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PRIVATE MEDIA GROUP INC
Form 10-Q
August 14, 2002

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, 2002
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 Small Business Issuer as Specified in its Charter)

NEVADA 87-0365673
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

Carrettera de Rubi 22-26, 08190 Sant Cugat del Valles, Barcelona, Spain
(Address of principal executive offices)

34-93-590-7070

Issuer's telephone number

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act 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

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 13, 2002
-----	-----
Common Stock, par value \$.001	28,608,609

PRIVATE MEDIA GROUP, INC.
CONSOLIDATED BALANCE SHEETS

PART I.

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ITEM 1. FINANCIAL STATEMENTS

	DECEMBER 31,	
	2001	
	EUR	(IN THOUSANDS)
ASSETS		
Cash and cash equivalents	6,408	1
Short-term investment	2,850	2
Trade accounts receivable.....	15,930	15
Related party receivable.....	1,563	4
Inventories - net (Note 3).....	8,252	9
Deferred tax asset.....	159	
Prepaid expenses and other current assets.....	1,785	2
	-----	-----
TOTAL CURRENT ASSETS.....	36,946	36
Library of photographs and videos - net.....	14,241	16
Property, plant and equipment - net.....	2,786	3
Goodwill and other intangible assets (Note 5).....	2,892	2
Other assets.....	220	
	-----	-----
TOTAL ASSETS.....	57,086	59
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term borrowings.....	4,530	4
Accounts payable trade.....	6,874	8
Income taxes payable.....	2,431	1
Deferred tax liability.....	22	
Accrued other liabilities.....	728	
	-----	-----
TOTAL CURRENT LIABILITIES.....	14,586	14
Long-term borrowings.....	220	
SHAREHOLDERS' EQUITY		
\$4.00 Series A Convertible Preferred Stock.....	-	
10,000,000 shares authorized, 7,000,000 shares issued and outstanding		
Common Stock, \$.001 par value, 100,000,000.....	863	
shares authorized 28,370,857 and 28,426,152 issued and outstanding at December 31, 2001 and June 30, 2002, respectively		
Additional paid-in capital	14,351	14
Stock dividends to be distributed.....	381	1
Retained earnings.....	29,782	29
Accumulated other comprehensive income.....	(3,097)	(1)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	42,280	44
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	57,086	59
	=====	=====

See accompanying notes to consolidated statements.

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PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	THREE-MONTHS ENDED JUNE 30, (UNAUDITED)		SIX-MO J (UN
	2001	2002	2001
	EUR	EUR	EUR (IN THOUSANDS)
Net sales	8,228	11,027	19,233
Cost of sales.....	2,847	4,592	6,958
Gross profit.....	5,381	6,435	12,274
Selling, general and administrative expenses...	3,677	4,457	7,348
Offering expenses.....	-	-	-
Operating profit (loss).....	1,705	1,978	4,926
Sale of controlled entity.....	1,889	-	1,889
Interest expense.....	95	74	157
Interest income.....	49	13	68
Income before income tax.....	3,548	1,917	6,727
Income taxes (benefit).....	1,130	(47)	1,585
Net income.....	2,418	1,964	5,142
Other comprehensive income:			
Foreign currency adjustments.....	(479)	(257)	(1,455)
Comprehensive income.....	1,939	1,707	3,687
Income applicable to common shares.....	2,006	1,611	4,333
Net income per share:			
Basic (restated).....	0.07	0.06	0.15
Diluted.....	0.05	0.04	0.10

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX-MONTHS ENDED
JUNE 30,
(UNAUDITED)

