

METROMEDIA INTERNATIONAL GROUP INC
Form 10-Q/A
February 25, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 1 to
FORM 10-Q/A**

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2003

COMMISSION FILE NO. 1-5706

METROMEDIA INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

58-0971455
(I.R.S. Employer
Identification No.)

8000 Tower Point Drive, Charlotte, North Carolina 28227

(Address and zip code of principal executive offices)

(704) 321-7380

(Registrant's telephone number, including area code)

505 Park Avenue, 21st Floor, New York, New York 10022

(Former name or former address, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the securities exchange act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b of the exchange act). Yes No

The number of shares of common stock outstanding as of June 30, 2003 was 94,034,947.

Restatement of Prior Financial Information

The Company determined that the following accounting errors had been made in its past financial statements:

1. The Company has determined that it should have recorded a \$2.1 million tax refund that it received on November 10, 2003 from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, in fiscal year 2002. Specifically, the Company has determined that it should have recorded an income tax benefit within the "Income tax expense" line item within its consolidated financial statements in each of the three months ended March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002 of \$1.1 million, \$0.8 million, \$41.0 thousand and \$0.2 million, respectively;
2. The Company has determined that it should have recorded a \$2.3 million tax refund from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, that the Company had previously recorded within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002 in an earlier accounting period in 2002. Specifically, the Company has determined that it should have recorded the \$2.3 million income tax benefit within the "Income tax expense" line item within its consolidated financial statements for the three months ended March 31, 2002. In connection with this adjustment, the Company reclassified \$66.0 thousand of interest from discontinued components to "Interest income" in the three months ended December 31, 2002;
3. The Company has determined that it should have recorded a \$0.8 million income tax receivable, related to a refund owed to the Company based on an amended state tax return filed in early January 2003, within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002; and
4. The Company historically accounted for unpaid dividends on its 7¹/₄% cumulative convertible preferred stock ("the Preferred Stock") on a simple interest basis; however, according to the Preferred Stock Certificate of Designation, cumulative unpaid dividends are subject to quarterly compounding. The Company has recalculated the cumulative unpaid dividend amount for 2002 and 2003 based on the date of the first unpaid dividend and has increased the quarterly dividend expense amounts in the 2002 and 2003 quarterly periods by \$0.2 million, \$0.3 million, \$0.4 million, \$0.4 million and \$0.5 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002 and March 31, 2003, respectively. Under-reported dividend expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of March 31, 2003 the total dividend in arrears was \$32.6 million.

The effects of the tax adjustments resulted in an increase in "Prepaid expenses and other current assets" of \$2.1 million; an increase in "Current assets of discontinued components" of \$0.8 million; and a reduction of "Accumulated deficit" of \$2.9 million at December 31, 2002 and March 31, 2003 and no impact on the condensed statement of cash flows for the three months ended March 31, 2003 and 2002. The adjustment related to the dividends has no impact on the balance sheet or on the statement of cash flows.

The effects of the adjustments for income statement purposes are summarized in the following financial results tables:

	March 31, 2003		March 31, 2002	
	Three Months Ended		Three Months Ended	
	Originally Reported	Restated	Originally Reported	Restated
Revenues	\$ 22,715	\$ 22,715	\$ 20,582	\$ 20,582

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	March 31, 2003		March 31, 2002	
Operating loss	(8,239)	(8,239)	(9,692)	(9,692)
Income tax (expense) benefit	(1,396)	(1,396)	(1,422)	2,021
Loss from continuing operations	(15,112)	(15,112)	(17,158)	(13,715)
Loss from discontinued components	(188)	(188)	(13,587)	(13,587)
Cumulative effect of a change in accounting principle			(3,157)	(3,157)
Net loss	(15,300)	(15,300)	(33,902)	(30,459)
Cumulative convertible preferred stock dividend	(3,752)	(4,255)	(3,752)	(3,960)
Net loss attributable to common stockholders	\$ (19,052)	\$ (19,555)	\$ (37,654)	\$ (34,419)
Loss per common share attributable to common stockholders				
Basic & Diluted:				
Continuing operations	\$ (0.20)	\$ (0.21)	\$ (0.23)	\$ (0.20)
Discontinued components			(0.14)	(0.14)
Cumulative effect of a change in accounting principle			(0.03)	(0.03)
Net loss per common share attributable to common stockholders	\$ (0.20)	\$ (0.21)	\$ (0.40)	\$ (0.37)

Amended Items

The Company hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, as set forth herein:

Part I Financial Information

Item 1. Financial Statements.

