PENTON MEDIA INC
Form 10-Q
May 15, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

COMMISSION FILE NUMBER 1-14337

PENTON MEDIA, INC.

(Exact Name of Registrant as Specified in its Charter)

DELAWARE	36-2875386
(State of Incorporation)	(I.R.S. Employer Identification No.)
1300 East Ninth Street, Cleveland, OH	44114
(Address of Principal Executive Offices)	(Zip Code)

216-696-7000

(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date (May 10, 2006).

Common Stock: 34,488,719 shares

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Part I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PENTON MEDIA, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited, Dollars in thousands)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 2,841	$ 632
Restricted cash	239	299
Accounts receivable, net	28,864	27,471
Inventories	863	1,098
Deferred tax asset	314	314
Prepayments, deposits and other	4,657	2,452
Total current assets	37,778	32,266
Property and equipment, net	9,542	10,401
Goodwill	173,619	173,603
Other intangible assets, net	5,488	5,962
Other non-current assets	4,425	4,937
	$ 230,852	$ 227,169
Liabilities and stockholders deficit		
Current liabilities:		
Loan and security agreement revolver	$ 4,500	$ 10,200
Accounts payable	4,196	4,557
Accrued compensation and benefits	3,322	5,016
Other accrued expenses	20,162	9,890
Unearned income, principally trade show and conference deposits	18,171	22,702
Total current liabilities	50,351	52,365
Senior secured notes, net of discount	157,235	157,195
Senior subordinated notes, net of discount	153,023	152,956
Accrued pension liability	12,318	12,400
Deferred tax liability	23,338	22,667
Other non-current liabilities	7,608	8,061
Total liabilities	403,873	405,644
Commitments and contingencies (Note 10)		
Mandatorily redeemable convertible preferred stock, par value $0.01 per share; 50,000 shares authorized, issued and outstanding; redeemable at	76,867	74,849

$1,000 per share (Note 11)		
Series M preferred stock, par value $0.01 per share; 150,000 shares authorized, 71,500 and 69,000 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively (Note 11)	24	18
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; 34,488,719 and 34,487,872 shares issued and outstanding at March 31, 2006 and December 31, 2005, respectively	343	343
Capital in excess of par value	205,437	207,449
Retained deficit	(453,030)	(458,489)
Notes receivable from officers, less reserve of $5,848		
Accumulated other comprehensive loss	(2,662)	(2,645)
	(249,912)	(253,342)
	$ 230,852	$ 227,169

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

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PENTON MEDIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, Dollars and shares in thousands, except per share amounts)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Revenues	$ 54,317	$ 53,331
Operating expenses:		
Editorial, production and circulation	19,741	20,370
Selling, general and administrative	17,348	17,465
Restructuring and other charges (credits), net	(10)	66
Depreciation and amortization	1,455	1,767
	38,534	39,668
Operating income	15,783	13,663
Other income (expense):		
Interest expense	(9,670)	(9,883)
Interest income	20	30
Gain on extinguishment of debt		1,589
Other, net		(8)
	(9,650)	(8,272)
Income from continuing operations before income taxes	6,133	5,391
Provision for income taxes	674	778
Income from continuing operations	5,459	4,613
Discontinued operations:		
Loss from discontinued operations, net of taxes (Note 2)		(2,800)
Net income	5,459	1,813
Amortization of deemed dividend and accretion of preferred stock	(2,018)	(1,823)
Net income (loss) applicable to common stockholders	$ 3,441	$ (10)

Net income (loss) per common share basic and diluted: (Note 13)				
Income from continuing operations applicable to common stockholders	$	0.08	$	0.08
Discontinued operations, net of taxes				(0.08)
Net income (loss) applicable to common stockholders	$	0.08	$	0.00
Weighted-average number of shares outstanding:				
Basic		34,489		34,522
Diluted		34,578		34,522