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	2001	2002	2002
	EUR	EUR	USD
	(IN THOUSANDS)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	5,142	746.	740
ADJUSTMENT TO RECONCILE NET INCOME TO NET CASH			
FLOWS FROM OPERATING ACTIVITIES:			
Depreciation.....	374	309	307
Bad debt provision.....	-	686	680
Provision for offering expenses.....	-	134	133
Tax provision on asset held for sale.....	442	-	-
Amortization of goodwill	156	-	-
Gain on sale of controlled entity	(1,902)	-	-
Amortization of photographs and videos	2,103	2,808	2,783
EFFECTS OF CHANGES IN OPERATING ASSETS AND LIABILITIES:			
Trade accounts receivable	(1,829)	(329)	(326)
Related party receivable	(16)	(3,251)	(3,222)
Inventories	(538)	(902)	(894)
Prepaid expenses and other current assets	(85)	(732)	(725)
Accounts payable trade	180	1,619	1,604
Income taxes payable	1,075	(1,047)	(1,037)
Accrued other liabilities	66	34	33
Net cash provided by operating activities	5,169	77	76
CASH FLOWS FROM INVESTING ACTIVITIES:			
Short-term investments	1,739	-	-
Investment in library of photographs and videos	3,024	5,304	5,257
Capital expenditures	317	869	861
Investment in subsidiary	990	-	-
Cash from sale of controlled entity	(2,367)	-	-
Investments in asset held for sale	79	-	-
Investments in (sale of) other assets	(146)	(11)	(11)
Net cash used in investing activities	3,636	6,163	6,108
CASH FLOW FROM FINANCING ACTIVITIES:			
Conversion of warrants	142	232	230
Long-term loan (repayments on loan)	496	(12)	(12)
Short-term borrowings (repayments)	59	(494)	(490)
Net cash (used in) provided by financing activities	697	(274)	(271)
Foreign currency translation adjustment	(1,455)	1,343	1,330
Net (decrease) increase in cash and cash equivalents	775	(5,017)	(4,972)
Cash and cash equivalents at beginning of the period	1,624	6,408	6,351
Cash and cash equivalents at end of the period	2,398	1,391	1,379
Cash paid for interest	110	247	245
Cash paid for taxes	235	675	669

See accompanying notes to consolidated statements.

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PRIVATE MEDIA GROUP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		PREFERRED STOCK		ADDI- TIONAL PAID-IN CAPITAL	STOCK DIVIDENDS TO BE DISTRIBUTE
	SHARES	AMOUNTS	SHARES	AMOUNTS		
		EUR		EUR	EUR	EUR
Balance at January 1, 2001	27,750,920	862	7,000,000	-	10,166	77
Shares issued in acquisition	248,889	1	-	-	1,512	
Translation Adjustment	-	-	-	-	-	
Unrealized loss on short-term investment	-	-	-	-	-	
Conversion of warrants and options	122,769	-	-	-	672	
Stock dividends	248,279	-	-	-	1,966	(77)
Stock dividends to be distributed	-	-	-	-	-	39
Net income	-	-	-	-	-	
Balance at December 31, 2001	28,370,857	863	7,000,000	-	14,316	39
Translation Adjustment	-	-	-	-	-	
Conversion of warrants and options	55,295	-	-	-	232	
Stock dividends to be distributed	-	-	-	-	-	75
Net income	-	-	-	-	-	
Balance at June 30, 2002	28,426,152	863	7,000,000	-	14,548	1,15

See accompanying notes to consolidated statements.

PRIVATE MEDIA GROUP, INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information. Accordingly they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and results of operations have been included. Operating results for the six months period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on form 10-K for the year ended December 31, 2001.

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Effective January 1, 2002, the Company changed its reporting currency from the Swedish Krona (SEK) to the euro ("EUR"). On that date, the euro became the principal currency in which Private Media Group generates its cash flows. The assets and operations of the Company's US based operations are currently not significant. The accompanying financial statements have been recast for all periods presented using methodology consistent with SFAS # 52.

Solely for the convenience of the reader, the accompanying consolidated financial statements as of June 30, 2002 and for the six months then ended have been translated into United States dollars ("USD") at the rate of EUR 1.01 per USD 1.00 the interbank exchange rate on June 30, 2002. The translations should not be construed as a representation that the amounts shown could have been, our could be, converted into US dollars at that or any other rate.

2. SECOND QUARTER REVENUES AND EXPENSES

As previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, in connection with the preparation of the Company's 2001 annual financial statements, management of the Company determined, as a result of circumstances related to the acquisition of certain assets from Anton Enterprises, Inc., it to be more appropriate accounting to reverse certain revenues and sales return provisions recorded in the first to the fourth quarters of 2001. The impact of these adjustments reduced previously recorded first six months revenues in 2001 by EUR 678 thousand, net income by EUR 649 thousand and basic and diluted earnings per share by EUR 0.02 and EUR 0.01.

