares
        authorized; none issued or outstanding--
    Common stock, par value $0.01 per share; 155,000,000 shares
        authorized; 34,487,872 and 33,832,004 shares issued and outstanding
        at June 30, 2005 and December 31, 2004, respectively
        343
    Capital in excess of par value
        211,423
    Retained deficit
    Notes receivable from officers, less reserve of $5,848 at June 30, 2005
        and December 31, 2004, respectively
    Accumulated other comprehensive loss
        (325)
    (242,617)
$ 231,983
```

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

4

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

Revenues

Operating expenses:
Editorial, production and circulation Selling, general and administrative (including $\$ 0.3$ million and $\$ 2.7$ million of executive separation costs for the three and six months ended June 30, 2004, respectively)
Provision for loan impairment
Restructuring and other charges
Depreciation and amortization

Operating income (loss)
Other income (expense):
Interest expense
Interest income
Gain on extinguishment of debt
Other, net

| 2005 | 2004 |
| :---: | :---: |

## $\$ 43,814 \$ 46,106$

$-------\quad$--------
$20.300 \quad 21,812$

20,300
21,812
40,670
42,147

| 16,698 | 21,186 | 34,163 | 43,789 |
| :---: | :---: | :---: | :---: |
| -- | 1,717 | -- | 1,717 |
| 186 | 3,502 | 252 | 4,362 |
| 2,310 | 2,827 | 4,577 | 5,675 |
| 39,494 | 51,044 | 79,662 | 97,690 |
| 4,320 | $(4,938)$ | 17,483 | 1,207 |
| $(9,363)$ | $(9,362)$ | $(18,746)$ | $(18,820)$ |
| 32 | 50 | 62 | 136 |
| -- | -- | 1,589 | -- |
| (16) | 6 | (24) | 4 |



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

|  | Six Months Ended June 30, |  |
| :---: | :---: | :---: |
|  | 2005 | 2004 |
| NET CASH USED BY OPERATING ACTIVITIES | \$ $(6,242)$ | \$ (11, 757 ) |
| CASH FLOWS FROM INVESTING ACTIVITIES: |  |  |
| Capital expenditures | (463) | $(1,519)$ |
| Cash paid for acquisitions | (375) | -- |
| Increase in notes receivable | -- | (188) |
| Net proceeds from sale of properties | 4,073 | -- |

Net cash provided by (used for) investing activities

$$
3,235
$$

(1,707)
3,235
--------

| $(3,795)$ | -- |
| :---: | :---: |
| 1,200 |  |
| -- | (6) |
| (236) | (193) |
| (213) | (63) |
| $(3,044)$ | (262) |
| 66 | 19 |
| $(5,985)$ | $(13,707)$ |
| 7,661 | 29,626 |
| \$ 1,676 | \$ 15,919 |

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

6
PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 1 - ACCOUNTING POLICIES
BASIS OF PRESENTATION

Penton Media, Inc., together with its subsidiaries, is herein referred to as either "Penton" or the "Company." These financial statements have been prepared by management in accordance with generally accepted accounting principles ("GAAP") for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all information and footnotes required by 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 statement 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, 2004.

The Company realigned its business segments during the third quarter of 2004. Accordingly, the historical results of operations of the Company's segments have been recast to reflect the current segment reporting (See Note 13 - Segments, for additional information). In addition, unless otherwise noted herein, disclosures in this Quarterly Report on Form 10-Q relate only to our continuing operations. Our discontinued operations consist of Penton Media Germany ("PM Germany") which was sold in December 2004 and Penton Media Europe ("PM Europe") which was sold in April 2005 (See Note 2 - Acquisitions and Disposals, for additional information).

On March 24, 2005, the Company's management concluded that the Company's previously issued consolidated financial statements should be restated to increase income tax expense to correct the computation of our valuation allowance for deferred tax assets. Management reached this conclusion following a comprehensive review of the Company's deferred tax assets and deferred tax liabilities. The Company evaluated the materiality of the correction on its consolidated financial statements using the guidelines of Staff Accounting Bulletin No. 99, "Materiality," ("SAB 99") and concluded that the cumulative effects of the corrections were material to its annual consolidated financial statements for 2004,2003 and 2002 and the related quarterly consolidated financial statements for such periods.

These financial statements reflect adjustments to the Company's previously reported financial information on Form 10-Q for the three and six months ended June 30, 2004. The Company has restated and filed an amendment to its quarterly report on Form 10-Q for the periods March 31, 2004 and June 30, 2004 prior to the filing of its March 31, 2005 and June 30, 2005 Form 10-Qs and will restate the financial statements included in its quarterly report on Form 10-Q for the period ended September 30, 2004.

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.

RESTRICTED CASH

Restricted cash represents deposits related to medical self insurance requirements and funds that are required to be held in escrow related to the sale of PM Europe. At June 30, 2005, cash balances totaling $\$ 0.4$ million were subject to such restrictions, compared to $\$ 0.1$ million at December 31, 2004.

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

## ACCOUNTING FOR STOCK-BASED COMPENSATION

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

Had compensation cost for Penton's stock-based compensation plans been determined based on the fair value methodologies consistent with SFAS 123, Penton's net loss applicable to common stockholders and earnings per share for the three and six months ended June 30,2005 and 2004 would have been as follows (in thousands, except per share data):

| Net loss appl As reported. | \$ $(7,695)$ | \$ 18,634 |
| :---: | :---: | :---: |
| Add: Stock-based employee compensation expense included in net loss applicable to common stockholders, net of related tax effects. |  | 76 |
| Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects. | (7) | $(2,544$ |
| Pro forma net loss applicable to common stockholders. | \$ $(7,702)$ | \$ $(20,602$ |
| Basic and diluted earnings per share: |  |  |
| As reported | \$ (0.22) | \$ 10.55 |
| Pro forma | \$ (0.22) | \$ (0.61 |

## NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which replaces SFAS 123 and supersedes APB 25. SFAS $123(R)$ requires recognition of an expense when a company exchanges its equity instruments for goods or services, based on the fair value of the share-based compensation at the grant date. The related expense is recognized over the period in which the share-based compensation vests. SFAS $123(R)$ permits either a prospective or one of two modified versions of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by the original SFAS 123. The Company is required to adopt the provisions of SFAS 123(R) effective January 1, 2006, at which time the Company will begin recognizing an expense for unvested share-based compensation that has been issued or will be issued after that date. The Company has not yet finalized its decision concerning the transition method it will utilize to adopt SFAS $123(R)$ and its impact on the financial statements.

In March 2005, the FASB Staff issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"). FIN 47 clarifies the term conditional asset retirement obligation as used in FASB Statement No. 143, "Accounting for Asset Retirement Obligations" as well as other issues related to asset retirement obligations. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is in the process of determining if this interpretation will have any impact on its financial statements.

## NOTE 2 - ACQUISITIONS AND DISPOSALS

Penton's management regularly reviews its portfolio to determine what markets and properties provide the Company with the greatest opportunity for market leadership and long-term growth. As part of that review process, management determined that our International segment did not fit our strategic growth objectives as we focus new product innovation on e-media and on leveraging our strong print brands in the United States and Asia.

In April 2005, the Company completed the sale of $90 \%$ of its PM Europe operation, for approximately $\$ 4.4$ million in cash, with no gain or loss recognized on disposal. PM Europe was part of our International segment. The results of PM

Europe are reported as discontinued operations for all periods presented. The Company's 10\% interest that remains will be accounted for using the cost method, as the Company does not exercise significant influence, and has been reported within other non-current assets on the accompanying consolidated balance sheets.

In December 2004, the Company completed the sale of $70 \%$ of its interest in PM Germany, a consolidated subsidiary, to Neue Medien Ulm Holdings GmbH ("Neue Medien") for $\$ 0.8$ million in cash. PM Germany was also part of our International segment. At December 31, 2004, the sale of PM Germany did not qualify for discontinued operations treatment because PM Germany and PM Europe were considered one component for SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") purposes and PM Europe did not meet the held for sale criteria at such date. However, since PM Europe was sold in April 2005, the results of PM Germany are reported as part of discontinued operations for all periods presented. At June 30, 2005, the Company retains a $15 \%$ interest in PM Germany, which includes a call/put option. The Company accounts for its investment using the cost method, as the Company does not exercise significant influence. The investment has been reported within other non-current assets on the accompanying consolidated balance sheets.

Revenues and net loss from discontinued operations, net of taxes for all periods present, are as follows:

|  | THREE MONTHS ENDED JUNE 30, |  |  | SIX MONTHS ENDED JUNE 30, |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | 2004 | 2005 | 2004 |
| Revenues | \$ 95 |  | 4,831 | 654 | \$ 6,507 |
| Discontinued operations: |  |  |  |  |  |
| Loss from operations of discontinued component | \$(159) | \$ | (213) | \$ $(2,959)$ | \$ 1 , 644 ) |
| Gain (loss) on disposal | -- |  | -- | -- | -- |
| Income tax provision | -- |  | (2) | -- | (480) |
| Loss on discontinued operations, net of taxes | \$(159) | \$ | (215) | \$ $(2,959)$ | \$ 2,124 ) |

In June 2005, the Company acquired the assets of Kosher World Conference \& Expo ("Kosher World") from Shows International for nearly $\$ 0.4$ million in cash plus contingent considerations of up to $\$ 0.7$ million based on the achievement of specified revenue targets for the 2006 event. Kosher World, which was launched two years ago, is a retail-based event serving the kosher market, with emphasis on bringing kosher food products marketers together with buyers from the mass-market grocery channel. Kosher World will be co-located with the Company's Natural Products Expo West event, held in Anaheim, California, beginning in March 2006.

NOTE 3 - GOODWILL AND OTHER INTANGIBLES
As required under SFAS 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company assesses goodwill for impairment at least annually since its initial adoption of SFAS 142 on January 1, 2002. As a result of PM Europe being classified as held for sale at March 31, 2005, the Company performed a SFAS 142 analysis for this reporting unit, which resulted in an impairment charge of approximately $\$ 1.4$ million during the first quarter of 2005 . The impairment charge is included in discontinued operations on the consolidated statements of operations.

9

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

Changes in the carrying amount of goodwill for the six months ended June 30, 2005 by operating segment are as follows (in thousands):

|  | $\begin{gathered} \text { BALANCE AT } \\ \text { DECEMBER 31, } \\ 2004 \end{gathered}$ | IMPAIRMENT CHARGE | ACTIVITY (1) | BALANCE AT JUNE 30, 2005 |
| :---: | :---: | :---: | :---: | :---: |
| Industry | \$ 35,777 | \$ | \$ -- | \$ 35,777 |
| Technology | 26,346 | -- | -- | 26,346 |
| Retail | 25,824 | -- | -- | 25,824 |
| Lifestyle | 84,924 | -- | -- | 84,924 |
| International | 3,291 | $(1,407)$ | $(1,884)$ | -- |
| Total | \$176,162 | \$ (1,407) | \$ (1,884) | \$172,871 |

(1) Represents goodwill related to PM Europe, which was sold in April 2005.

The Company also performed a SFAS 144 impairment analysis of long-lived assets other than goodwill at March 31, 2005 for PM Europe, which resulted in an impairment charge of approximately $\$ 0.4$ million.

At June 30, 2005, other intangibles recorded in the consolidated balance sheets are comprised of the following (in thousands):

|  | GROSS <br> CARRYING <br> VALUE | ACCUMULATED <br> AMORTIZATION | NET <br> BOOK |
| :--- | ---: | ---: | ---: |
| VALUE |  |  |  |

Other intangibles are being amortized over 3 to 15 years. Total amortization expense for the six months ended June 30, 2005 and 2004 was $\$ 0.9$ million and \$1.2 million, respectively. Amortization expense estimated for these intangibles for 2005 through 2009 are as follows (in thousands):

| 2005 | $\$ 1,773$ |
| :--- | :--- |
| 2006 | $\$ 1,653$ |
| 2007 | $\$ 1,021$ |
| 2008 | $\$ 472$ |
| 2009 | $\$ 401$ |

NOTE 4 - DEBT

LOAN AND SECURITY AGREEMENT

At June 30, 2005, the Company has $\$ 36.5$ million available under its Loan and Security Agreement. Pursuant to the terms of the Loan and Security Agreement, the Company can borrow up to the lesser of (i) $\$ 40.0$ million; (ii) 2.25 x the Company's last twelve months adjusted EBITDA measured through August 13, 2005, and 2.0x thereafter; (iii) $40 \%$ of the Company's last six months of revenues; or (iv) 25\% of the Company's enterprise value, as determined annually by a third party. The Loan and Security Agreement facility bears interest at LIBOR plus $5.0 \%$ subject to a LIBOR minimum of $1.5 \%$. The Company must comply with a quarterly financial covenant limiting the ratio of maximum bank debt to the last twelve months

## 10

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

adjusted EBITDA to 2.0x. At June 30, 2005 the Company has three stand-by letters of credit of $\$ 0.1$ million, $\$ 0.1$ million and $\$ 0.9$ million, respectively, related to certain facility leases. The amounts of these letters of credit reduce the availability under the Loan and Security Agreement. No amounts have been drawn under the stand-by letters of credit. Costs representing bank fees and other professional fees of $\$ 1.9$ million are being amortized over the life of the agreement. At June 30, 2005, there was $\$ 1.2$ million outstanding under the Loan and Security Agreement. The Loan and Security Agreement expires in August 2007.

The Loan and Security Agreement contains several provisions that could have a significant impact as to the classification as well as the acceleration of payments for borrowings outstanding under the agreement, including the following:
(i) the obligation of the lender to provide any advances under the agreement is subject to no material adverse change events;
(ii) reserves may be established against the borrowing base for sums that the Company is required to pay, such as taxes and assessments and other types of required payments, and has failed to pay;
(iii) in the event of a default under the agreement, the lender has the right to direct all cash that is deposited in the Company's lock boxes to the lender to pay down outstanding borrowings;
(iv) the agreement establishes cross-defaults to the Company's other indebtedness (such as the $11-7 / 8 \%$ senior secured notes and 10-3/8\% senior subordinated notes) such that a default under the Loan and Security Agreement could cause a default under the note agreements and vice versa; however, default-triggering thresholds are different in the loan agreement and the notes; and
(v) if the Company is in default of any material agreement to which it is
a party and the counter-party to that agreement has the right to terminate such agreement as a result of the default, this constitutes an event of default under the Loan and Security Agreement.