The financial information of the Company is amended to read in its entirety as set forth at pages 5 through 27 herein and is incorporated herein by reference.

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

The information set forth under the caption "Management's Discussion and Analysis" is amended to read in its entirety as set forth at pages 28 through 45 herein and is incorporated herein by reference.

Item 4. Controls and Procedures

The information set forth under the caption "Controls and Procedures" is amended to read in its entirety as set forth at pages 48 through 50 herein and is incorporated herein by reference.

Part II Other Information

Item 3. Defaults upon Senior Securities.

The information set forth under the caption "Defaults upon Senior Securities" is amended to read in its entirety as set forth on page 51 herein and is incorporated herein by reference.

Item 6. Exhibits and Reports on Form 8-K.

The list of exhibits set forth in, and incorporated by reference from, the Exhibit Index, is amended to include the following additional exhibits:

- 31.1* Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003
- 31.2* Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003
- 32.1* Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003
- 32.2* Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act, with respect to Amendment No. 1 on Form 10-Q/A to the registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003

*
Filed herewith

METROMEDIA INTERNATIONAL GROUP, INC.
Index to
Quarterly Report on Form 10-Q

PART I FINANCIAL INFORMATION

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METROMEDIA INTERNATIONAL GROUP, INC.
Consolidated Condensed Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	<u>Three months ended March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(restated)	
Revenues	\$ 22,715	\$ 20,582
Cost and expenses:		
Cost of sales and operating expenses	5,685	5,286
Selling, general and administrative	19,076	17,976
Depreciation and amortization	6,193	7,012
Operating loss	(8,239)	(9,692)
Other income/(expense):		
Interest expense	(5,682)	(5,912)
Interest income	169	331
Equity in income of unconsolidated investees	2,659	522
Foreign currency income/(expense)	489	(329)
Other (expense)/income	(543)	581
	(2,908)	(4,807)
Loss before income tax expense, minority interest, discontinued components and the cumulative effect of a change in accounting principle	(11,147)	(14,499)
Income tax (expense)/benefit	(1,396)	2,021
Minority interest	(2,569)	(1,237)
Loss from continuing operations before discontinued components and the cumulative effect of a change in accounting principle	(15,112)	(13,715)
Loss from operations of discontinued components	(188)	(13,587)
Cumulative effect of a change in accounting principle	(3,157)	(3,157)
Net loss	(15,300)	(30,459)
Cumulative convertible preferred stock dividend requirement	(4,255)	(3,960)
Net loss attributable to common stockholders	\$ (19,555)	\$ (34,419)

	Three months ended March 31,	
	94,035	94,035
Weighted average number of common shares Basic and diluted	94,035	94,035
Loss per common share attributable to common stockholders Basic and diluted: Continuing operations	\$ (0.21)	\$ (0.19)
Loss from operations of discontinued components		(0.15)
Cumulative effect of a change in accounting principle		(0.03)
Net loss per common share attributable to common stockholders	\$ (0.21)	\$ (0.37)

See accompanying notes to consolidated condensed financial statements.

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METROMEDIA INTERNATIONAL GROUP, INC.
Consolidated Condensed Balance Sheets
(in thousands)
(unaudited)

	March 31, 2003	December 31, 2002
	(restated)	
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	\$ 25,676	\$ 27,542
Investments	2,500	500
Accounts receivable, net	7,492	7,798
Inventories	2,039	2,413
Prepaid expenses and other assets	8,902	9,861
Current assets of discontinued components	10,455	10,368
Total current assets	57,064	58,482
Investments in and advances to business ventures	29,785	38,244
Property, plant and equipment, net	85,537	86,006
Goodwill	34,733	34,733
Intangible assets, net	18,031	19,111
Other assets	7,433	4,947
Noncurrent assets of discontinued components	14,556	17,436
Business ventures held for sale	30,158	31,189
Total assets	\$ 277,297	\$ 290,148