In April 2002, the Company assigned its rights to amounts due from Anton Enterprises related to certain products sold to Anton during 2001 and 2000 to an unrelated third party for EUR 1,076 thousand in cash. A portion of this amount related to accounts receivable from Anton written off in 2001 and the balance

PRIVATE MEDIA GROUP, INC.
NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

related to the 2001 sales to Anton was not recognized for financial reporting purposes since certain criteria for the recognition of these sales as revenue had not been met.

As a result of this transaction, the Company recorded the previously unrecognized sales to Anton of EUR 548 thousand and a recovery (reduction of selling, general and administrative expenses) of previously written off accounts receivable of EUR 528 thousand during the quarter ended June 30, 2002.

3. Inventories

Inventories consist of the following:

	DECEMBER 31,	JUNE 30,
	2001	2002
	EUR	EUR
	(IN THOUSANDS)	
Magazines for sale and resale.....	2,551	2,829
Video cassettes.....	2,929	2,979
DVDs.....	2,464	3,124
Other.....	308	220
	-----	-----

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8,252 9,153
 ===== =====

4. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share:

	THREE-MONTHS ENDED JUNE 30,		SIX-MONTHS ENDED JUNE 30,
	2001	2002	2001
NUMERATOR: (EUR IN THOUSANDS)			
Net income (numerator diluted EPS).....	2,418	1,964	5,142
Less: Dividends on preferred stock.....	412	353	800
Income applicable to common shares (numerator basic EPS).....	2,006	1,611	4,332
DENOMINATOR:			
Denominator for basic earnings per share - Weighted average shares.....	28,180,462	28,566,982	28,098,470
Effect of dilutive securities:			
Preferred stock.....	21,000,000	21,000,000	21,000,000
Common stock warrants and options.....	483,187	166,533	543,370
Denominator for diluted earnings per share - weighted average shares and assumed conversions.	49,663,649	49,733,515	49,641,850
EARNINGS PER SHARE (EUR)			
Basic.....	0.07	0.06	0.15
Diluted.....	0.05	0.04	0.10

For the six month period ended June 30, 2002 the impact of potentially dilutive securities (convertible preferred shares and outstanding options and warrants for common shares) is anti-dilutive therefore reported diluted and basic income (loss) per share are EUR 0.00.

5. New accounting standards

Effective January 1, 2002, the Company adopted the provisions of Statement No. 142, "Goodwill and Other Intangible Assets," applicable to business combinations completed after June 30, 2001. Effective January 1, 2002, the Company adopted the additional provisions of Statement No. 142 relating to business combinations completed prior to June 30, 2001. Statement No. 142 requires that goodwill and intangible assets with indefinite useful lives no

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longer be amortized, but instead be tested for impairment at least annually. Intangible assets with definite useful lives will continue to be amortized over their estimated useful lives. The Company has completed its initial impairment review and no impairment of goodwill is

currently anticipated. Total amortization expense for the six months ended June 30, 2002 was EUR 26 thousand as compared to EUR 156 thousand for the six months ended June 30, 2001. As a result of adoption of the non-amortization provision of Statement 142, the Company's reported net income increased by EUR 130 thousand in the first six months of 2002 as compared to the same period in 2001. The Company's comparative basic and diluted earnings per share for the six months ended June 30, 2001 would have been EUR 0.16 per share and EUR 0.11 per share, respectively had the non-amortization provisions of Statement No. 142 been adopted in 2001.

6. Contingent Liability

In December 1999 the Company received final notification from the Swedish Tax Authority assessing its subsidiary in Cyprus for the tax years 1995-1998 for a total amount of SEK 42,000,000 plus fines amounting to SEK 16,800,000 plus interest. The Company believes the assessment is without merit and is in the process of appealing the assessment to the Administrative court in Stockholm. The final outcome of the appeal is expected to take several years and the Company has asked for a postponement of payment of the taxes and fees until the case is settled. No final decision has been given.