Under the Loan and Security Agreement, the lenders reserve the right to deem loans in default, and in those limited circumstances, could accelerate payment of any outstanding loan balances should the Company undergo a material adverse event. Even though the criteria defining a material adverse event are subjective, the Company does not believe that the exercise of the lenders' right is probable nor does it foresee any material adverse events in 2005. In addition, the Company believes that the $11-7 / 8 \%$ senior secured notes and $10-3 / 8 \%$ senior subordinated notes are long-term in nature. Accordingly, the Company continues to classify its notes as long term.

## SENIOR SECURED NOTES

At June 30,2005 , the Company has $\$ 157.5$ million of $11-7 / 8 \%$ senior secured notes (the "Secured Notes") that are due in October 2007 . Interest is payable on the Secured Notes semiannually on April 1 and October 1. The Secured Notes were offered at a discount of $\$ 0.8$ million, which is being amortized using the interest method over the term of the Secured Notes.

## SENIOR SUBORDINATED NOTES

At June 30,2005 , the Company has $\$ 169.5$ million of $10-3 / 8 \%$ senior subordinated notes (the "Subordinated Notes") that are due in June 2011. Interest is payable on the Subordinated Notes semiannually on June 15 and December 15. The Subordinated Notes were offered at a discount of $\$ 4.2$ million, which is being amortized using the interest method over the term of the Subordinated Notes.

In February 2005, the Company repurchased $\$ 5.5$ million par value of the Subordinated Notes for a total of $\$ 3.9$ million, including $\$ 0.1$ million of accrued interest, using excess cash on hand. The notes were purchased in the open market and were trading at $69 \%$ of their par value at the time of purchase. The repurchase resulted in a gain of approximately $\$ 1.6$ million, which is classified as gain on extinguishment of debt in the consolidated statement of operations. The repurchase will reduce the Company's annual interest charges by approximately $\$ 0.6$ million.

## 11

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

## INTEREST PAYMENTS

Interest payments of $\$ 18.3$ million and $\$ 18.4$ million were made during the six months ended June 30,2005 and 2004 , respectively. Interest of $\$ 5.4$ million was accrued for at June 30,2005 and December 31,2004 , respectively, and is included in other accrued expenses on the consolidated balance sheets.

NOTE 5 - PREFERRED STOCK

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

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

At June 30, 2005, an event of non-compliance continued to exist under our Series C Preferred because the Company's leverage ratio of 9.9 (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. Upon the occurrence of this event of non-compliance, the $5 \%$ per annum dividend rate on the Series C Preferred stock was increased to the current maximum rate of $10 \%$ per annum. The dividend rate will adjust back to $5 \%$ as of the date on which the leverage ratio is less than 7.5 .

The conversion price of the Series C Preferred stock at June 30, 2005 was $\$ 7.61$.
The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the Loan and Security Agreement. As such, there is no acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences have not resulted in any cash outflow from the Company.

Under the conversion terms of the Series C Preferred, each holder has a right to convert dividends into shares of common stock. At June 30, 2005, no dividends have been declared. However, in light of each holder's conversion right and considering the increase in the dividend rate, the Company has recognized a deemed dividend for the beneficial conversion feature inherent in the accumulated dividend based on the original commitment date(s). For the six months ended June $30,2005, \$ 3.7$ million has been reported as an increase in the carrying value of the Series C Preferred stock and a charge to capital in excess of par value in light of the stockholders' deficit.

In September 2004, the Board of Directors of the Company created the Series M Preferred stock ("Series M Preferred") to give management an equity stake in the performance of the Company. The Series M Preferred is limited to 150,000 shares, of which 69,000 shares have been issued at June 30, 2005. The Series M Preferred is treated under fixed plan accounting and is classified in the mezzanine section of the consolidated balance sheets because redemption is outside the control of the Company.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

If the Company had been sold on June 30 , 2005 , the bondholders would have been entitled to receive $\$ 330.3$ million and the preferred stockholders would have been entitled to receive $\$ 158.2$ million before the common stockholders would have received any amounts for their common shares. In addition, the Series $M$ Preferred holders would receive $8 \%$ of all amounts the common stockholder would receive. The amount the preferred stockholders would be entitled to receive could increase significantly in the future under certain circumstances. Common stockholders are urged to read the terms of the preferred stock in their entirety.

NOTE 6 - COMMON STOCK AND COMMON STOCK AWARD PROGRAMS

## EXECUTIVE LOAN PROGRAM

At June 30, 2005 and December 31, 2004, the outstanding loan balance due under the Executive Loan Program was approximately $\$ 5.8$ million. The loan balance is fully reserved for at both periods and is classified in the stockholders' deficit section of the consolidated balance sheets as notes receivable from officers.

## MANAGEMENT STOCK PURCHASE PLAN

During the first six months of 2005 , 69,775 shares of the Company's common stock were issued under this plan leaving a balance of 847 restricted stock units ("RSUs") outstanding at June 30, 2005.

EQUITY AND PERFORMANCE INCENTIVE PLAN

Stock Options
In the first six months of $2005,114,400$ stock options were cancelled, leaving 1,136,525 options outstanding at June 30, 2005.

Deferred Shares
In the first quarter of $2005,614,706$ shares of the Company's common stock were issued under this plan leaving no outstanding deferred shares at June 30, 2005 .

Performance Units

At June $30,2005,113,500$ performance units remain outstanding related to two executives. Subject to the attainment of certain performance goals from January 1, 2003 through December 31, 2005, each grantee can earn a cash award of up to $\$ 2.00$ for each performance unit.

TREASURY STOCK

In the first six months of $2005,28,613$ shares were returned to the Company by a certain executive to cover taxes on deferred shares issued. Treasury stock is purchased for constructive retirement and is carried at cost and recorded as a net decrease in capital in excess of par value.

## NOTE 7 - EMPLOYEE BENEFIT PLANS

Effective January 1, 2004, the Company's defined benefit plan was amended to freeze benefit accruals. The Company is not required to make any contributions to its defined benefit plan in 2005.

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

The following table summarizes the components of our defined benefit pension expense for the three and six months ended June 30, 2005 and 2004 (in thousands) :


Concurrent with the freeze, the Company began making contributions to a new retirement account in the $401(k)$ Plan, which has been renamed the Penton Media, Inc. Retirement and Savings Plan ("RSP"). The RSP now includes the new retirement account and the "old" $401(k)$ savings account. Beginning in 2004 , the Company began making monthly contributions to each employee's retirement account equal to between $3 \%$ and $6 \%$ of the employee's annual salary, based on age and years of service. Effective January 1, 2005, the Company changed the contribution to $3 \%$ and began making contributions quarterly instead of monthly. The Company's contributions become fully vested once the employee has completed five years of service. The Company expects to make contributions of $\$ 1.6$ million to the RSP in 2005. During the first six months of 2005 , contributions of $\$ 0.8$ million have been made.

Effective January 1, 2004, Penton's supplemental executive retirement plan ("SERP") was amended to freeze benefits. The following table summarizes the components of our SERP pension expense for the three and six months ended June 30, 2005 and 2004 (in thousands):

|  | THREE MONTHS ENDED JUNE 30, |  | SIX MONTHS ENDED <br> JUNE 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 | 2005 | 2004 |
| Interest cost | \$ 7 | \$13 | \$13 | \$26 |
| Expected return on plan assets. | -- | -- | -- | -- |
| Net periodic benefit cost (benefit) | \$ 7 | \$13 | \$13 | \$26 |

NOTE 8 - EARNINGS PER SHARE

Earnings per share have been computed pursuant to the provisions of SFAS No. 128, "Earnings Per Share" ("SFAS 128"). Computations of basic and diluted earnings per share for the three and six months ended June 30, 2005 and 2004 are as follows (in thousands, except per share amounts):

```
Net loss applicable to common stockholders
Number of shares:
Weighted average shares outstanding - basic and diluted
Per share amount:
Loss applicable to common stockholders - basic and diluted
Per share amount:
Loss applicable to common stockholders - basic and diluted
Our preferred stock and RSUs are participating securities, such that in the event a dividend is declared or paid on the common stock, the Company must simultaneously declare and pay a dividend on the preferred stock and the RSUs as if the
```

$\$(0.22) \$(0.55) \$(0.22) \$(0$
$==============-=====,===$

THREE MONTHS ENDED
JUNE 30,

| 2005 | 2004 |
| :---: | :---: |


| 2005 |
| :---: |

$\$(7,695) \quad \$(18,634) \quad \$(7,705) \quad \$(29$
$==========$

| 34,489 |  |  |
| ---: | ---: | ---: |
| $=======$ | 33,583$\quad$34,490 | 33, |

SIX MONTHS END
JUNE 30
preferred stock and the RSUs had been converted into common stock. Emerging Issues Task Force ("EITF") Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement 128, Earnings Per Share" ("EITF 03-6") requires that participating securities included in the scope of EITF 03-6 be included in the computation of basic earnings per share if the effect of inclusion is dilutive. At June 30,2005 and 2004 , redeemable preferred stock was excluded from the calculation of basic earnings per share, as the results were anti-dilutive. At June 30, 2004, non-vested RSUs were excluded from the calculation of basic earnings per share, as the results were anti-dilutive. At June 30, 2005, there are no non-vested RSUs.

For the three and six months ended June 30, 2005, 1,136,525 stock options, 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.

For the three and six months ended June 30, 2004, 2,337,680 stock options, 370,000 performance shares, 589,706 non-vested deferred shares, 83, 882 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.

NOTE 9 - COMPREHENSIVE LOSS

Comprehensive loss represents net loss plus the results of certain stockholders equity changes not reflected in the consolidated statements of operations. The after-tax component of comprehensive loss for the three and six months ended June 30, 2005 and 2004 are as follows (in thousands):
Net loss
Cumulative translation adjustment related
to sale of business
Change in accumulated translation adjustment
Total comprehensive loss

| THREE MONTHS ENDED JUNE 30, |  |
| :---: | :---: |
| 2005 | 2004 |
| \$ 5,804$)$ | \$ $(15,226)$ |
| 1,244 |  |
| 57 | (114) |
| \$ (4,503) | \$ (15, 340 ) |
| = = = = = = | ======= |


| 2005 | 2004 |
| :---: | :---: |
| \$ $(3,991)$ | \$ $(21,1$ |
| $\begin{equation*} 1,244 \tag{35} \end{equation*}$ |  |
| \$ (2, 782 ) | \$ $(21,0$ |

NOTE 10 - INCOME TAXES

The effective tax rates for the three months ended June 30, 2005 and 2004 were a provision of $12.3 \%$ and $5.4 \%$ respectively. The higher effective tax rate for the three months ended June 30,2005 compared to June 30,2004 is primarily due to the impact of deferred tax liabilities on indefinite lived intangibles being in the tax provision as a fixed amount while the loss from continuing operations changed between periods. The effective tax rates for the six months ended June 30,2005 and 2004 were a provision of $383.5 \%$ and $8.8 \%$, respectively. The higher effective tax rate for the six months ended June 30,2005 as compared to June 30,2004 is primarily due to the impact of deferred tax liabilities on indefinite lived intangibles being in the tax provision as a fixed amount while the income (loss) from continuing operations changed between periods. For the three months ended June 30,2005 and 2004 , the Company recorded tax expense of $\$ 0.6$ million and $\$ 0.8$ million on a loss from continuing operations before income taxes of $\$ 5.0$ and $\$ 14.2$ million, respectively. For the six months ended June 30 , 2005 and 2004, the Company recorded tax expense of $\$ 1.4$ million and $\$ 1.5$ million on income from continuing operations before income taxes of $\$ 0.4$ million and a loss from continuing operations before income taxes of $\$ 17.5 \mathrm{million}$, respectively.

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"). At June 30, 2005 and December 31, 2004, the valuation allowance for net deferred tax assets and net operating loss carryforwards, excluding the deferred tax liability related to indefinite-lived intangibles, totaled $\$ 101.7$ million and \$106.0 million, respectively.

On June 30, 2005, the State of Ohio enacted new tax legislation that creates a new Commercial Activity Tax ("CAT") which computes taxes based on qualifying "taxable gross receipts" and will not consider any expenses or costs incurred to generate such receipts except for items such as cash discounts, returns and allowances and bad debts. The CAT is effective July 1,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
2005 and replaces the Ohio income-based franchise tax and personal property tax. The CAT is phased in while the current franchise tax is phased out over a five-year period, beginning with the year ended December 31, 2005. Personal property tax is phased out over a four-year period, beginning with the year ended December 31, 2005. During the phase-out period the Ohio income tax will be computed consistently with the current tax law except that the tax liability as
computed will be multiplied by approximately $4 / 5$ for the year ended December 31, 2005, 3/5 for the year ended December 31, 2006 , $2 / 5$ for the year ended December 31, 2007, and $1 / 5$ for the year ended December 31, 2008, therefore eliminating the current tax over a five-year period.

As a result of the new tax structure, all net deferred taxes that are not expected to reverse during the five-year phase-in period have been written off at June 30, 2005. Due to the Company's valuation allowance for net deferred tax assets and net operating loss carryforwards, the law should not have a material impact on our income taxes. The Ohio net operating loss carryforward of $\$ 5.5$ million and its related valuation allowance were adjusted to reflect the expiration of these net operating loss carryforwards due to the change in the law.