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

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PENTON MEDIA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, Dollars in thousands)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net cash provided by operating activities	$ 8,097	$ 1,578
Cash flows from investing activities:		
Capital expenditures	(122)	(189)
Decrease (increase) in restricted cash	60	(68)
Net cash used for investing activities	(62)	(257)
Cash flows from financing activities:		
Repurchase of senior subordinated notes		(3,795)
Repayment of loan and security agreement revolver, net	(5,700)	
Decrease in cash overdraft balance	(129)	(348)
Net cash used for financing activities	(5,829)	(4,143)
Effect of exchange rate changes on cash	3	(7)
Net increase (decrease) in cash and cash equivalents	2,209	(2,829)
Cash and cash equivalents at beginning of year	632	7,661
Cash and cash equivalents at end of period	$ 2,841	$ 4,832

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

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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, 2005.

Unless otherwise noted herein, disclosures in this Quarterly Report on Form 10-Q relate only to the Company s continuing operations. The Company s discontinued operations consist of Penton Media Europe (PM Europe), which was sold in April 2005 (See Note 2 Disposals).

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.

Reclassifications

The Company reclassified financing fee amortization for the three months ended March 31, 2005 from the depreciation and amortization line on the statements of operations to the interest expense line in order to conform to the 2006 presentation. This reclassification did not change previously reported net income (loss) or stockholders deficit.

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 March 31, 2006, cash balances totaling $0.2 million were subject to such restrictions, compared to $0.3 million at December 31, 2005.

In the fourth quarter of 2005, the Company revised its classification of restricted cash in its consolidated statements of cash flows to present restricted cash as an investing activity. The revised classification has been reflected for the three months ended March 31, 2005 for purposes of consistency.

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections (SFAS 154). SFAS 154 is a replacement of Accounting Principles Board Opinion (APB) No. 20 and FASB No. 3. This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It established, unless impracticable, retrospective application as the required method of reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. This statement also provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. The reporting of a correction of an error by restating previously issued financial statements is also addressed by SFAS 154. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after

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

December 15, 2005. The Company adopted SFAS 154 on January 1, 2006. The adoption of this standard did not have a material effect on the Company s financial condition, results of operations, or liquidity.

In December 2004, the FASB issued SFAS 123(R), Share-Based Payments (SFAS 123(R)), which replaces SFAS 123, Accounting for Stock-Based Compensation (SFAS 123) and supersedes APB 25, Accounting for Stock Issued to Employees (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. The Company adopted SFAS 123(R) on January 1, 2006 using the modified prospective method. The impact of adopting this standard is discussed in Note 12 Common Stock and Common Stock Award Programs.

The FASB issued SFAS No. 151, Inventory Costs (as amended) (SFAS 151) in November 2004. The provisions of SFAS 151 are intended to eliminate narrow differences between the existing accounting standards of the FASB and the International Accounting Standards Board (IASB) related to inventory costs, in particular, the treatment of abnormal idle facility expense, freight, handling costs and spoilage. SFAS 151 requires that these costs be recognized as current period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of production facilities. SFAS 151, which was adopted by the Company on January 1, 2006, did not have any impact on the Company s financial condition, results of operations, or liquidity.

NOTE 2 DISPOSALS

At March 31, 2005, the assets of PM Europe were classified as held for sale in accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). The sale of 90% of the Company s interest in PM Europe was completed in April 2005 for approximately $4.4 million, with no gain or loss on disposal. However, the Company did record an impairment charge of $1.8 million for its long-lived assets during the three months ended March 31, 2005, in contemplation of the sale. 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 is being accounted for using the cost method, as the Company does not exercise significant influence. This 10% 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, are as follows (in thousands):

		Three Months Ended March 31, 2005
Revenues	$	559
Discontinued operations:		
Loss from operations of discontinued component	$	(2,800)
Gain (loss) on disposal		
Income tax provision		
Loss on discontinued operations, net of taxes	$	(2,800)

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

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at March 31, 2006 and December 31, 2005, respectively, (in thousands):

	March 31, 2006	December 31, 2005
Trade	$ 31,487	$ 28,747
Employee	32	36
Other	4	1,010
	31,523	29,793
Less: Allowance for doubtful accounts	(2,659)	(2,322)
	$ 28,864	$ 27,471

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at March 31, 2006 and December 31, 2005, respectively (in thousands):

	March 31, 2006	December 31, 2005
Leasehold improvements	$ 8,348	$ 8,348
Furniture and fixtures	9,463	9,480
Computer hardware and software	23,138	23,151
Web site development costs	3,183	3,106
Other	340	308
	44,472	44,393
Less: Accumulated depreciation	(34,930)	(33,992)
	$ 9,542	$ 10,401

Depreciation expense was $1.0 million and $1.3 million for the three months ended March 31, 2006 and 2005, respectively.