7. Related Party Transaction

During 2002 the Company has loaned approximately EUR 1,908 thousand to a company controlled by the Company's principal shareholder in connection with the construction of certain commercial office and warehouse facilities in Spain. The Company's Spanish subsidiary, Milcap Media Group S.L. ("Milcap") has issued a guarantee of indebtedness to Acomo S.L. an independent construction development company related to the financing of the construction.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this section together with the consolidated financial statements and the notes and the other financial data in this Report. The matters that we discuss in this section, with the exception of historical information, are "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties relate to factors such as (1) the timing of the introduction of new products and services and the extent of their acceptance in the market; (2) our expectations of growth in demand for our products and services; (3) our ability to successfully implement expansion and acquisition plans; (4) the impact of expansion on our revenue, cost basis and margins; (5) our ability to respond to changing technology and market conditions; (6) the effects of regulatory developments and legal proceedings with respect to our business; (7) the impact of exchange rate fluctuations; and (8) our ability to obtain additional financing.

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2001, in connection with the preparation of our 2001 annual financial statements, our management determined that the previously issued 2001

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interim consolidated financial statements, including the consolidated financial statements contained in our Form 10-Qs for the quarters ended March 31, June 30 and September 30, 2001 required restatement. Accordingly, the previously issued interim financial statements for the six months ended June 30, 2001, have been restated in this Report as described in Note 2 to the accompanying Consolidated Financial Statements to reflect (i) decrease in previously reported income tax expense, and (ii) decreased revenues. All amounts and percentages in the following discussions reflect the effects of such restatements.

The following discussion should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Report.

Amortization of Goodwill and Other Intangible Assets

Amortization of goodwill and other intangible assets decreased to EUR 26 thousand in the first six months of 2002 from EUR 156 thousand in the first six months of 2001. The decrease in expense for the first six months of 2002 is primarily a result of the Company's adoption on January 1, 2002 of Financial Accounting Standards Board (FASB) Statement No. 142, "Goodwill and Other Intangible Assets". The Company is currently in the process of completing the initial impairment review, but does not believe any significant impairments will be recognized. As a result of adoption of Statement No. 142, the Company realized a pre-tax benefit of approximately EUR 130 thousand of annual depreciation reductions in the first six months of 2002.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THE THREE MONTHS ENDED JUNE 30, 2001

Net sales. For the three months ended June 30, 2002, we had net sales of EUR 11,027 thousand compared to net sales of EUR 8,228 thousand for the three months ended June 30, 2001, an increase of EUR 2,799 thousand, or 34%. We attribute this change to an increase in Video and Magazine, and DVD and Broadcasting sales. Video and Magazine sales increased 42% to EUR 4,296 thousand, DVD sales increased 62% to EUR 3,673 thousand and Broadcasting sales increased 54% to EUR 1,436 thousand for the three months ended June 30, 2002. The increase in Video, Magazine, DVD and Broadcasting sales was

offset by a decrease in Internet sales of 19% to EUR 1,623 thousand as a result of a non-recurring drop in Internet subscription sales related to technical problems which have now been resolved.

We attribute the growth in sales of DVDs to the increasing number of DVD players being sold in all of our markets. We believe that the growth in DVD and Broadcasting sales will continue through the remainder of 2002.

Net sales in general were affected by unfavorable changes in exchange rates.

Cost of Sales. Our cost of sales was EUR 4,592 thousand for the three months ended June 30, 2002 compared to EUR 2,847 thousand for the three months ended June 30, 2001, an increase of EUR 1,745 thousand, or 61%. Cost of sales as a percentage of sales was 42% for the three months ended June 30, 2002, compared to 35% for the three months ended June 30, 2001. The increase was primarily the result of decreased margins as a result of exchange rate changes.

Gross Profit. In the three months ended June 30, 2002, we realized a gross profit of EUR 6,435 thousand, or 58% of net sales compared to EUR 5,381

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thousand, or 65% of net sales for the three months ended June 30, 2001, an increase of EUR 1,054 thousand, or 20%.

Selling, general and administrative expenses. Our selling, general and administrative expenses were EUR 4,457 thousand for the three months ended June 30, 2002 compared to EUR 3,677 thousand for the three months ended June 30, 2001, an increase of EUR 780 thousand, or 21%. We attribute this change to our continuing investment in marketing and promotion activities related to Internet, Broadband, DVD and broadcasting, which we expect to continue through 2002.

