

PRIVATE MEDIA GROUP INC
Form 10-Q
August 14, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 000-25067

PRIVATE MEDIA GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

87-0365673
(I.R.S. Employer Identification Number)

3230 Flamingo Road, Suite 156, Las Vegas, Nevada 89121

(Registered office)

Carretera de Rubí 22-26, 08190 Sant Cugat del Vallès, Barcelona, Spain

(European headquarters and address of principal executive offices)

34-93-590-7070

Registrant's telephone number

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer Accelerated Filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date

Class	Outstanding at August 10, 2006
Common Stock, par value \$.001	52,945,002

PART I.

Item 1. Financial Statements

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED BALANCE SHEETS

	June 30,		
	December 31,	(Unaudited)	
	2005	2006	2006
	EUR	EUR	USD
	(in thousands)		
ASSETS			
Cash and cash equivalents	3,112	3,016	3,817
Trade accounts receivable	8,813	8,311	10,520
Receivable from sale of building	225		
Related party receivable	5,888	5,993	7,586
Inventories - net (Note 2)	9,780	9,270	11,735
Deferred income tax asset	2,836	2,836	3,590
Prepaid expenses and other current assets	2,953	2,979	3,771
TOTAL CURRENT ASSETS	33,607	32,405	41,019
Library of photographs and videos net	17,058	17,216	21,793
Property, plant and equipment net	2,163	2,095	2,652
Other intangible assets	3,343	3,282	4,155
Goodwill	2,425	2,425	3,069
Other assets	304	319	404
TOTAL ASSETS	58,901	57,742	73,092
LIABILITIES AND SHAREHOLDERS EQUITY			
Short-term borrowings	3,853	3,594	4,549
Current portion of long-term borrowings	1,511	750	950
Accounts payable trade	5,871	5,873	7,434
Income taxes payable	488	146	185
Deferred income taxes	52	52	66
Accrued other liabilities	1,682	1,217	1,540
TOTAL CURRENT LIABILITIES	13,457	11,631	14,723
Long-term borrowings	555	344	436
TOTAL LIABILITIES	14,012	11,976	15,159
SHAREHOLDERS EQUITY			
Common Stock, \$.001 par value, 100,000,000 shares authorized, 52,478,723 and 52,945,002 issued and outstanding at December 31, 2005 and June 30, 2006, respectively	885	885	1,120
Additional paid-in capital	19,585	20,397	25,818
Retained earnings	27,188	27,205	34,437
Accumulated other comprehensive income	(2,769)	(2,720)	(3,443)
TOTAL SHAREHOLDERS EQUITY	44,889	45,767	57,932
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	58,901	57,742	73,092

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See accompanying notes to consolidated statements.

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PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

AND COMPREHENSIVE INCOME (LOSS)

	Three-months ended		Six-months ended		
	June 30,		June 30,		
	(unaudited)		(unaudited)		
	2005	2006	2005	2006	2006
	EUR	EUR	EUR	EUR	USD
	(in thousands)				
Net sales	7,083	7,723	14,521	14,130	17,886
Cost of sales	4,205	4,035	8,678	7,618	9,644
Gross profit	2,878	3,687	5,843	6,512	8,243
Selling, general and administrative expenses (Note 4)	3,618	3,434	7,136	6,870	8,696
Gain on sale of building			1,279		
Operating profit (loss)	(740)	253	(14)	(358)	(453)
Interest expense	193	148	377	304	385
Interest income	51	70	87	117	148
Income (loss) before income tax	(882)	176	(303)	(545)	(690)
Income taxes (benefit)	(241)	(344)	332	(562)	(711)
Net income (loss)	(641)	520	29	17	22
Other comprehensive income:					
Foreign currency adjustments	(432)	18	(491)	50	63
Comprehensive income (loss)	(1,073)	538	(462)	67	85
Net income (loss) per share:					
Basic	(0.01)	0.01	0.00	0.00	0.01
Diluted	(0.01)	0.01	0.00	0.00	0.01

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six-months ended		
	June 30,		
	(unaudited)		
	2005 EUR	2006 EUR	2006 USD
	(in thousands)		
Cash flows from operating activities:			
Net income (loss)	29	17	22
Adjustment to reconcile net income to net cash flows from operating activities:			
Depreciation	571	446	564
Stock based compensation		38	48
Bond adjustment	45	47	60
Bad debt provision	53	8	10
Amortization of other intangible assets	62	62	78
Amortization of photographs and videos	3,303	3,322	4,205
Gain on sale of building	(1,279)		
Effects of changes in operating assets and liabilities:			
Trade accounts receivable	(639)	494	626
Related party receivable	(109)	(105)	(133)
Inventories	(626)	510	645
Prepaid expenses and other current assets	(272)	(427)	(540)
Accounts payable trade	275	1	2
Income taxes payable	(163)	(342)	(433)
Accrued other liabilities	510	(466)	(590)
Net cash provided by operating activities	1,761	3,606	4,565
Cash flows from investing activities:			
Investment in library of photographs and videos	(4,038)	(3,481)	(4,406)
Capital expenditures	(41)	(401)	(507)
Cash received from sale of building	3,412	225	285
Investments in sale of other assets	6	(14)	(18)
Note receivable	385	400	506
Net cash (used in) investing activities	276	(3,271)	(4,140)
Cash flow from financing activities:			
Conversion of stock options		79	100
Short-term borrowings repayments		(259)	(328)
Long-term borrowings repayments	(1,748)	(302)	(382)
Long-term loan additions	56		
Short-term borrowings - additions	223		
Net cash (used in) provided by financing activities	(1,468)	(482)	(610)
Foreign currency translation adjustment	(491)	49	63
Net (decrease) increase in cash and cash equivalents	(476)	(97)	(123)
Cash and cash equivalents at beginning of the period	3,261	3,112	3,940
Cash and cash equivalents at end of the period	2,785	3,016	3,817
Cash paid for interest	283	250	316

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common stock		Common stock		Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amounts EUR	Additional paid-in capital EUR	to be issued EUR			
Balance at January 1, 2005	50,162,176	883	17,321	1,752	27,138	(2,145)	44,951
Repurchase of common stock	(46,479)		(127)				(127)
Conversion of bond principal into common stock	312,500						