NOTE 5 GOODWILL AND OTHER INTANGIBLES

Changes in the carrying amount of goodwill for the three months ended March 31, 2006, by operating segment, are as follows (in thousands):

	Balance at December 31, 2005	Activity (1)	Balance at March 31, 2006
Industry	$ 23,519	$	$ 23,519
Technology	39,233	16	39,249
Retail	25,865		25,865

Lifestyle	84,986		84,986
	$ 173,603	$ 16	$ 173,619

(1) Activity of $0.02 million represents adjustments related to MSD2D, which was acquired in August 2005.

As a result of PM Europe being classified as held for sale at March 31, 2005, the Company performed a SFAS 142, Goodwill and Other Intangible Assets analysis for this reporting unit, which resulted in an impairment charge of approximately $1.4 million for the three months ended March 31, 2005. This impairment charge is classified as part of discontinued operations in the consolidated statements of operations.

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

The Company also performed a SFAS 144 impairment analysis of long-lived assets at March 31, 2005 for PM Europe, which resulted in an impairment charge of approximately $0.4 million. This impairment charge is included as part of discontinued operations in the consolidated statements of operations.

NOTE 6 OTHER ACCRUED EXPENSES

Other accrued expenses consists of the following at March 31, 2006 and December 31, 2005, respectively, (in thousands):

	March 31, 2006	December 31, 2005
Accrued restructuring costs short term	$ 1,403	$ 1,159
Accrued interest	14,138	5,414
Accrued taxes	174	329
Accrued other	4,447	2,988
	$ 20,162	$ 9,890

NOTE 7 DEBT

The Company anticipates undertaking refinancing activities in 2006 or early 2007 in order to address the maturing of its 11-7/8% senior secured notes (Secured Notes) due in October 2007 as well as the expiration of its Loan and Security Agreement in August 2007. After October 1, 2006, the Company is permitted to redeem the Secured Notes, in whole or in part, at a redemption price of 100% of the principal amount. Currently, the Company must pay a premium to redeem the Secured Notes. Failure to obtain new financing could have a material adverse effect on the Company s liquidity.

Loan and Security Agreement

At March 31, 2006, $39.6 million was available under the Company s Loan and Security Agreement of which $4.5 million was outstanding and $1.1 million is reserved for outstanding letters of credit related to leased facilities. Pursuant to the terms of the Loan and Security Agreement, the Company can borrow up to the lesser of (i) $40.0 million; (ii) 2.0x the Company s last twelve months adjusted EBITDA; (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 revolver bears interest at Prime plus 3.0%, or at the Company s option, LIBOR plus 5.0% subject to a LIBOR minimum of 1.5%. At March 31, 2006 the weighted average rate on the outstanding balance was 9.59%. The Company must comply with a quarterly financial covenant limiting the ratio of maximum bank debt to the last twelve months adjusted EBITDA to 2.0x. The Loan and Security Agreement expires in August 2007.

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 2006. 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 these notes as long term.

Senior Secured Notes

At March 31, 2006, the Company has $157.5 million of 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 the assets of Penton s domestic subsidiaries, which are 100% owned by the Company, and also by the stock of certain subsidiaries. Condensed consolidating financial information is presented in Note 17 Guarantor and Non-guarantor Subsidiaries. Penton may redeem the Secured Notes, in whole or in part through October 1, 2006 at a redemption price of 105.9375% and thereafter at 100.0% of the principal amount together with accrued and unpaid interest.