Operating profit. We reported an operating profit of EUR 1,978 thousand for the three months ended June 30, 2002 compared to an operating profit of EUR 1,705 thousand for the three months ended June 30, 2001, an increase of EUR 274 thousand, or 16%.

Interest expense. We reported interest expense of EUR 74 thousand for the three months ended June 30, 2002, compared to EUR 95 thousand for the three months ended June 30, 2001, a decrease of EUR 21 thousand. We attribute this decrease to lower short-term borrowings outstanding during the three months ended June 30, 2002, compared to the three months ended June 30, 2001.

Income tax expense/benefit. We reported income tax benefit of EUR 47 thousand for the three months ended June 30, 2002, compared to an income tax expense of EUR 1,130 thousand for the three months ended June 30, 2001.

Net income. We reported net income of EUR 1,964 thousand for the three months ended June 30, 2002, compared to net income of EUR 2,418 thousand for the three months ended June 30, 2001. We attribute this decrease in net income in 2002 of EUR 454 thousand, or 19%, was primarily due to the absence of a non-recurring gain of EUR 1,889 thousand from the sale of subsidiary in 2001.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2001

Net sales. For the six months ended June 30, 2002, we had net sales of EUR 20,289 thousand compared to net sales of EUR 19,233 thousand for the six months ended June 30, 2001, an increase of 5%, or EUR 1,056 thousand. Video and Magazine sales decreased 12%, to EUR 7,592 thousand and Internet sales decreased 24% to EUR 3,175 thousand as a result of a non-recurring drop in Internet license sales and Internet subscription sales related to technical problems which have now been resolved. The decrease in Video and Magazine, and Internet sales was offset by an increase in DVD and Broadcasting sales. DVD sales increased 49% to EUR 7,302 thousand and Broadcasting sales increased 41% to EUR 2,220 thousand for the six months ended June 30, 2002.

We attribute the growth in sales of DVDs to the increasing number of DVD players being sold in all of our markets. We believe that the growth in DVD and Broadcasting sales will continue through the remainder of 2002.

Net sales in general were affected by unfavorable changes in exchange rates.

Cost of Sales. Our cost of sales was EUR 8,109 thousand for the six months ended June 30, 2002 compared to EUR 6,958 thousand for the six months ended June 30, 2001, an increase of EUR 1,150 thousand, or 16%. The increase was primarily the result of decreased margins as a result of exchange rate changes. Cost of sales as a percentage of sales was 40% for the six months ended June 30, 2002, compared to 36% for the six months ended June 30, 2001.

Gross Profit. In the six months ended June 30, 2002, we realized a gross profit of EUR 12,180 thousand, or 60% of net sales compared to EUR 12,274

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thousand, or 64% of net sales for the six months ended June 30, 2001.

Selling, general and administrative expenses. Our selling, general and administrative expenses were EUR 10,226 thousand for the six months ended June 30, 2002 compared to EUR 7,348 thousand for the six months ended June 30, 2001, an increase of EUR 2,878 thousand, or 39%. We attribute this change to increased provisions for bad debts of EUR 686 thousand, increased selling, general and administrative expenses of EUR 576 thousand related to our expansion in the United States through our new subsidiary Private North America which began operating last year and our continuing investment in marketing and promotion activities related to Internet, Broadband, DVD and broadcasting, which we expect to continue through 2002.

Offering expense. We reported offering expenses of EUR 1,401 thousand for the six months ended June 30, 2002 for the activities related to the listing and secondary offering on the Frankfurt Stock Exchange, Neuer Markt in Germany. The offering was postponed in January, 2002 due to poor market conditions.

Operating profit. We reported an operating profit of EUR 553 thousand for the six months ended June 30, 2002 compared to an operating profit of EUR 4,926 thousand for the six months ended June 30, 2001, a decrease of EUR 4,373 thousand, or 89%. We attribute this change primarily to the increased selling, general and administrative expenses and the offering expense.

