

PRIVATE MEDIA GROUP INC  
Form 10-Q  
August 11, 2008

**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, 2008

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)

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

(Registered office)

Calle de la Marina 14-16, Floor 18, Suite D, 08005 Barcelona, Spain

(European headquarters and address of principal executive offices)

34-93-620-8090

(Issuer'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 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

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller Reporting Company

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 8, 2008
Common Stock, par value \$.001	53,580,494

## PART I.

## Item 1. Financial Statements

## PRIVATE MEDIA GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

	December 31, 2007 EUR	June 30, (Unaudited) 2008 EUR      USD	
	(in thousands)		
<b>ASSETS</b>			
Cash and cash equivalents	1,599	954	1,514
Trade accounts receivable	8,591	6,919	10,983
Related party receivable	6,740	6,857	10,884
Inventories - net (Note 2)	7,150	6,680	10,603
Deferred income tax asset	4,332	4,332	6,876
Prepaid expenses and other current assets	2,523	1,515	2,405
<b>TOTAL CURRENT ASSETS</b>	<b>30,935</b>	<b>27,257</b>	<b>43,265</b>
Library of photographs and videos net	17,178	16,634	26,404
Property, plant and equipment net	3,043	3,329	5,284
Other intangible assets	3,095	3,033	4,815
Goodwill	2,425	2,425	3,850
Other investments	1,022	1,022	1,622
Other assets	357	323	512
<b>TOTAL ASSETS</b>	<b>58,056</b>	<b>54,023</b>	<b>85,750</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Short-term borrowings	4,202	4,222	6,702
Current portion of long-term borrowings	111		
Accounts payable trade	4,912	4,470	7,095
Income taxes payable	990	14	23
Deferred income taxes	24	24	38
Accrued other liabilities	1,069	969	1,539
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,308</b>	<b>9,700</b>	<b>15,396</b>
<b>SHAREHOLDERS EQUITY</b>			
\$4.00 Series A Convertible Preferred Stock 10,000,000 shares authorized, none issued and outstanding at December 31, 2007 and June 30, 2008, respectively			
Common Stock, \$.001 par value, 100,000,000 shares authorized, 53,580,494 and 53,580,494 issued and outstanding at December 31, 2007 and June 30, 2008, respectively	885	885	1,405
Additional paid-in capital	21,718	21,725	34,484
Retained earnings	27,262	25,596	40,628
Accumulated other comprehensive income	(3,118)	(3,882)	(6,162)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>46,747</b>	<b>44,323</b>	<b>70,355</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>58,055</b>	<b>54,023</b>	<b>85,751</b>

See accompanying notes to consolidated statements.



## PRIVATE MEDIA GROUP, INC.

## CONSOLIDATED STATEMENTS OF INCOME (LOSS)

## AND COMPREHENSIVE INCOME (LOSS)

	Three-months ended		Six-months ended		
	June 30, (unaudited)		June 30, (unaudited)		
	2007	2008	2007	2008	2008
	EUR	EUR	EUR	EUR	USD
	(in thousands)				
Net sales	6,031	5,200	11,451	10,452	16,590
Cost of sales	2,999	3,562	6,171	6,959	11,045
Gross profit	3,031	1,638	5,280	3,493	5,544
Selling, general and administrative expenses	3,114	2,858	6,201	6,114	9,704
Operating income (loss)	(83)	(1,220)	(921)	(2,621)	(4,160)
Interest expense	80	70	168	148	236
Interest income	63	40	138	116	184
Income (loss) before income taxes	(100)	(1,250)	(952)	(2,653)	(4,211)
Income tax (benefit)	(123)	(424)	(417)	(987)	(1,567)
Net income (loss)	23	(826)	(534)	(1,666)	(2,644)
Other comprehensive income:					
Foreign currency translation adjustments	2	(4)	86	(764)	(1,213)
Comprehensive income	25	(830)	(448)	(2,430)	(3,858)
Net income (loss) per share:					
Basic	0.00	(0.02)	(0.01)	(0.03)	(0.05)
Diluted	0.00	(0.02)	(0.01)	(0.03)	(0.05)

See accompanying notes to consolidated statements.

	Six-months ended		
	June 30,		
	(unaudited)		
	2007	2008	2008
	EUR	EUR	USD
	(in thousands)		
<b>Cash flows from operating activities:</b>			
Net income (loss)	(534)	(1,666)	(2,644)
<b>Adjustment to reconcile net income to net cash</b>			
flows from operating activities:			
Depreciation	392	582	924
Stock based compensation	21	7	11
Bad debt provision	143	55	87
Amortization of other intangible assets	62	62	98
Amortization of photographs and videos	3,436	3,162	5,019
<b>Effects of changes in operating assets and liabilities:</b>			
Trade accounts receivable	555	1,617	2,567
Related party receivable	(216)	(116)	(185)
Inventories	659	470	746
Prepaid expenses and other current assets	(611)	1,008	1,600
Accounts payable trade	117	(442)	(701)
Income taxes payable	(163)	(976)	(1,549)
Accrued other liabilities	(271)	(100)	(159)
Net cash provided by operating activities	3,589	3,664	5,816
<b>Cash flows from investing activities:</b>			
Investment in library of photographs and videos	(4,086)	(2,618)	(4,156)
Capital expenditures	(575)	(870)	(1,382)
Investments in other assets	(17)	35	55
Net cash (used in) investing activities	(4,679)	(3,454)	(5,482)
<b>Cash flow from financing activities:</b>			
Short-term borrowings repayments	(147)	(230)	(365)
Short-term borrowings additions		250	397
Long-term borrowings repayments	(212)	(111)	(176)
Net cash (used in) provided by financing activities	(359)	(91)	(144)
Foreign currency translation adjustment	86	(764)	(1,213)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,363)</b>	<b>(645)</b>	<b>(1,024)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>2,329</b>	<b>1,599</b>	<b>2,538</b>
<b>Cash and cash equivalents at end of the period</b>	<b>966</b>	<b>954</b>	<b>1,514</b>
Cash paid for interest	121	96	153

See accompanying notes to consolidated statements.

## PRIVATE MEDIA GROUP, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Common stock		Additional paid-in capital EUR	Retained earnings EUR	Accumulated other comprehensive income EUR	Total shareholders equity EUR
	Shares	Amounts EUR				
Balance at January 1, 2007	53,148,166	885	20,675	27,667	(2,893)	46,334
Repurchase of common stock	(2,999)		(8)			(8)
Shares issued for investment	435,327		1,022			1,022
Stock based compensation			28			28
Translation adjustment					(224)	(224)
Net income (loss)				(405)		(405)
Balance at December 31, 2007	53,580,494	885	21,718	27,262	(3,118)	46,748
Stock based compensation			7			7
Translation adjustment					(764)	(764)