The American Job Creation Act of 2004 was signed into law in October 2004. Due to the Company's U.S. tax loss position, the law should not have a material impact on our income taxes.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS

On November 3, 2003, a lawsuit was brought against the Company for an unspecified amount by Alison \& Associates, Inc. under the Telephone Consumer Protection Act ("TCPA"), which prohibits the transmission of unsolicited fax advertisements. The lawsuit is a putative class action that seeks to represent a class of plaintiffs comprised of all individuals and entities who, during the period from November 3, 1999 through the present, received one or more facsimiles sent by or on behalf of the Company advertising the commercial availability of its products or services and who did not give their prior expressed permission or invitation to receive such faxes. The statutory penalty for a single violation of the TCPA is $\$ 500$, although the penalty can increase to $\$ 1,500$ per violation if the Company is found to have willfully or knowingly violated these laws. In June 2005, the two parties settled the case for $\$ 0.05$ million in cash, which was paid entirely with insurance proceeds. The Richmond County, Georgia, Superior Court dismissed the case on June 30, 2005.

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.

## TAX MATTERS

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is probable that our positions will be sustained when challenged by the taxing authorities. As of June 30, 2005, we have not recognized tax benefits of approximately $\$ 2.3$ million relating to various state tax positions. Should the ultimate outcome be unfavorable, we would be required to make a cash payment for all tax reductions claimed as of that date.

CURRENT LIQUIDITY
The Company believes that its existing sources of liquidity, along with revenues

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

expected to be generated from operations, will be sufficient to fund operations, anticipated capital expenditures, working capital, and other financing requirements. However, if the Company continues to incur operating losses and negative cash flows in the future, Penton may need to further reduce its operating costs or obtain alternate sources of financing, or both, to remain viable. The Company's ability to meet cash operating requirements depends upon its future performance, which is subject to general economic conditions and to financial, competitive, business, and other factors. The Company's ability to return to sustained profitability at acceptable levels will

16

PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
depend on a number of risk factors, many of which are largely beyond the Company's control. If the Company is unable to meet its debt obligations or fund its other liquidity needs, particularly if the revenue environment deteriorates, Penton may be required to raise additional capital through additional financing arrangements or the issuance of private or public debt or equity securities. Such additional financing may not be available at acceptable terms. In addition, the terms of our convertible preferred stock and warrants issued, including the conversion price, dividend and liquidation adjustment provisions, could result in substantial dilution to common stockholders. The redemption price premiums and board representation rights could negatively impact our ability to access the equity markets in the future.

## OTHER COMMITMENTS

In February 2005, the Company replaced its printing agreement with R.R. Donnelley dated December 1999 with a new seven-year agreement. The new agreement expires on December 31, 2011 unless a minimum revenue commitment to R.R. Donnelley of $\$ 42.0$ million is not reached, at which time the agreement would extend until the commitment is reached. The Company also agreed to consolidate certain magazines under the new agreement when current contracts with other vendors expire. In exchange, the Company will receive certain credits for 2005 and pricing reductions in 2006 through 2011. In addition, the purchase commitments required in the old agreement of $\$ 7.2$ million and $\$ 6.8$ million in 2005 and 2006, respectively, have been eliminated.

## NOTE 12 - BUSINESS RESTRUCTURING CHARGES

To maintain competitiveness and in reaction to the downturn in the business-to-business media industry, Penton has implemented restructuring actions over the past several years for the purpose of reducing excess capacity, eliminating redundancies and reducing costs.

The cost reduction initiatives included workforce reductions, the consolidation and closure of over 30 facilities, and the cancellation of various contracts.

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

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

In 2001, as part of a broad cost reduction initiative, the Company announced certain expense reductions, including a reduction in workforce of approximately 400 employees, the closure of more than 20 offices worldwide and other exit costs primarily related to the write-off of computerized software development costs. Adjustments to other exit costs of approximately $\$ 1.0$ million in 2001 primarily relate to the reversal of certain restructuring initiatives that did not require the level of spending that had originally been estimated. Adjustments to the 2001 plan in 2002 and 2003 of $\$ 0.6$ million and $\$ 0.3$ million, respectively, were made to facility closing costs to reflect changes in sublease assumption.

## 17

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

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

|  | SEVERANCE <br> AND OTHER <br> PERSONNEL COSTS | FACILITY <br> CLOSING COSTS | OTHER <br> EXIT COSTS | TOTAL |
| :---: | :---: | :---: | :---: | :---: |
| Charged to costs and expenses | \$ 6,774 | \$ 8,669 | \$ 4,364 | \$19,807 |
| Adjustments | (23) | - -- | (994) | $(1,017$ |
| Cash payments | $(4,468)$ | (267) | $(2,423)$ | $(7,158$ |
| Restructuring balance, December 31, 2001 | 2,283 | 8,402 | 947 | 11,632 |
| Adjustments | (135) | (459) | (422) | $(1,016$ |
| Cash payments | $(2,129)$ | $(1,590)$ | (250) | $(3,969$ |
| Restructuring balance, December 31, 2002 | 19 | 6,353 | 275 | 6,647 |
| Adjustments | (8) | 598 | 82 | 672 |
| Cash payments | (11) | (1, 304 ) | (357) | $(1,672$ |
| Restructuring balance, December 31, 2003 | -- | 5,647 | -- | 5,647 |
| Adjustments | -- | 288 | -- | 288 |
| Cash payments | -- | $(1,394)$ | -- | $(1,394$ |
| Restructuring balance, December 31, 2004 | -- | 4,541 | -- | 4,541 |
| Adjustments | -- | 12 | -- | 12 |
| Cash payments | -- | $(1,057)$ | -- | $(1,057$ |
| Restructuring balance, June 30, 2005 | \$ -- | \$ 3,496 | \$ -- | \$ 3,496 |

The Company expects to pay its obligations for non-cancelable facility leases over their respective lease terms, which expire at various dates through 2013.

2002 RESTRUCTURING PLAN

In 2002, the Company announced a number of expense reduction and restructuring initiatives intended to further improve its operating cost structure. The actions included costs of $\$ 5.1$ million related to the closure of nine additional offices worldwide. These amounts were offset in part by approximately $\$ 1.7$ million related to our New York, New York and Burlingame, California offices

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

that were subleased in 2002. In addition, the Company reduced the workforce by approximately 316 employees and recorded a liability for other contractual obligations related primarily to the cancellation of trade show venues, hotel contracts and service agreements. Facility closing cost adjustments of $\$ 1.7$ million in 2002 relate primarily to rent escalation provisions, which had not been taken into consideration when the original 2002 liability was recorded. Adjustments to the 2002 plan in 2003 and 2004 of $\$ 0.6$ million and $\$ 0.3$ million, respectively, were made to facility closing costs to reflect changes in sublease assumption.

## 18

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

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

|  | SEVERANCE <br> AND OTHER <br> PERSONNEL COSTS | FACILITY <br> CLOSING COSTS | OTHER <br> EXIT COSTS | TOTAL |
| :---: | :---: | :---: | :---: | :---: |
| Charged to costs and expenses | \$10,344 | \$ 3,421 | \$1, 648 | \$15,413 |
| Adjustments | 200 | 1,705 | 59 | 1,964 |
| Cash payments | $(5,440)$ | (693) | (967) | $(7,100$ |
| Restructuring balance, December 31, 2002 | 5,104 | 4,433 | 740 | 10,277 |
| Adjustments | (45) | (604) | (92) | ( 741 |
| Cash payments | $(4,928)$ | $(1,469)$ | (375) | $(6,772$ |
| Restructuring balance, December 31, 2003 | 131 | 2,360 | 273 | 2,764 |
| Adjustments | 25 | 300 | 291 | 616 |
| Cash payments | ( 64 ) | (708) | (564) | $(1,336$ |
| Restructuring balance, December 31, 2004 | 92 | 1,952 | -- | 2,044 |
| Adjustments | -- | 201 | -- | 201 |
| Cash payments | ( 4 ) | (290) | -- | ( 294 |
| Restructuring balance, June 30, 2005 | \$ 88 | \$ 1,863 | \$ -- | \$ 1,951 |

The balance of severance costs relate to an executive who will be paid through 2007. Obligations for non-cancelable facility leases will be paid over their respective lease terms, which expire at various dates through 2010.

## 2003 RESTRUCTURING PLAN

In order to meet continued revenue challenges in 2003, the Company implemented a number of additional expense reduction and restructuring activities totaling $\$ 4.9$ million, net of estimated sublease income. The following sets forth additional detail concerning the principal components of this charge:

- Personnel costs of $\$ 2.7$ million are associated with the elimination of 85 positions. Approximately $91 \%$ of the positions eliminated were in the United States, with most of the remaining positions in the United Kingdom.
- The Company recorded office closure costs of $\$ 3.8$ million primarily related
to the closure of one floor at the Company's corporate headquarters and the partial closure of one additional facility. This charge was offset by $\$ 2.3$ million of estimated sublease income related to these facilities.
- The charge for other exit costs of $\$ 0.7$ million relates primarily to equipment lease payments at closed office facilities, cancellation of certain contracts, and broker commissions.


## 19

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

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

|  | SEVERANCE <br> AND OTHER <br> PERSONNEL COSTS | FACILITY <br> CLOSING COSTS | OTHER <br> EXIT COSTS | TOTAL |
| :--- | :---: | :---: | :---: | :---: |

In March 2005, the Company was able to negotiate the termination of all of its restructured copier leases, which were classified in other exit costs, for approximately $\$ 0.1$ million less than its original obligation. The Company was also able to negotiate the settlement of a $\$ 0.06$ million hotel contract obligation. Obligations for non-cancelable facility leases will be paid over their respective lease terms, which expire at various dates through 2010.

2004 RESTRUCTURING PLAN

In order to continue management's efforts to control costs, the Company implemented a number of additional expense reduction and restructuring activities in 2004 totaling $\$ 5.2$ million. The following sets forth additional detail regarding the principal components of this charge:

- Personnel costs of $\$ 4.7$ million are associated with the elimination of 68 positions.
- Office closure costs of $\$ 0.1$ million primarily relate to the closure of a warehouse in Colorado.
- The charge for other exit costs of $\$ 0.4$ million relates primarily to the cancellation of an agreement with a former employee to provide


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

trade show and conference services to select Penton events, as well costs for other miscellaneous contracts.

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

|  | SEVERANCE <br> AND OTHER PERSONNEL COSTS | FACILITY <br> CLOSING COSTS | OTHER <br> EXIT COSTS | TOTAL |
| :---: | :---: | :---: | :---: | :---: |
| Charged to costs and expenses | \$ 4,752 | \$ 51 | \$ 364 | \$ 5,167 |
| Adjustments | 15 | -- | (27) | (12 |
| Cash payments | (4,024) | (1) | (98) | $(4,123$ |
| Restructuring balance, December 31, 2004 | 743 | 50 | 239 | 1,032 |
| Adjustments | 2 | (3) | 20 | 19 |
| Cash payments | (643) | (21) | (141) | ( 805 |
| Restructuring balance, June 30, 2005 | \$ 102 | \$ 26 | \$ 118 | \$ 246 |

The Company expects to complete all severance payments by September 2005. Furthermore, payments related to non-cancelable facility lease obligations and other exit costs are expected to be completed by December 2005 .

20

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

2005 RESTRUCTURING PLAN

In the first quarter of 2005, the Company announced its plans to shut down its Wireless Systems Design magazine, which was part of our Technology segment. The shutdown will result in the termination of eight employees at a cost of approximately $\$ 0.2$ million. As of June 30,2005 , the elimination of all eight positions has been completed.

Activity and liability balances related to the first quarter 2005 restructuring plan, are as follows (in thousands):


## ESTIMATED FUTURE PAYMENTS

Management expects to make cash restructuring payments during the remainder of 2005 of approximately $\$ 0.6$ million, comprised of $\$ 0.1$ million for employee separation costs, $\$ 0.4$ million for facility lease obligations and $\$ 0.1$ million for other contractual obligations. The balance of severance costs will be paid through the first quarter of 2007, and the balance of facility costs, primarily long-term leases, are expected to be paid through the end of their respective lease terms, which extend through 2013.

Amounts due within one year, approximately $\$ 1.2$ million and $\$ 2.7$ million at June 30, 2005 and December 31, 2004, respectively, are classified in other accrued expenses on the consolidated balance sheets. Amounts due after one year, approximately $\$ 5.5$ million and $\$ 6.0$ million at June 30, 2005 and December 31, 2004, respectively, are included in other non-current liabilities on the consolidated balance sheets.

Restructuring charges, including adjustments, for the three and six months ended June 30, 2005 and 2004 are as follows, by segment:

|  | THREE MONTHS ENDED JUNE 30, |  |  | SIX MONTHS ENDED JUNE 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 |  | 2004 | 2005 |  | 2004 |
| Industry | \$260 | \$ | 294 | \$309 | \$ | 643 |
| Technology | (7) |  | 533 | (18) |  | 768 |
| Lifestyle | (65) |  | (3) | (65) |  | 10 |
| Retail | -- |  | 680 | -- |  | 698 |
| Corporate | (2) |  | 2,018 | 26 |  | 2,185 |
| Total | \$186 |  | 3,522 | \$252 |  | 4,304 |

Also included in restructuring and other charges on the consolidated statements of operations for the six months ended June 30, 2004 is approximately $\$ 0.1$ million in legal settlement costs.

NOTE 13 - SEGMENTS

Penton designates its operating segments based on how the chief operating decision maker reviews the Company's performance. As the Company's new CEO, Mr. Nussbaum, along with his executive team, assess and manage the Company's operations differently than the prior management team resulting in a change in the Company's reportable

21

PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
segments effective in the third quarter of 2004 . As a result of this change in reportable segments, all prior periods were recast to conform with the new segment format.

The Company's segments include: Industry, Technology, Lifestyle, and Retail. As discussed in Note 2 - Acquisitions and Disposals, the Company sold PM Germany in

December 2004 and PM Europe in April 2005. These two operating subsidiaries, which are now classified as discontinued operations, made up our International segment. The results of our segments will, consistent with past practice, be regularly reviewed by the Company's chief operating decision maker and the executive team to determine how resources will be allocated to each segment and to assess the performance of each segment. Penton's four segments derive their revenues from publications, trade shows and conferences, and online media products.