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

Senior Subordinated Notes

At March 31, 2006, the Company has $155.3 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 are fully and unconditionally, jointly and severally guaranteed, on a senior subordinated basis, by the assets of Penton s domestic subsidiaries, which are 100% owned by the Company. Condensed consolidating financial information is presented in Note 17 Guarantor and Non-guarantor Subsidiaries. The notes may be redeemed in whole or in part on or after June 15, 2006 at a premium of 105.188%, which reduces annually to 100.0% after June 15, 2009.

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 on the open market and were trading at 69% of their par value at the time of repurchase. The repurchase resulted in a gain of approximately $1.6 million, which is classified as gain on extinguishment of debt in the consolidated statements of operations.

NOTE 8 INCOME TAXES

The effective tax rates for the three months ended March 31, 2006 and 2005 were a provision of 11.0% and 14.4%, respectively. The lower effective tax rate for the three months ended March 31, 2006 compared to March 31, 2005 is primarily due to deferred tax liabilities on indefinite life intangibles being included in the tax provision as a fixed amount while the income from continuing operations changed between periods.

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 March 31, 2006 and December 31, 2005, the Company maintained a full valuation allowance for its net deferred tax assets and net operating loss carryforwards, excluding the deferred tax liability related to indefinite life intangibles.

NOTE 9 EMPLOYEE BENEFIT PLANS

Retirement and Savings Plan

The Penton Retirement and Savings Plan (the RSP) is a 401(k) contribution plan that covers substantially all domestic employees of the Company. The RSP permits participants to defer up to 25% of their compensation. The Company makes quarterly contributions to eligible employees who are employed on the last day of each quarter equal to 3% of the employee s annual compensation. The Company s contributions become fully vested once the employee completes five years of service. During the first three months of 2006, the Company made cash contributions to the RSP of $0.4 million.

Defined Benefit Plan and Supplemental Executive Retirement Plan

Penton s defined benefit pension plan covers all domestic employees who were plan participants at December 31, 2003. In November 2003, the defined benefit plan was amended to freeze the accrual of any benefits under the plan after December 31, 2003. The benefits accrued in the frozen plan, which were based on years of service and annual compensation, are payable to participating employees when they qualify for retirement.

Penton s supplemental executive retirement plan (SERP) covers certain executives of the Company. In November 2003, Penton s SERP was amended to freeze benefits at December 31, 2003. The SERP is an unfunded, non-qualified plan and hence has no plan assets.

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

The following table summarizes the components of our defined benefit pension expense (benefit) and SERP pension expense for the three months ended March 31, 2006 and 2005 (in thousands):

	Retirement Plan Three Months Ended March 31,		SERP Plan Three Months Ended March 31,	
	2006	2005	2006	2005
Interest cost	$ 645	$ 632	$ 7	$ 6
Expected return on plan assets	(727)	(715)		
Net periodic benefit cost (benefit)	$ (82)	$ (83)	$ 7	$ 6

NOTE 10 COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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 the Company s tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for anticipated tax audit issues based on its estimate of whether, and the extent to which, additional taxes will be due. If management ultimately determines that payment of these amounts is unnecessary, it reverses the liability and recognizes a tax benefit during the period in which it determines that the liability is no longer necessary. The Company also recognizes tax benefits to the extent that it is probable that its position will be sustained when challenged by the taxing authorities. As of March 31, 2006 and December 31, 2005, the Company had not recognized tax benefits of approximately $1.4 million, relating to various state tax positions. Should the ultimate outcome be unfavorable, the Company may be required to pay the amount currently accrued.

NOTE 11 PREFERRED STOCK

Series M Preferred Stock

At March 31, 2006, 71,500 shares of Series M Preferred are outstanding. In February 2006, 2,500 shares were issued to three executives. The Series M Preferred is classified in the mezzanine section of the balance sheet because redemption is outside the control of the Company. Compensation associated with the Series M Preferred is based upon its fair value on the date of grant and was immaterial for the three months ended March 31, 2006 and 2005.

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 and second a percentage of what the holders of the Company s common stock would receive upon such liquidation, dissolution, winding up or change of control.