LIABILITIES AND STOCKHOLDERS' DEFICIENCY:

Current liabilities:		
Accounts payable	\$ 6,269	\$ 6,969
Accrued expenses	43,455	38,538
Current portion of long-term debt	1,861	1,797
Current liabilities of discontinued components	15,190	17,399

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	March 31, 2003	December 31, 2002
Total current liabilities	66,775	64,703
Long-term debt, less current portion	213,351	213,864
Other long-term liabilities	3,667	2,412
Total liabilities	283,793	280,979
Minority interest (including \$866 and \$298, related to discontinued components at March 31, 2003 and December 31, 2002)	31,571	31,667
Commitments and contingencies		
Stockholders' deficiency:		
7 ¹ / ₄ % Cumulative Convertible Preferred Stock	207,000	207,000
Common Stock, \$1.00 par value, authorized 400.0 million shares, issued and outstanding 94.0 million shares at March 31, 2003 and December 31, 2002	94,035	94,035
Paid-in surplus	1,102,769	1,102,769
Accumulated deficit	(1,429,654)	(1,414,354)
Accumulated other comprehensive loss	(12,217)	(11,948)
Total stockholders' deficiency	(38,067)	(22,498)
Total liabilities and stockholders' deficiency	\$ 277,297	\$ 290,148

See accompanying notes to consolidated condensed financial statements.

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METROMEDIA INTERNATIONAL GROUP, INC.
Consolidated Condensed Statements of Cash Flows
(in thousands)
(unaudited)

	Three months ended March 31,	
	2003	2002
Cash used in operating activities	\$ (4,694)	\$ (3,700)
Investing activities:		
Investments in and advances to business ventures	(142)	(206)
Distributions from business ventures	11,968	949
Purchase of investments	(2,000)	
Additions to property, plant and equipment	(3,061)	(3,295)
Other, net	(1,219)	
Cash provided by (used in) investing activities	5,546	(2,552)
Financing activities:		
Payments on notes and debt	(449)	(249)
Dividends paid to minority shareholders	(3,233)	

	Three months ended March 31,	
	_____	_____
Cash used in financing activities	(3,682)	(249)
Cash provided by discontinued components, net	964	84
Net decrease in cash and cash equivalents	(1,866)	(6,417)
Cash and cash equivalents at beginning of period	27,542	25,043
Cash and cash equivalents at end of period	\$ 25,676	\$ 18,626

See accompanying notes to consolidated condensed financial statements.

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METROMEDIA INTERNATIONAL GROUP, INC.
Consolidated Condensed Statement of Stockholders' Deficiency and Comprehensive Loss
(in thousands)
(unaudited)
(restated)

	7 1/4% Cumulative Convertible Preferred Stock		Common Stock		Paid-in Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Loss	Total Stockholders' Deficiency
	Number of Shares	Amount	Number of Shares	Amount					
Balances at December 31, 2002	4,140	\$ 207,000	94,035	\$ 94,035	\$ 1,102,769	\$ (1,414,354)	(11,948)		\$ (22,498)
Net loss						(15,300)		\$ (15,300)	(15,300)
Other comprehensive income:									
Foreign currency translation adjustments							(269)	(269)	(269)
Total comprehensive loss								\$ (15,569)	
Balances at March 31, 2003	4,140	\$ 207,000	94,035	\$ 94,035	\$ 1,102,769	\$ (1,429,654)	(12,217)		\$ (38,067)

See accompanying notes to consolidated condensed financial statements

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Metromedia International Group, Inc.

Notes to Unaudited Consolidated Condensed Financial Statements

1. Basis of Presentation, Description of Business, Going Concern and Recent Developments

Basis of Presentation

The accompanying consolidated condensed financial statements include the accounts of Metromedia International Group, Inc. ("MMG" or the "Company") and its direct and indirect wholly-owned subsidiaries, Metromedia International Telecommunications, Inc. and PLD Telekom, Inc. All significant intercompany transactions and accounts have been eliminated. Certain reclassifications have been made to the consolidated financial statements for prior years to conform to the current presentation.