Content of each of our segment publications, trade shows and conferences, and online media products is geared to customers in the following market sectors:

## INDUSTRY

----------
Manufacturing
Design/Engineering
Mechanical Systems/Construction
Government/Compliance

Government/Compliance

## LIFESTYLE

Natural Products

TECHNOLOGY

Business Technology
Aviation
Enterprise Information Technology Electronics

RETAIL
------

Food/Retail
Hospitality

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

Summary information by segment for the three months ended June 30, 2005 and 2004, adjusted for discontinued operations, is as follows (in thousands):

|  | REVENUES |  | ADJUSTED SEGMENT EBITDA |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 | 2005 | 2004 |
| Industry | \$20,038 | \$19,485 | \$ 6,284 | \$5,688 |
| Technology | 15,251 | 16,520 | 3,437 | 3,143 |
| Lifestyle | 2,918 | 3,884 | $(1,137)$ | (815) |
| Retail | 5,607 | 6,217 | 1,897 | 1,767 |
| Total | \$43,814 | \$46,106 | \$10,481 | \$9,783 |

Summary information by segment for the six months ended June 30, 2005 and 2004, adjusted for discontinued operations, is as follows (in thousands):

|  | REVENUES |  | ADJUSTED SEGMENT EBITDA |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 | 2005 | 2004 |
| Industry | \$37,453 | \$36,666 | \$11,203 | \$ 9,973 |
| Technology | 28,577 | 30,462 | 5,668 | 5,120 |
| Lifestyle | 20,836 | 21,108 | 10,658 | 10,093 |
| Retail | 10,279 | 10,661 | 3,142 | 2,606 |
| Total | \$97,145 | \$98,897 | \$30,671 | \$27,792 |

## 22

PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
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 consolidated income (loss) from continuing operations before income taxes (in thousands):

|  | THREE MONTHS ENDED JUNE 30, |  | SIX MONTHS ENDED JUNE 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 |  | 2005 | 2004 |
| Total adjusted segment EBITDA | \$10,481 | \$ 9,783 | \$ | 30,671 | \$ 27,792 |
| General and administrative costs | $(3,662)$ | $(5,769)$ |  | $(8,342)$ | $(11,448)$ |
| Depreciation and amortization | $(2,310)$ | $(2,827)$ |  | $(4,577)$ | $(5,675)$ |
| Restructuring and other charges | (186) | $(3,502)$ |  | (252) | $(4,362)$ |
| Executive separation costs | -- | (347) |  | (3) | $(2,701)$ |
| Non-cash compensation | (3) | (559) |  | (14) | (682) |
| Provision for loan impairment | -- | $(1,717)$ |  | -- | $(1,717)$ |
| Interest expense | $(9,363)$ | $(9,362)$ |  | $(18,746)$ | $(18,820)$ |
| Interest income | 32 | 50 |  | 62 | 136 |
| Gain on extinguishment of debt | -- | -- |  | 1,589 | -- |
| Other, net | (16) | 6 |  | (24) | 4 |
| Income (loss) from continuing operations before income taxes | \$ (5, 027) | \$ (14, 244 ) | \$ | 364 | \$(17, 473) |

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

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

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

For the six months ended June 30, 2005, Penton issued 69,775 shares under the Management Stock Purchase Plan and 614,706 deferred shares. In addition, Penton recorded amortization of deemed dividend and accretion on the Series C Preferred of $\$ 3.7$ million in the first half of 2005.

For the six months ended June 30, 2004, Penton issued 11,217 shares under the Management Stock Purchase Plan, 535,056 deferred shares and 17,000 shares under the stock option plan. In February 2004, 473,700 stock options, 595 RSUs and 445,000 deferred shares were granted and in June 2004, an additional 514,706 deferred shares were granted. As a result of the termination of three executives in June 2004, 239,999 stock options and 255,000 performance shares were immediately vested. Furthermore, for the six months ended June 30, 2004, Penton recorded amortization of deemed dividend and accretion on the Series C Preferred of $\$ 8.6 \mathrm{million}$.

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

## NOTE 15 - GUARANTOR AND NON-GUARANTOR SUBSIDIARIES

The following schedules set forth condensed consolidated balance sheets as of June 30, 2005 and December 31, 2004, and condensed consolidated statements of operations for the three and six months ended June 30, 2005 and 2004, and condensed consolidated statements of cash flows for the six months ended June 30, 2005 and 2004. In the following schedules, "Parent" refers to Penton Media, Inc., "Guarantor Subsidiaries" refers to Penton's wholly owned domestic subsidiaries, and "Non-guarantor Subsidiaries" refers to Penton's foreign subsidiaries. "Eliminations" represent the adjustments necessary to eliminate the investments in Penton's subsidiaries.

Effective January 1, 2005, several domestic subsidiaries were merged into Penton Media, Inc. Prior period condensed consolidating financial information has been adjusted to reflect these changes.

PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)
PENTON MEDIA, INC.
CONDENSED CONSOLIDATIED BALANCE SHEETS
AT JUNE 30, 2005

|  | GUARANTOR | NON-GUARANTOR |  |
| :---: | :---: | :---: | :---: |
| PARENT | SUBSIDIARIES | SUBSIDIARIES | ELIMI |

(DOLLARS IN THOUSANDS)
ASSETS
Current assets:
Cash and cash equivalents
Restricted cash
Accounts receivable, net

| 517 | $\$$ | 201 | $\$$ | 958 |
| ---: | ---: | ---: | ---: | ---: |
| 361 | -- | -- |  |  |
| 21,757 | 3,269 |  | 1,222 |  |
| 786 | 307 |  | 5 |  |
| 273 |  | 3 | -- |  |



201 2,386

2,004 2,492
 04 -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATING BALANCE SHEETS
AT DECEMBER 31, 2004


[^0]

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

NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2005



| $\$(15,226)$ | $\$(3,873)$ | $\$(192)$ |
| :--- | :--- | :--- |
| $========$ | $=======$ | $======$ |

27

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

NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)

PENTON MEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2005


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

```
NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)
                            PENTON MEDIA, INC.
    CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
        FOR THE SIX MONTHS ENDED JUNE 30, 2004
```



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

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

NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)
PENTON MEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2005


PENTON MEDIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE 15 -- GUARANTOR AND NON-GUARANTOR SUBSIDIARIES (CONTINUED)
PENTON MEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX MONTHS ENDED JUNE 30, 2004

|  | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIE |
| :---: | :---: | :---: | :---: |
|  |  |  | (DOLLARS IN TH |
| NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES | \$ (12, 825 ) | \$ (15) | \$1,083 |
| CASH FLOWS FROM INVESTING ACTIVITIES: <br> Capital expenditures <br> Net notes receivable | $(1,449)$ -- | (39) | $\begin{array}{r} (31) \\ (188) \end{array}$ |
| Net cash used for investing activities | $(1,449)$ | (39) | (219) |
| CASH FLOWS FROM FINANCING ACTIVITIES: |  |  |  |
| Payment of financing costs | (6) | -- | -- |
| Increase in restricted cash | (193) | -- | -- |
| Increase (decrease) in book overdrafts | (224) | -- | 161 |
| Net cash provided by (used for) financing activities | (423) | -- | 161 |
| Effect of exchange rate changes on cash | 19 | -- | -- |
| Net increase (decrease) in cash and cash equivalents | $(14,678)$ | ( 54 ) | 1,025 |
| Cash and cash equivalents at beginning of period | 27,125 | 147 | 2,354 |
| Cash and cash equivalents at end of period | \$ 12,447 | \$ 93 | \$3,379 |

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

NOTE 16 - SUBSEQUENT EVENTS

On August 8, 2005, the Company acquired the capital stock of DVGM \& Associates, a California corporation doing business under the name MSD2D (Microsoft Developer-to-Developer), for approximately $\$ 1.35$ million in cash. MSD2D's portfolio targets IT system administrators and developers working with Microsoft Exchange, SharePoint, . NET, and Security. Their products include Web sites, directories, email newsletters, trade show programs, webcasts and databases, all of which are synergistic to the Company's other Microsoft product sets.

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

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

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, the impact of U.S. military and political engagement in Iraq, and other geopolitical events;
- the performance of our natural products industry trade shows;
- the seasonality of revenues from trade shows and conferences;
- our ability to launch new products that fit strategically with and add value to our business;
- our ability to penetrate new markets internationally;
- increases in paper and postage costs;
- the effectiveness of our cost-saving efforts;
- the infringement or invalidation of Penton's intellectual property rights;
- pending litigation;
- government regulation;
- competition; and
- technological changes.

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

## OVERVIEW

Penton Media, Inc. is a diversified business-to-business ("b-to-b") 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.

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

Management's key objective is to restore value for our stockholders. We are focused on conserving cash and maintaining liquidity. We reduced our long-term senior debt from $\$ 332.5$ million at December 31,2004 to $\$ 327.0$ million at June 30,2005 through the repurchase of $\$ 5.5$ million face value of our $10-3 / 8 \%$ senior subordinated notes ("Subordinated Notes") in February 2005. The purchase will result in a reduction of the Company's annual interest payments by $\$ 0.6$ million. We continue to work with our Board of Directors on strategies for strengthening the Company's balance sheet.

## RECENT DEVELOPMENTS

## SALE OF PROPERTIES

Penton's management regularly reviews its portfolio to determine what markets and properties provide us with the greatest opportunity for market leadership and long-term growth. As part of that review process, management determined that our International segment did not fit our strategic growth objectives as we focus new product innovation on e-media and on leveraging our strong print brands in the United States and Asia.

In April 2005, the Company completed the sale of $90 \%$ of its interest in Penton Media Europe ("PM Europe") for approximately $\$ 4.4$ million in cash, with no gain or loss on disposal. PM Europe was part of the Company's International segment. The Company accounts for its remaining 10\% interest using the cost method, as the Company does not exercise significant influence.

In December 2004, the Company completed the sale of $70 \%$ of its interest in $P M$ Germany, a consolidated subsidiary, to Neue Medien Ulm Holdings GmbH ("Neue Medien"), for $\$ 0.8$ million in cash. PM Germany was part of our International segment. At June 30,2005 , the Company retains a $15 \%$ interest in PM Germany, which includes a call/put option. The Company accounts for its investment using the cost method, as the Company does not exercise significant influence.

## ACQUISITIONS

In June 2005, the Company acquired the assets of Kosher World Conference \& Expo ("Kosher World") from Shows International for nearly $\$ 0.4$ million in cash plus contingent considerations of up to $\$ 0.7$ million based on the achievement of specified revenue targets for the 2006 event. Kosher World, which was launched two years ago, is a retail-based event serving the kosher market, with emphasis on bringing kosher food products marketers together with buyers from the mass-market grocery channel. Kosher World will be co-located with our Natural Products Expo West event in Anaheim, California, beginning in March 2006.

In August 2005, the Company acquired the capital stock of DVGM \& Associates, a California corporation doing business under the name MSD2D (Microsoft Developer-to-Developer), for approximately $\$ 1.35$ million in cash. MSD2D's portfolio targets IT system administrators and developers working with Microsoft Exchange, SharePoint, . NET, and Security. Their products include Web sites, directories, email newsletters, trade show programs, webcasts and databases, all of which are synergistic to the Company's other Microsoft product sets.

## RESTATEMENT OF FINANCIAL STATEMENTS

On March 24, 2005, the Company's management concluded that the Company's previously issued consolidated financial statements should be restated to increase income tax expense to correct the computation of our valuation allowance for deferred tax assets. Management reached this conclusion following a comprehensive review of the Company's deferred tax assets and deferred tax liabilities. The Company evaluated the materiality of the correction on its consolidated financial statements using the guidelines of Staff Accounting Bulletin No. 99, "Materiality," ("SAB 99") and concluded that the cumulative effects of the corrections were material to its annual consolidated financial statements for 2004, 2003 and 2002 and the related quarterly consolidated financial statements for such periods.

These financial statements reflect adjustments to the Company's previously reported financial information on Form 10-Q for the three and six months ended June 30, 2004. The Company has restated and filed an amendment to its quarterly report on Form 10-Q for the periods March 31, 2004 and June 30, 2004 prior to the filing of its March 31, 2005 and June 30, 2005 Form 10-Qs and will restate the financial statements included in its quarterly report on Form $10-Q$ for the period ended September 30, 2004.

## SENIOR SUBORDINATED NOTES REPURCHASE

In February 2005, the Company repurchased $\$ 5.5$ million par value of its Subordinated Notes for $\$ 3.9$ million, including $\$ 0.1$ million of accrued interest, using excess cash on hand. These notes were purchased in the open market and were trading at 69\% of their par value at the time of purchase. The repurchase resulted in a gain of approximately $\$ 1.6$ million.

RESULTS OF OPERATIONS

## REVENUES

Our magazines generate revenues primarily from the sale of advertising space. Our magazines are primarily controlled circulation and are distributed free of charge to qualified subscribers in our target industries. Subscribers to controlled-circulation publications qualify to receive our trade magazines by verifying their responsibility for specific job functions, including purchasing authority. We survey our magazine subscribers annually to verify their continuing qualification. Trade show exhibitors pay a fixed price per square foot of booth space. In addition, we receive revenues from attendee fees at trade shows and from exhibitor sponsorships of promotional media. Our conferences are supported by either attendee registration fees or marketer sponsorship fees, or a combination of each. Online media revenues are generated from a variety of sources, such as: advertising on Web sites, including search-engine advertising; sponsorship of Web conferences; advertising in and sponsorships of electronic newsletters; sponsorship of content on Web sites and in electronic books; and listings in online databases and directories.