Series C Preferred Stock

At March 31, 2006, an event of non-compliance continues to exist under our Series C Convertible Preferred (Series C Preferred) because the Company s leverage ratio of 9.09 (defined as debt less cash balances in excess of $5.0 million plus the liquidation value of the preferred stock and unpaid dividends divided by adjusted EBITDA) exceeds 7.5. As a result of this event of non-compliance, the 5% per annum dividend rate on the Series C Preferred 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.

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

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.

The conversion price of the Series C Preferred at March 31, 2006 is $7.61.

Under the conversion terms of the Series C Preferred, each holder has a right to convert dividends into additional shares of common stock. At March 31, 2006, 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 three months ended March 31, 2006, $2.0 million has been reported as an increase in the carrying value of the Series C Preferred and a charge to capital in excess of par value in light of the stockholders deficit.

If the Company had been sold on March 31, 2006, proceeds from the sale would generally be required to repay: (i) the outstanding balance due under the Loan and Security Agreement of $4.5 million, (ii) the outstanding balance due to the bondholders of $315.9 million, and (iii) an amount due to the preferred stockholders, including the Series M Preferred holders, before the common stockholders would receive any amounts for their common shares. At March 31, 2006, the preferred holders would have been entitled to receive approximately $188.7 million, but this amount could change significantly in the future under certain circumstances. Common stockholders are urged to read the terms of the Series C Preferred stock agreement carefully.

NOTE 12 COMMON STOCK AND COMMON STOCK AWARD PROGRAMS

Equity and Performance Incentive Plan

On January 1, 2006, the Company adopted the provisions of SFAS 123(R) requiring that compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee s requisite service period (generally the vesting period of the equity award). Prior to January 1, 2006, the Company accounted for share-based compensation to employees in accordance with APB 25, and related interpretations. The Company also followed the disclosure requirements of SFAS 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure . The Company adopted SFAS 123(R) using the modified prospective method and, accordingly, financial statement amounts for prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of recognizing compensation cost relating to non-qualified stock options.

Penton has stock-based compensation plans available to grant non-qualified stock options, incentive stock options, stock appreciation rights, deferred shares, restricted units and restricted stock to key employees. The only awards outstanding under our stock-based compensation plans on January 1, 2006 were non-qualified stock options. According to the plans, the exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock on that date. Options granted under the plans generally vest equally over three years from the date of grant and expire after ten years.

On December 7, 2005, the Company s Board of Directors accelerated the vesting of all outstanding, unvested stock options. The decision to accelerate the vesting of these options was made primarily to eliminate any accounting charge upon the adoption of SFAS 123(R). Consequently, on January 1, 2006, Penton has no unvested options. In addition, no options were granted in 2006 or in 2005.

The adoption of SFAS 123(R) had no impact on income from continuing operations before income taxes, income tax expense, net income (loss), earnings per share, the consolidated balance sheets, or the condensed consolidated statements of cash flows as no compensation expense was recorded, nor were any options granted or exercised. At March 31, 2006, the Company has no unrecognized compensation costs under its equity and performance incentive plans.

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

Under APB 25, there was no compensation cost recognized for our unvested non-qualified stock options at March 31, 2005 as all options granted had an exercise price equal to the market value of the underlying stock at the grant date. The following table sets forth pro forma information as if compensation cost had been determined consistent with the requirements of SFAS 123 for the three months ended March 31, 2005 (in thousands, except per share data):

		Three Months Ended March 31, 2005
Net loss applicable to common stockholders:		
As reported	$	(10)
Add: Stock-based employee compensation expense included in net loss applicable to common stockholders, net of related tax effects		3
Less: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects		(115)
Pro forma net loss applicable to common stockholders	$	(122)
Basic and diluted earnings per share:		
As reported	$	0.00
Pro forma	$	0.00

The following table presents a summary of Penton s stock option activity and related information for the three months ended March 31, 2006 (in thousands, except per share amounts):

	Number of Options		Weighted-Average Exercise Price	Aggregate Intrinsic Value
	Employees	Directors		
Outstanding and exercisable at December 31, 2005				