Interest expense. We reported interest expense of EUR 353 thousand for the six months ended June 30, 2002, compared to EUR 157 thousand for the six months ended June 30, 2001, an increase of EUR 196 thousand. We attribute this increase to higher long and short-term borrowings outstanding during the six months ended June 30, 2002, compared to the six months ended June 30, 2001.

Income tax expense/benefit. We reported income tax benefit of EUR 372 thousand for the six months ended June 30, 2002, compared to an income tax expense of EUR 1,585 thousand for the six months ended June 30, 2001. We attribute this change to decreased operating profit and a tax credit related to our offering expense.

Net income. We reported net income of EUR 746 thousand for the six months ended June 30, 2002, compared to net income of EUR 5,142 thousand for the six months ended June 30, 2001. We attribute this change in net income in 2002 of EUR 4,396 thousand, or 85%, to decreased operating profit and the absence of a non-recurring gain of EUR 1,889 thousand from the sale of subsidiary in 2001.

LIQUIDITY AND CAPITAL RESOURCES

We reported a working capital surplus of EUR 21,626 thousand at June 30, 2002, a decrease of EUR 734 thousand compared to the year ended December 31, 2001. The decrease is principally attributable to increased accounts payable trade and related party receivable offset by decreased cash and cash equivalents and prepaid expenses and income taxes payable.

Operating Activities

Net cash provided by operating activities was EUR 77 thousand for the six months ended June 30, 2002, and was primarily the result of cash flows from operating activities and adjustments to reconcile net income to net cash flows from operating activities. The net income of EUR 746 thousand and adjustments to reconcile net income to net cash flows from operating activities, representing depreciation of EUR 309 thousand, bad debt provision of EUR 686 thousand, provision for offering expense of EUR 134 thousand and amortization of photographs and videos of EUR 2,808 thousand provided a total of EUR 4,684

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thousand. The total of EUR 4,684 thousand was then primarily reduced by the increases in trade accounts receivable, related party receivable, inventories, prepaid expenses and other current assets and income taxes payable totaling EUR 6,260 thousand, offset by EUR 1,652 thousand from accounts payable trade, and accrued other liabilities. Net cash provided by operating activities was EUR 5,169 thousand for the six months ended June 30, 2001. The decrease in cash provided by operating activities for the six months ended June 30, 2002 compared to the same period last year is both the result of net income and changes in operating assets and liabilities.

Investing Activities

Net cash used in investing activities for the six months ended June 30, 2002 was EUR 6,163 thousand. The investing activities were principally investment in library of photographs and videos of EUR 5,304 thousand, which are carried out in order to maintain the 2002 release schedules for both magazines, video and DVD. In addition to investment in library of photographs and videos, EUR 869 thousand was invested in capital expenditures. The increase over the comparable six-month 2001 period is principally due to increased investments in library of photographs and videos.

Financing Activities

Net cash used in financing activities for the six months ended June 30, 2002 was EUR 274 thousand, represented primarily by repayments of short-term borrowings offset by conversion of warrants. The decrease over the comparable six-month 2001 period is primarily due to repayments of short-term borrowings.

We expect that our available cash resources and cash generated from operations will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for at least the next 12 months. However, we may need to raise additional funds to support more rapid expansion or respond to unanticipated requirements. If additional funds are raised through the issuance of equity securities, our shareholders' percentage ownership will be reduced, they may experience additional dilution, or these newly issued equity securities may have rights, preferences, or privileges senior to those of our current shareholders. Additional financing may not be available when needed on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements, which could harm our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We transact our business in various foreign currencies and, accordingly, we are subject to exposure from adverse movements in foreign currency exchange rates. The principal currencies in which our revenues and expenses are incurred are Euro, U.S. dollar and Swedish Kronor. To date, the effect of changes in foreign currency exchange rates on revenues and operating expenses has not been material.

We do not use financial instruments or derivatives to hedge our operations in foreign currencies or for speculative trading purposes.

PART II. OTHER INFORMATION

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a. Exhibits
None
- b. Reports on Form 8-K:
None.

SIGNATURES

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.

PRIVATE MEDIA GROUP, INC.
(Registrant)

Date: August 14, 2002

/s/ Johan Gillborg

Johan Gillborg
Chief Financial Officer