Three-Month Comparison

A summary of these revenues by product for the three months ended June 30, 2005 and 2004 is as follows:

|  | 2005 | 2004 | \$ CHANGE | \% CHANGE |
| :---: | :---: | :---: | :---: | :---: |
|  | (In thousands) |  |  |  |
| Publishing | \$35,364 | \$36,848 | \$ (1, 484) | (4.0) \% |
| Trade shows \& conferences | 3,561 | 4,813 | $(1,252)$ | (26.0) \% |
| Online media | 4,889 | 4,445 | 444 | 10.0\% |
| Total revenues | \$43,814 | \$46,106 | \$ $(2,292)$ | (5.0) \% |

The $\$ 1.5$ million, or $4.0 \%$, decrease in publishing revenues was primarily due to lower advertising revenues, lower subscription revenues and lower list rental revenues. Approximately $\$ 0.2$ million of the decrease was a result of magazines that were shut down, including ePro magazine, which was discontinued in May 2004, and Wireless Systems Design magazine, which was shut down in April 2005. An additional $\$ 0.3$ million of the decrease is due to the shift in timing of two of our Retail Segment special editions, which were published in the second quarter of 2004. One of these magazines was published in the first quarter of 2005 and the other was published in July 2005. The remaining decrease is due to year-on-year declines, primarily in our manufacturing and electronic market sectors. These decreases were partially offset by new custom print revenues, as more customers invest in specialty media products as part of their marketing communications programs.

The $\$ 1.3$ million, or $26.0 \%$, decrease in trade show and conference revenues between the second quarter of 2004 and the second quarter of 2005 is primarily due to a shift in timing of approximately $\$ 1.3$ million in revenues related to three conferences that were held in the second quarter in 2004, but took place in the first quarter 2005. In addition, our Natural Products Expo Europe trade show, which generated revenues of approximately $\$ 1.0$ million in the second quarter of 2004 , was not repeated in 2005 . These decreases were partially offset by an increase in road show revenues of nearly $\$ 1.0$ million and revenues of almost $\$ 0.2$ million related to our Natural Products Expo Japan event, which was held for the first time in the second quarter of 2005.

The $\$ 0.4$ million, or $10.0 \%$ increase in online media revenues was primarily due to increases of nearly $\$ 0.3$ million in Web site-related advertising revenues, an increase of nearly $\$ 0.2$ million in sponsorship revenues, and an increase of $\$ 0.2$ million in electronic newsletter revenues. These increases were partially offset by a decrease of nearly $\$ 0.2$ million in sponsored Web conferences between the second quarter of 2004 and the second quarter of 2005 .

Six-Month Comparison

A summary of revenues by product is as follows:

| SIX MONTHS ENDED JUNE 30, |  |  |  |
| :---: | :---: | :---: | :---: |
| 2005 | 2004 | \$ CHANGE | \% CHANGE |
| (In thousands) |  |  |  |
| \$68,052 | \$70,358 | \$ $(2,306)$ | (3.3) \% |

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

| Trade shows \& conferences | 20,091 | 20,662 | $(571)$ | $(2.8) \%$ |
| :--- | ---: | ---: | ---: | ---: |
| Online media | 9,002 | 7,877 | 1,125 | $14.3 \%$ |
|  | ------ | $---=-$ | ----- |  |
| Total revenues | $\$ 97,145$ | $\$ 98,897$ | $\$(1,752)$ | $(1.8) \%$ |
|  | $=======$ | $=======$ | $=======$ |  |

The $\$ 2.3$ million, or $3.3 \%$, decrease in publishing revenues was primarily due to lower advertising revenues, lower subscription revenues and lower list rental revenues. Approximately $\$ 0.4$ million of the decrease was a result of the 2004 shutdown of our ePro and Wireless Systems Design magazines. An additional $\$ 0.2$ million of the decrease is due to the shift in timing of one of our Retail Segment special editions from June 2004 to July 2005. The remaining decrease is due to year-on-year declines, primarily in our manufacturing, government and electronic market sectors. These decreases were partially offset by new custom print revenues. Although publishing revenues continue to decline, the rate of decline has lessened and the Company is seeing a stabilization trend.

The $\$ 0.6$ million, or $2.8 \%$, decrease in trade show and conference revenues between the first half of 2004 and the first half of 2005 is primarily due to the shut down of our Natural Products Europe event, which had revenues of over $\$ 1.0$ million in 2004; the loss of $\$ 0.6$ million in revenues from our Wireless Systems Design conference, which was shut down after the 2004 event; and the timing of our IW Smart Manufacturing conference, which was held in the second quarter of 2004 and will be held in the third quarter of 2005 . These decreases were partially offset by a year-over-year revenue increase of $\$ 0.9$ million from our Natural Products Expo West show, which was held in March 2005. The show posted growth over the 2004 event in total revenues, number of exhibitors, number of booths sold, and number of attendees, with more than 38,000 attendees in 2005.

The $\$ 1.1$ million, or $14.3 \%$, increase in online media revenues was primarily due to increases of nearly $\$ 0.3$ million in Web site-related advertising revenues, an increase of nearly $\$ 0.4$ million in sponsorship revenues, and an increase of $\$ 0.3$ million in electronic newsletter revenues.

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

EDITORIAL, PRODUCTION AND CIRCULATION


Our editorial, production and circulation expenses include personnel costs, purchased editorial costs, exhibit hall costs, online media costs, postage charges, circulation qualification costs, and paper costs. The decrease in editorial, production and circulation expenses for the second quarter of 2005 compared with the second quarter of 2004 primarily reflect the shift in costs of

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

approximately $\$ 0.7$ million for three conferences, which were held in the second quarter in 2004 but moved to the first quarter 2005. Second quarter and year-to-date 2005 costs also reflect lower printing costs as the Company signed a new seven-year contract with R.R. Donnelley, effective January 1, 2005. The Company agreed to consolidate certain magazines under the new agreement when current contracts with other vendors expire. In exchange, the Company is receiving certain credits in 2005 and pricing reductions in 2006 through 2011. The decrease in second quarter and year-to-date costs also reflects lower headcount and personnel-related costs as a result of restructuring activities completed in 2004.

SELLING, GENERAL AND ADMINISTRATIVE


Our selling, general and administrative ("SG\&A") expenses include personnel costs, independent sales representative commissions, product marketing, and facility costs. Our $S G \& A$ expenses also include costs of corporate functions, including accounting, finance, legal, human resources, information systems, and communications. The decrease in SG\&A expenses for the three months ended June 30, 2005 compared with the same 2004 period is due primarily to Mr. Nussbaum's signing bonus of approximately $\$ 1.7$ million in the second quarter of 2004 as well as a charge of approximately $\$ 0.3$ million related to executive separation costs for Mr. Kemp, former CEO. These second quarter 2004 costs were partially offset by the reversal of $\$ 1.0$ million related to Mr. Nussbaum's executive loan which was repaid in full. The decrease in SG\&A expenses for the six months ended June 30,2005 compared with the same 2004 period was due to the items discussed for the three-month period plus a charge of $\$ 2.7$ million related to executive separation costs that were accrued for in the first quarter of 2004 related to Mr. Kemp, who left the Company on June 30, 2004. The decrease in SG\&A costs for both 2005 periods also reflects lower staff costs, lower facility costs and lower division and corporate overhead costs resulting from past restructuring efforts, and, in particular, the executive changes that took place in June 2004.

RESTRUCTURING AND OTHER CHARGES

|  | THREE MONTHS ENDED JUNE 30, |  |  | SIX MONTHS ENDED JUNE 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 | CHANGE | 2005 | 2004 | CHANGE |
|  | (In millions) |  |  |  |  |  |
| Restructuring and other charges | \$0.2 | \$3.5 | 94.7\% | \$0.3 | \$ 4.4 | 94.2\% |
| Percent of revenues............ | $0.4 \%$ | 7.6\% |  | $0.3 \%$ | 4.4\% |  |

To maintain competitiveness and in reaction to the downturn in the b-to-b media industry, Penton has implemented restructuring actions over the past several
years. The actions were taken to reduce excess capacity, eliminate redundancies and reduce costs.

## 2005 RESTRUCTURING PLAN

In the first quarter of 2005, the Company announced its plans to shut down Wireless Systems Design magazine, which was part of our Technology segment. The shutdown resulted in the termination of eight employees at a cost of approximately $\$ 0.2$ million. As of June 30,2005 , the elimination of all eight positions has been completed. In March 2005, the Company was able to negotiate the termination of all of its restructured copier leases, which were classified in other exit costs, for approximately $\$ 0.1$ million less than its original obligation. In addition, during the second quarter, the Company was able to negotiate the settlement of a $\$ 0.06$ million hotel contract obligation.

## SUMMARY OF RESTRUCTURING ACTIVITIES

The following table summarizes all of the Company's restructuring activity through June 30, 2005 (in thousands):

|  | SEVERANCE <br> AND OTHER <br> PERSONNEL COSTS | FACILITY CLOSING COSTS | OTHER <br> EXIT COSTS | TOTAL |
| :---: | :---: | :---: | :---: | :---: |
| Charges | \$ 6,774 | \$ 8,669 | \$ 4,364 | \$ 19,807 |
| Adjustments | (23) | - -- | (994) | $(1,017)$ |
| Cash payments | $(4,468)$ | (267) | $(2,423)$ | $(7,158)$ |
| Accrual at December 31, 2001 | 2,283 | 8,402 | 947 | 11,632 |
| Charges | 10,344 | 3,421 | 1,648 | 15,413 |
| Adjustments | 65 | 1,246 | (363) | 948 |
| Cash payments | $(7,569)$ | $(2,283)$ | $(1,217)$ | (11,069) |
| Accrual at December 31, 2002 | 5,123 | 10,786 | 1,015 | 16,924 |
| Charges | 2,736 | 1,505 | 661 | 4,902 |
| Adjustments | (18) | (17) | (10) | (45) |
| Cash payments | (6,044) | $(3,273)$ | (965) | $(10,282)$ |
| Accrual at December 31, 2003 | 1,797 | 9,001 | 701 | 11,499 |
| Charges | 4,752 | 51 | 364 | 5,167 |
| Adjustments | 116 | 657 | 255 | 1,028 |
| Cash payments | $(5,830)$ | $(2,217)$ | (903) | $(8,950)$ |
| Accrual at December 31, 2004 | 835 | 7,492 | 417 | 8,744 |
| Charges | 156 | -- | -- | 156 |
| Adjustments | 2 | 241 | (147) | 96 |
| Cash payments | (759) | $(1,378)$ | (152) | $(2,289)$ |
| Accrual at June 30, 2005 | \$ 234 | \$ 6,355 | \$ 118 | \$ 6,707 |

We expect to make cash payments through the remainder of 2005 of approximately $\$ 0.6$ million, comprised of $\$ 0.1 \mathrm{million}$ for employee separation costs, $\$ 0.4$ million for lease obligations and $\$ 0.1$ million for other contractual obligations. The balance of severance costs will be paid through 2007 , and the

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

balance of facility costs, primarily long-term leases, is expected to be paid through the end of the respective lease terms, which extend through 2013.

Amounts due within one year of approximately $\$ 1.2$ million and $\$ 2.7$ million at June 30, 2005 and December 31, 2004, respectively, are classified in other accrued expenses on the consolidated balance sheets. Amounts due after one year of approximately $\$ 5.5$ million and $\$ 6.0$ million at June 30, 2005 and December 31, 2004, respectively, are included in other non-current liabilities on the consolidated balance sheets.

The Company expects that savings from its 2005 restructuring efforts will allow it to recover costs relating to employee terminations by October 2005.

38

OTHER INCOME (EXPENSE)

Other income (expense) consists of the following:


The decrease in interest expense for the six months ended June 30 , 2005 compared with the same period in 2004 was due to the repurchase of $\$ 5.5$ million par value of our Subordinated Notes in February 2005 . The repurchase is expected to reduce interest costs by $\$ 0.6$ million annually. Interest expense for the three months ended June 30,2005 remained flat with the same 2004 period as the Company incurred interest charges when it borrowed funds under its loan and security agreement.

The Company recognized a gain of approximately $\$ 1.6$ million for the six months ended June 30, 2005 from the repurchase of our Subordinated Notes, as discussed above. The Company repurchased $\$ 5.5$ million in notes for approximately $\$ 3.8$ million, as the notes were trading at $69 \%$ of their par value at the time of purchase.

## EFFECTIVE TAX RATES

The effective tax rates for the three months ended June 30, 2005 and 2004 were a provision of $12.3 \%$ and $5.4 \%$, respectively. The higher effective tax rate for the three months ended June 30,2005 compared to June 30,2004 is primarily due to the impact of deferred tax liabilities on indefinite lived intangibles being in the tax provision as a fixed amount while the loss from continuing operations changed between periods. The effective tax rates for the six months ended June 30,2005 and 2004 were a provision of $383.5 \%$ and $8.8 \%$ respectively. The higher effective tax rate for the six months ended June 30,2005 as compared to June 30,2004 is primarily due to the impact of deferred tax liabilities on indefinite lived intangibles being in the tax provision as a fixed amount while the income (loss) from continuing operations changed between periods. For the three months ended June 30, 2005 and 2004, the Company recorded tax expense of

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

$\$ 0.6$ million and $\$ 0.8$ million on a loss from continuing operations before income taxes of $\$ 5.0$ and $\$ 14.2$ million, respectively. For the six months ended June 30 , 2005 and 2004, the Company recorded tax expense of $\$ 1.4$ million and $\$ 1.5$ million on income from continuing operations before income taxes of $\$ 0.4$ million and a loss from continuing operations before income taxes of $\$ 17.5$ million, respectively.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize tax benefits to the extent that it is probable that our positions will be sustained when challenged by the taxing authorities. As of June 30, 2005 we had not recognized tax benefits of approximately $\$ 2.3$ million relating to various state tax positions. Should the ultimate outcome be unfavorable, we would be required to make a cash payment for all tax reductions claimed as of that date.