The Company is a holding company with ownership interests in telephony, cable television and radio broadcasting businesses that operate in Russia, Georgia, and other Eastern European countries. The telephony businesses generate 70% of consolidated revenues, while the cable television and radio broadcasting businesses generate 16% and 14%, respectively, of consolidated revenues.

These condensed consolidated financial statements also include the Snapper, Inc. ("Snapper"); ALTEL, CPY Yellow Pages and MetroMedia China ("MCC"), SAC, Radio Katusha and Technocom businesses; which have been presented as discontinued business components (See Note 3 Discontinued Business Components).

The accompanying interim consolidated condensed financial statements have been prepared without audit pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2002. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of March 31, 2003, and the results of its operations and its cash flows for the three-month periods ended March 31, 2003 and 2002, have been included. The results of operations for the interim period are not necessarily indicative of the results which may be realized for the full year.

Restatement of Prior Financial Information

The Company determined that the following accounting errors had been made in its past financial statements:

1. The Company has determined that it should have recorded a \$2.1 million tax refund that it received on November 10, 2003 from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, in fiscal year 2002. Specifically, the Company has determined that it should have recorded an income tax benefit within the "Income tax expense" line item within its consolidated financial statements in each of the three months ended March 31, 2002, June 30, 2002, September 30, 2002 and December 31, 2002 of \$1.1 million, \$0.8 million, \$41.0 thousand and \$0.2 million, respectively;

2. The Company has determined that it should have recorded a \$2.3 million tax refund from the United States Department of Treasury, related to the carry-back of certain AMT losses which recovered taxes paid in prior years, that the Company had previously recorded within the "Loss

from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002 in an earlier accounting period in 2002. Specifically, the Company has determined that it should have recorded the \$2.3 million income tax benefit within the "Income tax expense" line item within its consolidated financial statements for the three months ended March 31, 2002. In connection with this adjustment, the Company reclassified \$66.0 thousand of interest from discontinued components to "Interest income" in the three months ended December 31, 2002;

3. The Company has determined that it should have recorded a \$0.8 million income tax receivable, related to a refund owed to the Company based on an amended state tax return filed in early January 2003, within the "Loss from discontinued components" line item within its consolidated financial statements for the three and twelve month periods ended December 31, 2002; and

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4. The Company historically accounted for unpaid dividends on its 7¹/₄% cumulative convertible preferred stock ("the Preferred Stock") on a simple interest basis; however, according to the Preferred Stock Certificate of Designation, cumulative unpaid dividends are subject to quarterly compounding. The Company has recalculated the cumulative unpaid dividend amount for 2002 and 2003 based on the date of the first unpaid dividend and has increased the quarterly dividend expense amounts in the 2002 and 2003 quarterly periods by \$0.2 million, \$0.3 million, \$0.4 million, \$0.4 million and \$0.5 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002 and March 31, 2003, respectively. Under-reported dividend expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of March 31, 2003 the total dividend in arrears was \$32.6 million.

The effects of the tax adjustments resulted in an increase in "Prepaid expenses and other current assets" of \$2.1 million; an increase in "Current assets of discontinued components" of \$0.8 million; and a reduction of "Accumulated deficit" of \$2.9 million at December 31, 2002 and March 31, 2003 and no impact on the condensed statement of cash flows for the three months ended March 31, 2003 and 2002. The adjustment related to the dividends has no impact on the balance sheet or on the statement of cash flows.