## DISCONTINUED OPERATIONS

The loss from discontinued operations of $\$ 0.2$ million for the three months ended June 30, 2005, includes the results of operations for PM Europe through the date of its sale in April 2005. The sale of PM Europe was completed for approximately $\$ 4.4$ million in cash, with no gain or loss on disposal. The loss from discontinued operations of $\$ 0.2$ million for the three months ended June 30, 2004 includes the operations of PM Germany, which was sold in December 2004, and the operations of PM Europe.

Discontinued operations include revenues from PM Europe of $\$ 0.1$ million and $\$ 3.9$ million for the three months ended June 30, 2005 and 2004, respectively, and revenues from PM Germany of $\$ 0.9$ million for the three months ended June 30, 2004.

Income taxes on discontinued operations were not material for the three months ended June 30, 2005 and 2004 as the Company had a full valuation allowance established for both entities in the second quarter of 2004.

The loss from discontinued operations of $\$ 3.0$ million for the six months ended June 30, 2005, includes the results of operations from PM Europe through the date of its sale in April 2005. As noted above, the sale of PM Europe was completed in April 2005 for approximately $\$ 4.4$ million, with no gain or loss on disposal. However, the Company recorded impairment charges of $\$ 1.8$ million for long-lived assets during the three months ended March 31, 2005, in contemplation of the sale. The loss from discontinued operations of $\$ 2.1$ million for the six months ended June 30, 2004 includes the operations of PM Germany and the operations of PM Europe.

Discontinued operations include revenues from PM Europe of $\$ 0.7$ million and $\$ 5.0$ million for the six months ended June 30, 2005 and 2004, respectively, and revenues from PM Germany of $\$ 1.6$ million for the six months ended June 30, 2004. Income taxes on discontinued operations were not material for the six months ended June 30, 2005 and were approximately $\$ 0.5$ million for the six months ended June 30, 2004. The Company had a full valuation allowance established for both entities in 2004.

SEGMENTS

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

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

The Company's segments include: Industry, Technology, Lifestyle, and Retail. As discussed in Note 2 - Acquisitions and Disposals, the Company sold PM Germany in December 2004 and PM Europe in April 2005. These two operating subsidiaries, which are now classified as discontinued operations, made up our International segment. The results of our segments will, consistent with past practice, be regularly reviewed by the Company's chief operating decision maker and the executive team to determine how resources will be allocated to each segment and to assess the performance of each segment. Penton's four segments derive their revenues from publications, trade shows and conferences, and online media products.

The executive management team evaluates performance of the segments based on revenues and adjusted segment EBITDA. As such, in the analysis that follows, we have used adjusted segment EBITDA, which we define as net income (loss) before interest, taxes, depreciation and amortization, non-cash compensation, executive separation costs, impairment of assets, restructuring charges, provision for loan impairment, discontinued operations, general and administrative costs, and other non-operating items. General and administrative costs include functions such as finance, accounting, human resources and information systems, which cannot reasonably be allocated to each segment. See Note 13 - Segments, for a reconciliation of total adjusted segment EBITDA to consolidated income (loss) from continuing operations before income taxes.

Financial information by segment for the three months ended June 30, 2005 and 2004, is summarized as follows (in thousands):

|  | REVENUES |  | ADJUSTED |  |  | ADJUSTED EBITDA | SEGMENT MARGIN |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2005 | 2004 |  | 2005 | 2004 | 2005 | 2004 |
| Industry | \$20,038 | \$19,485 | \$ | 6,284 | \$5,688 | 31.4\% | 29.2\% |
| Technology | 15,251 | 16,520 |  | 3,437 | 3,143 | 22.5\% | 19.0\% |
| Lifestyle | 2,918 | 3,884 |  | $(1,137)$ | (815) | (39.0) \% | (21.0) \% |
| Retail | 5,607 | 6,217 |  | 1,897 | 1,767 | $33.8 \%$ | 28.4\% |
| Total | \$43,814 | \$46,106 |  | 10,481 | \$9,783 |  |  |

40

Financial information by segment for the six months ended June 30, 2005 and 2004, is summarized as follows (in thousands):
REVENUES
------------------
$2005 \quad 2004$

ADJUSTED
SEGMENT EBITDA
------------------1

| ADJUSTED | SEGMENT |
| :---: | :---: |
| EBITDA | MARGIN |
| ------------------1 |  |


|  | ------- | ------- | ------- | ------- |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
|  |  |  |  |  |  |  |
| Industry | $\$ 37,453$ | $\$ 36,666$ | $\$ 11,203$ | $\$ 9,973$ | $29.9 \%$ | $27.2 \%$ |
| Technology | 28,577 | 30,462 | 5,668 | 5,120 | $19.8 \%$ | $16.8 \%$ |
| Lifestyle | 20,836 | 21,108 | 10,658 | 10,093 | $51.2 \%$ | $47.8 \%$ |
| Retail | 10,279 | 10,661 | 3,142 | 2,606 | $30.6 \%$ | $24.4 \%$ |
|  | ------- | ------- | ------- | ------- |  |  |
| Total | $\$ 97,145$ | $\$ 98,897$ | $\$ 30,671$ | $\$ 27,792$ |  |  |
|  | $=======$ | $=======$ | $=======$ | $=======$ |  |  |

## INDUSTRY

Three Months

Our Industry segment, which represented $45.7 \%$ and $42.3 \%$ of total Company revenues for the three months ended June 30, 2005 and 2004 , respectively, serves customers in the manufacturing, design/engineering, construction, government/compliance and supply/logistics industries. For the three months ended June 30, 2005 and 2004, respectively, 89.7\% and 94.2\% of this segment's revenues were generated from publishing operations, 3.4\% and 1.6\%, from trade shows and conferences, and $6.9 \%$ and $4.2 \%$ from online media products.

Revenues for this segment increased $\$ 0.6$ million, or $2.8 \%$ from $\$ 19.5$ million for the three months ended June 30,2004 to $\$ 20.0$ million, for the same period in 2005. This increase was due to higher online revenues of $\$ 0.6$ million and higher trade show and conference revenues of $\$ 0.4$ million, partially offset by lower publication revenues of $\$ 0.4$ million. The increase in online revenues was attributable to all groups within the Industry segment, with the manufacturing and design engineering groups showing the largest quarter-on-quarter increases. Higher trade show and conference revenues was due to IndustryWeek and Comfortech road shows held in the second quarter of 2005 , offset in part, by the IW Smart Manufacturing conference, which was held in the second quarter of 2004 but will be held in the third quarter of 2005 . Lower publication revenues were due to lower quarter-on-quarter revenues from our manufacturing group of $\$ 0.4$ million and our government/compliance group of $\$ 0.1$ million.

Adjusted segment EBITDA for our Industry portfolio increased $\$ 0.6$ million, or $10.5 \%$ from $\$ 5.7$ million for the three months ended June 30, 2004 to $\$ 6.3$ million for the same period in 2005. Industry trade shows and conferences increased $\$ 0.3$ million and online media improved $\$ 0.4$ million, while publications decreased by a nearly $\$ 0.1$ million. The increase in adjusted segment EBITDA margin was due primarily to higher revenues and cost reduction efforts undertaken in 2004.

## Six Months

Our Industry segment represented $38.6 \%$ and $37.1 \%$ of total Company revenues for the six months ended June 30,2005 and 2004 , respectively. For the six months ended June 30,2005 and 2004 , respectively, $91.4 \%$ and $95.0 \%$ of this segment's revenues were generated from publishing operations, $1.8 \%$ and $1.1 \%$ from trade shows and conferences, and $6.8 \%$ and $3.9 \%$ from online media products.

Revenues for this segment increased $\$ 0.8$ million, or $2.1 \%$ from $\$ 36.7$ million for the six months ended June 30,2004 to $\$ 37.5$ million for the same period in 2005. This increase was due to higher online revenues of $\$ 1.1$ million and higher trade shows and conference revenues of $\$ 0.3$ million, partially offset by lower publication revenues of $\$ 0.7$ million. The increase in online revenues was attributable to all groups within the Industry segment, with the manufacturing and design engineering groups showing the largest revenues increases. Higher trade show and conference revenues was due to IndustryWeek and Comfortech road shows, which were held in 2005 and not in 2004 , offset in part by the shift in

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

timing of the IW Smart Manufacturing conference, which was held in the second quarter of 2004 but will be held in the third quarter of 2005 . Lower publication revenues was due to lower revenues from our manufacturing group of $\$ 0.7$ million and our government/compliance group of $\$ 0.4$ million, partially offset by an increase of $\$ 0.4$ million from our design engineering group publications.

41

Revenues for the Industry segment reflect the aggressive response its business units have taken to customers' need for integrated marketing solutions that incorporate more online and custom media products, in addition to print advertising and event exhibits or sponsorships.

Adjusted segment EBITDA for our Industry portfolio increased $\$ 1.2$ million, or 12.3\%, from $\$ 10.0$ million for the six months ended June 30, 2004 to $\$ 11.2$ million for the same period in 2005. Industry publications increased $\$ 0.2$ million on reduced revenues, while online media adjusted EBITDA improved $\$ 0.8$ million and trade shows and conferences adjusted EBITDA increased $\$ 0.2$ million. The increase in adjusted segment EBITDA margin was due primarily to higher revenues and cost reduction efforts undertaken in 2004.

## TECHNOLOGY

## Three Months

Our Technology segment, which represented $34.8 \%$ and $35.8 \%$ of total Company revenues for the three months ended June 30,2005 and 2004 , respectively, serves customers in the business technology, aviation, enterprise information technology and electronics industries. For the three months ended June 30,2005 and 2004 , respectively, $62.0 \%$ and $60.6 \%$ of this segment's revenues were generated from publishing operations, $16.0 \%$ and $17.8 \%$ from trade shows and conferences, and $22.0 \%$ and $21.6 \%$ from online media products.

Revenues for this segment decreased $\$ 1.3$ million, or $7.7 \%$ from $\$ 16.5$ million for the three months ended June 30,2004 to $\$ 15.3$ million for the same period in 2005. The decrease was due to lower publishing revenues of $\$ 0.6$ million, lower trade show and conference revenues of $\$ 0.5$ million, and lower online media revenues of $\$ 0.2$ million. The decrease in publishing revenues was primarily the result of lower revenues from our enterprise IT and electronics publications, partially offset by slightly higher revenues from our business technology and aviation group magazines. Lower enterprise IT and electronic group magazine revenues was partially due to the shutdown of our ePro and Wireless Systems Design magazines. The decrease in trade show and conference revenues was attributable to the shift in timing of our SQL Live Spring and ASP Spring events from the second quarter in 2004 to the first quarter in 2005. The decrease in online media revenues was primarily due to the timing and number of Web conferences.

Adjusted segment EBITDA for our Technology portfolio increased $\$ 0.3$ million, or 9.4\%, from \$3.1 million for the three months ended June 30, 2004 to \$3.4 million for the same period in 2005. The increase was attributable to publications of $\$ 0.6$ million, partially offset by a decline of $\$ 0.2$ million in the segment's trade shows and conferences. Adjusted EBITDA for online media remained relatively flat. The increase in adjusted segment EBITDA margin was due primarily to cost-reduction efforts undertaken in this segment, particularly in the publications product line.

Six Months

Our Technology segment represented $29.4 \%$ and $30.8 \%$ of total company revenues for the six months ended June 30,2005 and 2004 , respectively. For the six months

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

ended June 30, 2005 and 2004, respectively, $64.3 \%$ and $63.6 \%$ of this segment's revenues were generated from publishing operations, $14.1 \%$ and $15.8 \%$ from trade shows and conferences, and $21.6 \%$ and $20.6 \%$ from online media products.

Revenues for this segment decreased $\$ 1.9$ million, or $6.2 \%$ from $\$ 30.5$ million for the six months ended June 30,2004 to $\$ 28.6$ million for the same period in 2005. The decrease was due primarily to lower publishing revenues of $\$ 1.0$ million, lower trade show and conference revenues of $\$ 0.8$ million, and lower online media revenues of $\$ 0.1$ million. The decrease in publishing revenues was primarily the result of lower revenues from our enterprise IT and electronics publications, partially offset by slightly higher revenues from our business technology and aviation group magazines. Lower enterprise IT and electronic group magazine revenues was partially due to the shutdown of our ePro and Wireless Systems Design magazines. The decrease in trade show and conference revenues was primarily attributable to the cancellation of our Wireless Systems Design conference, which had revenues of $\$ 0.6$ million in the first quarter of 2004 and was not repeated in 2005. The decrease in online media revenues was primarily due to the timing of Web conferences.

Adjusted segment EBITDA for our Technology portfolio increased $\$ 0.5$ million, or 10.7\%, from $\$ 5.1$ million for the six months ended June 30,2004 to $\$ 5.7$ million for the same period in 2005. The increase was attributable to online media growth of $\$ 0.2$ million and publications growth of $\$ 0.9$ million. These improvements were partially offset by a decline of

## 42

$\$ 0.4$ million in the segment's trade shows and conferences. The increase in adjusted segment EBITDA margin was due primarily to publishing cost reductions.

## LIFESTYLE

Three Months

Our Lifestyle segment, which represented 6.7\% and 8.4\% of total Company revenues for the three months ended June 30,2005 and 2004 , respectively, serves customers in the natural products industry. For the three months ended June 30, 2005 and 2004, respectively, $86.3 \%$ and $72.3 \%$ of this segment's revenues were generated from publishing and $12.3 \%$ and $27.7 \%$ from trade shows and conferences, respectively. Online media products for the three months ended June 30, 2005 generated $1.4 \%$ of segment revenues.

Revenues for this segment decreased $\$ 1.0$ million, or $24.9 \%$ from $\$ 3.9$ million for the three months ended June 30,2004 to $\$ 2.9$ million for the same period in 2005. Trade shows and conferences accounted for $\$ 0.7$ million of this decrease, while publications accounted for the remaining $\$ 0.3$ million decrease. The decrease in trade shows and conference revenues was due to our Natural Products Expo Europe event, which was held in the second quarter of 2004 but was not held in 2005. The decrease in publishing revenues was primarily due to the decrease in "low carb" advertising in 2005 compared with 2004.

Adjusted segment EBITDA for the Lifestyle segment decreased $\$ 0.3$ million, or 39.5\%, from a loss of $\$ 0.8$ million for the three months ended June 30, 2004 to a loss of $\$ 1.1$ million for the same period in 2005. Trade shows and conferences accounted for nearly all of this decline.

## Six Months

Our Lifestyle segment represented 21.4\% and $21.3 \%$ of total Company revenues for the six months ended June 30,2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, respectively, $27.8 \%$ and $29.8 \%$ of this segment's
revenues were generated from publishing and $71.7 \%$ and $70.2 \%$ from trade shows and conferences. Online media products for the six months ended June 30, 2005 generated $0.5 \%$ of segment revenues.

Revenues for this segment decreased $\$ 0.3$ million, or $1.3 \%$ from $\$ 21.1$ million for the six months ended June 30,2004 to $\$ 20.8$ million for the same period in 2005. Publishing revenues accounted for $\$ 0.5$ million of this decrease, offset by an increase in trade show and conference revenues of $\$ 0.1$ million and online media revenues of $\$ 0.1$ million. The decrease in publishing revenues was primarily due to the decrease in "low carb" advertising in 2005 compared with 2004. The increase in trade shows and conference revenues was due to year-on-year growth in our Natural Products Expo West event, which was held in Anaheim, California, in March 2005. The show posted growth in total revenues, number of exhibitors, number of booths sold, and number of attendees, with more than 38,000 visitors attending the event. This increase in trade show and conference revenues was partially offset by the discontinuation of our Natural Products Expo Europe event, which was held in the second quarter of 2004 but not held in 2005. Online media revenues increased through the addition of new Web sites, as management attempts to drive revenue and profits by accelerating eMedia product development.

Adjusted segment EBITDA for the Lifestyle segment increased $\$ 0.6$ million, or $5.6 \%$, from $\$ 10.1$ million for the six months ended June 30, 2004 to $\$ 10.7$ million for the same period in 2005. Trade shows and conferences accounted for nearly all of this improvement.

In June 2005, Penton completed the acquisition of Kosher World, a two-year old event that will be co-located with our Natural Products Expo West event in March 2006. The kosher market has been growing at a rapid pace, driven by both broad consumer appeal for healthier foods and the growth in its religiously oriented customer base. Penton's management believes that the acquisition of Kosher World will provide a good foundation for expansion into more specialty/ethnic/gourmet food markets.

RETAIL

Three Months

Our Retail segment, which represented $12.8 \%$ and $13.5 \%$ of total Company revenues for the three months ended June 30, 2005 and 2004 , respectively, serves customers in the food/retail and hospitality industries. For the three months ended June 30,2005 and 2004 , respectively, $96.0 \%$ and $91.3 \%$ of this segment's revenues were generated from publishing, $2.0 \%$ and $7.6 \%$ from trade shows and conferences, and $2.0 \%$ and $1.1 \%$ from online media products.

Revenues for this segment decreased $\$ 0.6$ million, or $9.8 \%$ from $\$ 6.2$ million for the three months ended June 30,2004 , to $\$ 5.6$ million for the same period in 2005. This decrease was due primarily to lower publishing revenues of $\$ 0.3$ million and lower trade show and conference revenues of $\$ 0.3$ million. Online media revenues remained relatively flat in the second quarter of 2005 compared with the same 2004 period. Lower publishing revenues was due primarily to the timing change of a special issue from May of 2004 to July in 2005 and the timing change of a second special issue from April of 2004 to March in 2005. Lower trade show and conference revenues was due primarily to our Kids Marketing conference, which was held in 2004 and not in 2005.

Adjusted segment EBITDA for the Retail segment increased $\$ 0.1$ million, or $7.4 \%$, from $\$ 1.8$ million for the three months ended June 30,2004 to $\$ 1.9$ million for the same period in 2005. The increase was due to cost-cutting initiatives
undertaken in 2004.

## Six Months

Our Retail segment represented $10.6 \%$ and $10.8 \%$ of total Company revenues for the six months ended June 30, 2005 and 2004, respectively. For the six months ended June 30, 2005 and 2004, respectively, $92.8 \%$ and $92.5 \%$ of this segment's revenues were generated from publishing, 5.0\% and 6.1\% from trade shows and conferences, and $2.2 \%$ and $1.4 \%$ from online media products.

Revenues for this segment decreased $\$ 0.4$ million, or $3.6 \%$ from $\$ 10.7$ million for the six months ended June 30 , 2004 , to $\$ 10.3$ million for the same period in 2005. This decrease was primarily due to lower publishing revenues of $\$ 0.3$ million and lower trade show and conference revenues of $\$ 0.1$ million. Online media revenues remained relatively flat in the second half of 2005 compared with the same 2004 period. The lower publishing revenues was due primarily to the timing change of a special issue from the second quarter of 2004 to the third quarter of 2005 . Lower trade show and conference revenues was primarily due to the discontinuation of the Kids Marketing conference, which was held in 2004 and not repeated this year.

Adjusted segment EBITDA for the Retail segment increased $\$ 0.5$ million, or $20.6 \%$, from $\$ 2.6$ million for the six months ended June 30,2004 to $\$ 3.1$ million for the same period in 2005. The increase was due primarily to cost-cutting initiatives undertaken in 2004.

## LIQUIDITY AND CAPITAL RESOURCES

## CURRENT LIQUIDITY

At June 30, 2005, our principal sources of liquidity are our existing cash reserves of $\$ 1.7$ million and available borrowing capacity under our loan and security agreement of $\$ 36.5$ million. During the second quarter, the Company borrowed $\$ 8.5$ million under the Company's loan and security agreement. The proceeds were used to pay the interest due on April 1 under the Company's 11-7/8\% senior secured notes ("Secured Notes") and interest due on June 15 under the Company's Subordinated Notes. On July 19, 2005, the Company repaid the $\$ 1.2$ million balance outstanding on the Loan and Security Agreement at June 30, 2005 with cash provided from operations.

In February 2005, the Company repurchased $\$ 5.5$ million par value of its Subordinated Notes for $\$ 3.9$ million, including $\$ 0.1$ million of accrued interest, using excess cash on hand. The repurchase will reduce our interest charges by nearly $\$ 0.6$ million annually.

Cash payments expected to be made in the third quarter of 2005 include:

- repayment of loan and security agreement balance of $\$ 1.2$ million;
- annual insurance premium of approximately $\$ 1.1$ million;
- capital expenditures of approximately $\$ 0.4$ million;
- payments related to our business restructuring initiatives of approximately $\$ 0.6$ million; and
- a contribution of $\$ 0.3$ million to our Retirement and Savings Plan.

No debt service charges are required in the third quarter. In addition, we have
no principal repayment requirements until maturity of our Secured Notes in October 2007.

We believe that our existing sources of liquidity, along with revenues expected to be generated from operations, will be sufficient to fund our operations, anticipated capital expenditures, working capital, and other financing requirements. However, we cannot assure you that this will be the case, and if we continue to incur operating losses and negative cash flows in the future, we may need to further reduce our operating costs or obtain alternate sources of financing, or both, to remain in business. Our ability to meet cash operating requirements depends upon our future performance, which is subject to general economic conditions and to financial, competitive, business, and other factors. The Company's ability to return to sustained profitability at acceptable levels will depend on a number of risk factors, many of which are largely beyond the Company's control. If we are unable to meet our debt obligations or fund our other liquidity needs, particularly if the revenue environment does not substantially improve, we may be required to raise additional capital through additional financing arrangements or the issuance of private or public debt or equity securities. We cannot assure you that such additional financing will be available at acceptable terms. In addition, the terms of our convertible preferred stock and warrants issued, including the conversion price, dividend, and liquidation adjustment provisions, could result in substantial dilution to common stockholders. The redemption price premiums and board representation rights could negatively impact our ability to access the equity markets in the future.

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

## ANALYSIS OF CASH FLOWS

Penton's total cash and cash equivalents was $\$ 1.7$ million at June 30, 2005, compared with $\$ 7.7$ million at December 31, 2004. Cash used for operating activities was $\$ 6.2$ million for the six months ended June 30,2005 and $\$ 11.8$ million for the same period in 2004 . Operating cash flows for the six months ended June 30, 2005, reflected a net loss of $\$ 4.0$ million and a net decrease in working capital items of approximately $\$ 7.5$ million, offset by a net increase in non-cash charges (primarily depreciation and amortization) of approximately $\$ 5.2$ million. Operating cash flows for the six months ended June 30, 2004, reflected a net loss of $\$ 21.1$ million and a net decrease in working capital items of approximately $\$ 4.7$ million, offset by non-cash charges (primarily depreciation and amortization and restructuring charges) of approximately $\$ 14.1$ million.

Investing activities provided $\$ 3.2$ million of cash for the six months ended June 30, 2005 primarily from net proceeds of $\$ 4.1$ million from the sale of PM Europe in April 2005, offset by capital expenditures of $\$ 0.5$ million and the acquisition of Kosher World Conference \& Expo in June 2005 for $\$ 0.4$ million. Investing activities used $\$ 1.7$ million of cash for the six months ended June 30 , 2004 primarily for capital expenditures.

Financing activities used $\$ 3.0$ million of cash for the six months ended June 30 , 2005 primarily due to the purchase of $\$ 5.5$ million face value of our
Subordinated Notes at prevailing market prices, partially offset by net proceeds from the Loan and Security Agreement of $\$ 1.2$ million. Financing activities used $\$ 0.3$ million of cash for the six months ended June 30, 2004 primarily due to an increase in restricted cash.

## DEBT SERVICE

At June 30, 2005, we had total indebtedness of $\$ 328.2$ million. Our principal obligations are described below.

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

Subordinated Notes:

In June 2001, we issued $\$ 185.0$ million of the Subordinated Notes due June 2011, of which $\$ 169.5$ million is outstanding at June 30 , 2005. Interest on the notes is payable semiannually, on June 15 and December 15. 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 Subordinated Notes are the Company's unsecured senior subordinated obligations, subordinated in right of payment to all existing and future senior indebtedness, including the Loan and Security Agreement and the Secured Notes discussed below.

In February 2005, the Company repurchased $\$ 5.5$ million par value of the Subordinated Notes for a total of $\$ 3.9$ million, including $\$ 0.1$ million of accrued interest, using excess cash on hand. The notes were purchased in the open market and were trading at $69 \%$ of their par value at the time of purchase. The repurchase resulted in a gain of approximately $\$ 1.6$ million, which is classified in gain on extinguishment of debt in the consolidated statements of operations.

In March 2002, the Company repurchased $\$ 10.0$ million of its Subordinated Notes with $\$ 8.7$ million of the proceeds from the Secured Notes offering, completed in March 2002.

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. The indenture governing the Subordinated Notes contains covenants that, among other things, restrict our and our subsidiaries' ability to borrow money; pay dividends on or repurchase capital stock; make certain investments; enter into agreements that restrict our subsidiaries from paying dividends or making other distributions, making loans or otherwise transferring assets to us or to any other subsidiaries; create liens on assets; engage in transactions with affiliates; sell assets, including capital stock of our subsidiaries; and merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries. Our ability to obtain dividends from our subsidiaries is restricted only if we are in default under our Loan and Security Agreement or if we have exceeded our limitation of additional indebtedness, as specified in the indenture.

Secured Notes:
In March 2002, Penton issued $\$ 157.5$ million of the Secured Notes due in October 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 periods October 1, 2005 through October 1, 2006 and thereafter at redemption prices of approximately $105.9 \%$ and $100.0 \%$ 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. 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, and equal in right of payment with all of our senior indebtedness. The notes and guarantees are secured by a lien on substantially all of our assets and those of our subsidiary guarantors, other than specified excluded assets. Excluded assets consist of, among other things, the capital stock of Duke Communications International, Inc. and Internet World Media, Inc.; the capital stock of our foreign subsidiaries directly owned by us or the subsidiary guarantors which exceed $65 \%$ of the outstanding capital stock or equity interest of such foreign subsidiaries; and all of the capital stock of our other foreign subsidiaries.

The indenture governing the Secured Notes contain covenants that, among other things, restrict our and our subsidiaries' ability to borrow money; pay dividends on or repurchase capital stock; make certain investments; enter into agreements that restrict our subsidiaries from paying dividends or other distributions, making loans or otherwise transferring assets to us or to any other

46
subsidiaries; create liens on assets; engage in transactions with affiliates; sell assets, including capital stock of our subsidiaries; and merge, consolidate or sell all or substantially all of our assets and the assets of our subsidiaries. Our ability to obtain dividends from our subsidiaries is restricted only if we are in default under our Loan and Security Agreement or if we have exceeded our limitation of additional indebtedness, as specified in such agreement.

Loan and Security Agreement:
In August 2003, the Company entered into a four-year revolving Loan and Security Agreement. Pursuant to the terms of the Loan and Security Agreement, the Company can borrow up to the lesser of (i) $\$ 40.0$ million; (ii) $2.25 x$ the Company's last twelve months Consolidated Adjusted EBITDA measured monthly through August 13, 2005 and 2.0x thereafter; (iii) 40\% of the Company's last six months of revenues; or (iv) $25 \%$ of the Company's enterprise value, as determined annually by a third party. The Loan and Security Agreement facility bears interest at LIBOR plus $5.0 \%$ subject to a LIBOR minimum of $1.5 \%$. The Company must comply with a quarterly financial covenant limiting the ratio of maximum bank debt to the last twelve months consolidated adjusted EBITDA to 2.0x. The Loan and Security Agreement permits the Company to sell assets of up to $\$ 12.0$ million in the aggregate during the term or $\$ 5.0$ million in any single asset sale, and complete acquisitions of up to $\$ 5.0$ million per year. Included in the Loan and Security Agreement are three stand-by letters of credit of $\$ 0.1$ million, $\$ 0.1$ million and $\$ 0.9$ million, respectively, required by certain facility leases. The amounts of the letters of credit reduce the availability under the Loan and Security Agreement. As of June 30, 2005, no amounts were drawn under the stand-by letters of credit. Costs representing bank fees and other professional fees of \$1.9 million are being amortized over the life of the agreement. At June 30, 2005, $\$ 36.5$ million was available under the Loan and Security Agreement.