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The effects of the adjustments for income statement purposes are summarized in the following financial results tables:

	March 31, 2003		March 31, 2002	
	Three Months Ended		Three Months Ended	
	Originally Reported	Restated	Originally Reported	Restated
Revenues	\$ 22,715	\$ 22,715	\$ 20,582	\$ 20,582
Operating loss	(8,239)	(8,239)	(9,692)	(9,692)
Income tax (expense) benefit	(1,396)	(1,396)	(1,422)	2,021
Loss from continuing operations	(15,112)	(15,112)	(17,158)	(13,715)
Loss from discontinued components	(188)	(188)	(13,587)	(13,587)
Cumulative effect of a change in accounting principle			(3,157)	(3,157)
Net loss	(15,300)	(15,300)	(33,902)	(30,459)
Cumulative convertible preferred stock dividend	(3,752)	(4,255)	(3,752)	(3,960)
Net loss attributable to common stockholders	\$ (19,052)	\$ (19,555)	\$ (37,654)	\$ (34,419)
Loss per common share attributable to common stockholders Basic & Diluted:				
Continuing operations	\$ (0.20)	\$ (0.21)	\$ (0.23)	\$ (0.19)
Discontinued components			(0.14)	(0.15)
Cumulative effect of a change in accounting principle			(0.03)	(0.03)
Net loss per common share attributable to common stockholders	\$ (0.20)	\$ (0.21)	\$ (0.40)	\$ (0.37)

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Description of the Business

The Company invests in communications businesses principally in Eastern Europe and the Commonwealth of Independent States ("CIS"). The Company owns interests in and participates with partners in the management of business ventures that had various operational systems,

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consisting of cable television systems, wireless telephone systems, fixed and other telephony networks, radio broadcasting stations and other telephony-related businesses. All of the Company's business ventures other than the businesses of PLD Telekom report their financial results on a three-month lag. Therefore, the Company's financial results for March 31 include the financial results for those business ventures for the 3 months ending December 31.

Going Concern and Recent Developments

The Company is presently in the process of an overall restructuring in which its interests in cable TV, Radio and certain telephony businesses will be sold and a substantially downsized supervisory staff will manage the remaining business ventures. This restructuring was prompted by and is intended to resolve the severe liquidity issues confronting the Company since the beginning of 2002. This restructuring focuses on "core" telephony business operations that are currently self-financed and hold leading positions in their respective markets. These core operations will be held and developed, with the expectation that their future dividend distributions will be sufficient to meet the Company's debt service and overhead requirements. All other "non-core" operations will be sold; with the intention that sale proceeds will mitigate short-term liquidity concerns and provide capital for further core business development.

Upon completion of the restructuring, the Company intends that its core holdings will consist of PeterStar, Magticom and Baltic Communications Limited ("BCL").

The Company is a holding company; accordingly, it does not generate cash flows from operations. As of March 31, 2003 and June 30, 2003, the Company had approximately \$16.7 million and \$17.4 million, respectively, of unrestricted cash at its headquarters level. In addition, as of March 31, 2003 and June 30, 2003, the Company had approximately \$9.0 million and \$2.9 million, respectively, of cash at the Company's consolidated business ventures. Furthermore, as of March 31, 2003 and June 30, 2003, the Company's unconsolidated business ventures had approximately \$8.7 million and \$2.8 million, respectively, of cash.

The Company projects that its current corporate cash reserves, anticipated cash proceeds of non-core asset sales and continuing dividends from core operations will be sufficient for the Company to meet its future operating and debt service obligations on a timely basis and will resolve its remaining liquidity concerns. Opportunities to refinance the Company's Senior Discount Notes are also being pursued, but present Company plans presume the continued service of this debt on current terms. The Company, however, cannot provide assurances that its restructuring efforts will be successful or, if successful, that they will provide for sufficient cash reserves to support long-term sustainable operations. If the Company does not successfully complete its restructuring and does not realize the cash proceeds it anticipated on further sale of its non-core businesses, the Company does not believe that it will be able to pay the approximately \$8.0 million interest payment due on March 30, 2004 on its Senior Discount Notes and fund its operating, investing and financing cash flows through July 2004. Assuming no proceeds from further sale of non-core assets, the Company projects that its cash flow

and existing capital resources will permit it to pay the approximately \$8.0 million interest payment due on September 30, 2003 on its Senior Discount Notes.

Substantially all present Company headquarters personnel with responsibility for preparation of financial statements and reports have entered into separation agreements terminating their employment as of August 31, 2003. The Company intends to re-engage certain of these persons as part of its continuing long-term work force under new employment agreements. As necessary, it will also seek to extend the effective separation date of ot