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

As described above, under "Loan and Security Agreement," the Company's borrowing capacity under the Loan and Security Agreement is determined in part by the Company's last 12 months Consolidated Adjusted EBITDA. In addition, under our Loan and Security Agreement, we are not permitted to allow the ratio of outstanding indebtedness to Consolidated Adjusted EBITDA to exceed 2.0 to 1.0 .

Consolidated EBITDA is a non-GAAP financial measure that is presented not as a measure of operating results, but rather as a measure of our ability to service debt. It should not be construed as an alternative to either income (loss) before income taxes, or cash flows from operating activities. Our inability to borrow based on the terms of the Loan and Security Agreement could have a material adverse effect on our liquidity and operations. Accordingly, management believes that the presentation of Consolidated Adjusted EBITDA will provide investors with information needed to assess our ability to continue to have access to funds as necessary. The following table presents a reconciliation of net loss to EBITDA and Consolidated Adjusted EBITDA (in thousands). Other companies may calculate similarly titled measures differently than we do.

47

```
Net loss
Interest expense
Provision for income taxes
Depreciation and amortization
```

EBITDA

Loan and Security Agreement Adjustments:
Restructuring and other charges
Provision for loan impairment
Executive separation costs
Non-cash compensation
Interest income
Discontinued operations, net of taxes
Gain on extinguishment of debt
Other, net

Consolidated Adjusted EBITDA

| THREE MO JUN | $\begin{aligned} & \text { THS ENDED } \\ & 30, \end{aligned}$ | SIX MON <br> JUN | $\begin{aligned} & \text { HS ENDED } \\ & 30, \end{aligned}$ |
| :---: | :---: | :---: | :---: |
| 2005 | 2004 | 2005 | 2004 |
| \$ 5,804$)$ | \$ $(15,226)$ | \$ $(3,991)$ | \$ $(21,128)$ |
| 9,363 | 9,362 | 18,746 | 18,820 |
| 618 | 767 | 1,396 | 1,531 |
| 2,310 | 2,827 | 4,577 | 5,675 |
| 6,487 | $(2,270)$ | 20,728 | 4,898 |
| 186 | 3,502 | 252 | 4,362 |
| -- | 1,717 | -- | 1,717 |
| -- | 347 | 3 | 2,701 |
| 3 | 559 | 14 | 682 |
| (32) | (50) | (62) | (136) |
| 159 | 215 | 2,959 | 2,124 |
| -- | -- | $(1,589)$ | -- |
| 16 | ( 6 ) | 24 | ( 4 ) |
| \$ 6,819 | \$ 4,014 | \$22,329 | \$ 16, 344 |

## CREDIT RATINGS

Our credit ratings as of the date of this report are as follows:

|  | S\&P <br> --- | Moody's <br> ------- |
| :--- | :---: | :---: |
| \$169.5 million $10-3 / 8 \%$ | Senior Subordinated Notes | CC |

A change in the rating of our debt instruments by outside rating agencies would not negatively impact our ability to access our Loan and Security Agreement. A rating reflects only the view of a rating agency and is not a recommendation to buy, sell or hold securities. Any rating can be revised upward or downward at any time by a rating agency if such rating agency decides that circumstances warrant such a change.

## CONVERTIBLE PREFERRED STOCK

In March 2002, we entered into an agreement with a group of investors to sell 50,000 shares of Series B 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 convertible 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 convertible preferred stock and warrants to purchase 320,000 shares of our common stock on March 28, 2002.

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

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

At June 30, 2005 an event of non-compliance continued to exist under our Series C Preferred stock because the Company's leverage ratio of 9.9 (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. Upon the occurrence of this event of non-compliance, the $5 \%$ per annum dividend rate on the preferred stock has increased to the current maximum rate of $10 \%$ per annum. The dividend rate will adjust back to $5 \%$ as of the date on which the leverage ratio is less than 7.5.

The conversion price of the Series C Preferred stock at June 30, 2005 was $\$ 7.61$.
The leverage ratio event of non-compliance does not represent an event of default or violation under any of the Company's outstanding notes or the Loan and Security Agreement. As such, there is no acceleration of any outstanding indebtedness as a result of this event. In addition, this event of non-compliance and the resulting consequences have not resulted in any cash outflow from the Company.

Under the conversion terms of the Series C Preferred, each holder has a right to convert dividends into shares of common stock. At June 30, 2005, no dividends have been declared. However, in light of each holder's conversion right and considering the increase in the dividend rate, the Company has recognized a deemed dividend for the beneficial conversion feature inherent in the accumulated dividend based on the original commitment date(s). For the six months ended June $30,2005, \$ 3.7$ million has been reported as an increase in the carrying value of the Series C Preferred stock and a charge to capital in excess of par value in light of the stockholders' deficit.

In September 2004, the Board of Directors of the Company created the Series M Preferred stock ("Series M Preferred") to give management an equity stake in the performance of the Company. The Series M Preferred is limited to 150,000 shares, of which 69,000 shares have been issued at June 30, 2005. The Series M Preferred is treated under fixed plan accounting and is classified in the mezzanine section of the consolidated balance sheets because redemption is outside the control of the Company.

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

If the Company had been sold on June 30, 2005, the bondholders would have been entitled to receive $\$ 330.3$ million and the preferred stockholders would have been entitled to receive $\$ 158.2$ million before the common stockholders would have received any amounts for their common shares. In addition, the Series M Preferred holders would receive $8 \%$ of all amounts the common stockholder would receive. The amount the preferred stockholders would be entitled to receive could increase significantly in the future under certain circumstances. Common stockholders are urged to read the terms of the preferred stock in their entirety.

## CONTRACTUAL OBLIGATIONS

The following are summaries of our contractual obligations and other commercial commitments as of June 30, 2005 (in thousands):

|  | 2005 | ANNUAL PAYMENTS DUE |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | 2006 | 2007 | 2008 | $\begin{aligned} & \text { AFTER } \\ & 2008 \end{aligned}$ | TOT |
| 10-3/8\% Senior Subordinated Notes (1) | \$ | \$ -- | \$ | \$ | \$169,500 | \$169, |
| 11-7/8\% Senior Secured Notes (1) | -- | -- | 157,500 | -- | -- | 157, |
| Interest on indebtedness (1) | 18,144 | 36,289 | 36,289 | 17,586 | 43,964 | 152, |
| Loan and Security Agreement | 1,200 | -- | -- | -- | -- | 1, |
| Capital lease obligations | 12 | 24 | 25 | 25 | 4 |  |
| Operating leases obligations (2) | 3,406 | 5,191 | 4,627 | 4,496 | 8,024 | 25, |
| Printing contract obligation (3) | 6,000 | 6,000 | 6,000 | 6,000 | 18,000 | 42 , |
| Communications service agreement (4) | 528 | 800 | 133 | -- | -- | 1, |
| Expected pension contributions (5) | -- | -- | 1,800 | -- | -- | 1, |

Other long-term obligations reflected
in the balance sheet

| 264 | 44 | 44 | -- | -- |
| :---: | :---: | :---: | :---: | :---: |
| \$29,554 | \$48,348 | \$206,418 | \$28, 107 | \$239,492 |

(1) There are no required debt principal payments until October 2007. Interest is paid semi-annually in June and December for the Subordinated Notes and April and October for the Secured Notes. In February 2005, the Company repurchased $\$ 5.5$ million par value of its Subordinated Notes for $\$ 3.9$ million, including $\$ 0.1$ million of accrued interest. The Subordinated Notes were purchased in the open market and were trading at $69 \%$ of their par value at the time of purchase. As a result of this repurchase, future interest payments will be reduced annually by approximately $\$ 0.6$ million.
(2) We lease all of our facilities and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2013 and some contain various provisions for rental adjustments.
(3) In February 2005, the Company signed a new agreement with R.R. Donnelley, which expires in December 2011, unless a minimum revenue commitment of $\$ 42.0$ million is not reached, at which time the agreement would extend until the commitment is reached.
(4) In February 2004, the Company amended its communication services agreement with Sprint, originally entered into in 2002 , to extend the term to February 2007. The agreement provides for annual minimum usage levels by Penton of $\$ 0.8$ million each year.
(5) Based on current estimates the Company expects to make a contribution of approximately $\$ 1.8$ million to its defined benefit plan in 2007. No contributions are expected in 2005 or 2006 . Due to the presence of significant variables, actual future contributions may differ materially.

We expect to make contributions totaling $\$ 1.6$ million to the employees Retirement Savings Plan accounts in 2005, of which, $\$ 0.8$ million has already been paid. Contributions are made at the discretion of our Board of Directors.

The Company is self-insured for health and workers' compensation benefits up to certain stop-loss limits. Payments of between $\$ 3.5$ million and $\$ 4.0$ million are expected to be made in 2005 .

In December 2003, the Company entered into an agreement with a former employee to provide trade show and conference services to select Penton events. Under the agreement, the former employee was to receive guaranteed minimum payments of $\$ 0.7$ million in 2005 unless the contract was cancelled. In December 2004, the Company terminated the agreement, which required a $\$ 0.2$ million cancellation fee. The fee is being paid in twelve equal installments throughout 2005.

The Company has three stand-by letters of credit of $\$ 0.1$ million, $\$ 0.1$ million and \$0.9 million respectively, required related to facility leases. As of June 30, 2005, no amounts were drawn under the stand-by letters of credit.

## RISK FACTORS

Management's concerns remain consistent with and should be read in conjunction with the Risk Factors section of the Company's Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2004.

## NEW ACCOUNTING PRONOUNCEMENTS

See Note 1 - Accounting Policies, New Accounting Pronouncements, of the notes to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

During the six months ended June 30, 2005, there were no significant new or changes in any critical accounting policies or estimates.

## FOREIGN CURRENCY

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

SEASONALITY

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

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

Our long-term debt consists of Secured Notes and Subordinated Notes with interest at fixed rates. Consequently, we do not have significant interest rate risk exposure related to our long-term debt. However, the fair value of our notes fluctuates with the market, as they are publicly traded. At June 30, 2005, the fair value of the Subordinated Notes and the Secured Notes was \$141.5 million and $\$ 164.6$ million, respectively, compared to $\$ 115.5$ million and $\$ 157.5$ million, respectively, at December 31, 2004 . The fair value of the notes is determined by the price investors are willing to pay in the open market. We currently do not manage the fair value risk related to our notes.

The table below provides information about the expected cash flows associated with our long-term debt obligations and their fair value at June 30, 2005 (in thousands) :


During the six months ended June 30 , 2005 , there were no other significant changes related to the Company's market risk exposure.

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

## ITEM 4. CONTROLS AND PROCEDURES

## EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure and controls and procedures (as defined in Exchange Act Rules 13a - $15(e)$ and $15 d-15(e))$ that are designed to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding the required disclosures.

As of June 30, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon, and as of the date of, this evaluation, the CEO and the CFO concluded that our disclosure controls and procedures were not effective because of the material weakness discussed below.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

On March 24, 2005, following a comprehensive review of the Company's deferred tax assets and deferred tax liabilities, management concluded that the Company's previously issued consolidated financial statements should be restated to correct the computation of our valuation allowance for deferred tax assets, which resulted in an increase to income tax expense. Management determined that certain deferred tax liabilities had been incorrectly offset against deferred tax assets. Under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," taxable temporary differences related to indefinite-lived intangible assets or tax-deductible goodwill (for which reversal cannot be anticipated) should not be offset against deductible temporary differences for other indefinite-lived intangible assets or tax-deductible goodwill when scheduling reversals of temporary differences. Management determined that this control deficiency constitutes a material weakness in the Company's disclosure controls and procedures and internal control over financial reporting.

Management evaluated the materiality of the correction on its consolidated financial statements using the guidelines of Staff Accounting Bulletin No. 99, "Materiality" and concluded that the cumulative effects of the corrections were material to its annual consolidated financial statements for 2004 , 2003 and 2002 and the related quarterly consolidated financial statements for such periods. As a result, management concluded that it would restate its previously issued consolidated financial statements to recognize the impact of the correction. For complete details, see Note 2 - Restatement, in the notes to the consolidated financial statements included in the Company's Annual Report on Form $10-\mathrm{K}$ for the year ended December 31, 2004.

We are continuing to implement steps to remediate this matter by adding additional levels of tax review and requiring all personnel who have responsibilities for the Company's income taxes to attend an annual SFAS 109 review course.

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During the Company's fiscal quarter ended June 30, 2005, there were no changes in internal control over financial reporting (as defined in Exchange Act Rules $13 a-15(f)$ and $15(d)$ - 15(f)), that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 2005, the Company and Alison \& Associates, Inc., settled the lawsuit brought against the Company under the Telephone Consumer Protection Act, which prohibits the transmission of unsolicited fax advertisements. The settlement amount of $\$ 0.05$ million was paid entirely with insurance proceeds. The Richmond County, Georgia, Superior Court dismissed the case on June 30, 2005.

ITEM 6. EXHIBITS

| 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. |

53

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

Date: August 15, 2005

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

## EXHIBIT NO.

DESCRIPTION OF DOCUMENT

| 31.1 | Principal executive officer's certification pursuant to Section <br> 302 of the Sarbanes-Oxley Act of 2002. |
| :--- | :--- |
| 31.2 | Principal financial officer's certification pursuant to Section <br> 302 of the Sarbanes-Oxley Act of 2002. |
|  | Certification pursuant to 18 U.S.C. Section $1350, ~ a s ~ a d o p t e d ~$ |
|  | pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |


[^0]:    Commitments and contingencies

    Mandatorily redeemable convertible preferred stock 67,162

