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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2003

COMMISSION FILE NUMBER 1-5706

METROMEDIA INTERNATIONAL GROUP, INC.

(Exact name of registrant, as specified in its charter)

DELAWARE	**58-0971455**
(State or other jurisdiction of incorporation or organization)	(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)

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 ý NO o

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the exchange act). YES o NO ý

The number of shares of common stock outstanding as of January 30, 2004 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 $7\frac{1}{4}$% 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, $0.5 million and $0.6 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003 and June 30, 2003 respectively. Under-reported dividend expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of September 30, 2003 the total dividend in arrears was $41.4 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. For the statement of cash flows, the tax adjustments resulted in a decrease in the "Net loss" of $4.2 million with an offsetting increase in the use of cash from "Changes in Other Assets and Liabilities" of $4.2 million, for the nine months ended September 30, 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:

	September 30, 2002					
	Three Months Ended			Nine Months Ended		
	Originally Reported	Restated	As Reclassified for Discontinued Components Presentation	Originally Reported	Restated	As Reclassified for Discontinued Components Presentation
Revenues	$ 24,368	$ 24,368	$ 15,852	$ 79,565	$ 79,565	$ 47,856
Operating loss	(7,253)	(7,253)	(5,468)	(25,705)	(25,705)	(21,251)
Income tax expense	(1,707)	(1,666)	(1,431)	(5,101)	(857)	(64)
Loss from continuing operations	(36,684)	(36,643)	(34,433)	(72,434)	(68,190)	(56,073)
Loss from discontinued components	(7,913)	(7,913)	(10,123)	(21,340)	(21,340)	(35,487)
Cumulative effect of a change in accounting principle				(3,157)	(3,157)	(1,127)

					September 30, 2002						
Net loss		(44,597)		(44,556)		(44,556)		(96,931)		(92,687)		(92,687)
Cumulative convertible preferred stock dividend		(3,752)		(4,104)		(4,104)		(11,256)		(12,095)		(12,095)
Net loss attributable to common stockholders	$	(48,349)	$	(48,660)	$	(48,660)	$	(108,187)	$	(104,782)	$	(104,782)
Loss per common share attributable to common stockholders Basic & Diluted:												
Continuing Operations	$	(0.43)	$	(0.44)	$	(0.41)	$	(0.89)	$	(0.85)	$	(0.72)
Discontinued components		(0.08)		(0.08)		(0.11)		(0.23)		(0.23)		(0.38)
Cumulative effect of a change in accounting principle								(0.03)		(0.03)		(0.01)
Net loss per common share attributable to common stockholders	$	(0.51)	$	(0.52)	$	(0.52)	$	(1.15)	$	(1.11)	$	(1.11)

METROMEDIA INTERNATIONAL GROUP, INC.
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PART I FINANCIAL INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
		(restated)		(restated)
Revenues	$ 18,633	$ 15,852	$ 53,131	$ 47,856
Cost and expenses:				
Cost of services and operating expenses	6,254	4,023	17,034	13,173
Selling, general and administrative	10,126	7,863	35,734	35,202
Depreciation and amortization	5,164	5,519	15,528	16,817
Asset impairment charges		3,915		3,915
Operating loss	(2,911)	(5,468)	(15,165)	(21,251)
Other (expense) income:				
Interest expense, net	(4,058)	(5,217)	(13,754)	(15,139)
Equity in income (losses) of and write-down of investments in unconsolidated investees	3,035	(24,677)	8,854	(21,725)
Gain on retirement of debt	465		24,582	
Gain on disposition of businesses	12,031	3,737	12,031	5,447
Foreign currency loss	(1)	(334)	(465)	(137)
Other income (expense)	61	181	(1)	561
Income (loss) before income tax expense, minority interest, discontinued components and the cumulative effect of a change in accounting principle	8,622	(31,778)	16,082	(52,244)
Income tax expense	(1,766)	(1,431)	(4,642)	(64)
Minority interest	(2,036)	(1,224)	(5,931)	(3,765)
Income (loss) from continuing operations before discontinued components and the cumulative effect of a change in accounting principle	4,820	(34,433)	5,509	(56,073)
(Loss) income from discontinued components	(386)	(10,123)	8,829	(35,487)
Cumulative effect of a change in accounting principle				(1,127)
Net income (loss)	4,434	(44,556)	14,338	(92,687)
Cumulative convertible preferred stock dividend requirement	(4,410)	(4,104)	(12,997)	(12,095)
Net income (loss) attributable to common stockholders	$ 24	$ (48,660)	$ 1,341	$ (104,782)
Weighted average common shares Basic and diluted	94,035	94,035	94,035	94,035
Income (loss) per common share attributable to common stockholders:				
Continuing operations	$	$ (0.41)	$ (0.08)	$ (0.72)
Discontinued components		(0.11)	0.09	(0.38)

	Three months ended September 30,		Nine months ended September 30,	
Cumulative effect of a change in accounting principle				(0.01)
Net income (loss) per common share attributable to common stockholders	$	$ (0.52)	$ 0.01	$ (1.11)

See accompanying notes to consolidated condensed financial statements.

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

	September 30, 2003	December 31, 2002
		(restated)
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 26,641	$ 26,467
Marketable securities	1,000	500
Accounts receivable, net	6,419	5,224
Prepaid expenses and other assets	7,335	11,359
Current assets of discontinued components	6,778	14,932
Total current assets	48,173	58,482
Property, plant and equipment, net	78,792	77,703
Investments in and advances to business ventures	25,256	30,720
Goodwill	25,205	25,205
Intangible assets, net	9,849	14,559
Other assets	5,004	4,432
Noncurrent assets of discontinued components	22,008	41,329
Business ventures held for sale	1,828	37,718
Total assets	$ 216,115	$ 290,148
LIABILITIES AND STOCKHOLDERS' DEFICIENCY:		
Current liabilities:		
Accounts payable	$ 4,316	$ 4,038
Accrued expenses	20,393	29,618
Current portion of long-term debt	1,559	1,797
Current liabilities of discontinued components	8,056	22,765
Total current liabilities	34,324	58,218
Long-term debt, less current portion	154,016	213,864
Other long-term liabilities	7,669	8,792
Long-term liabilities of discontinued components	92	105

	September 30, 2003	December 31, 2002
Total liabilities	196,101	280,979
Minority interest	30,276	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	94,035	94,035
Paid-in surplus	1,102,769	1,102,769
Accumulated deficit	(1,400,016)	(1,414,354)
Accumulated other comprehensive loss	(14,050)	(11,948)
Total stockholders' deficiency	(10,262)	(22,498)
Total liabilities and stockholders' deficiency	$ 216,115	$ 290,148

See accompanying notes to consolidated condensed financial statements.

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

	Nine months ended September 30,	
	2003	2002
		(restated)
Operating activities:		
Net income (loss)	$ 14,338	$ (92,687)
(Income) loss from discontinued components	(8,829)	35,487
Income (loss) from continuing operations	5,509	(57,200)
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Gain on retirement of debt	(24,582)	
Depreciation and amortization	15,528	16,817
Minority interest	5,931	3,765
Gain on disposition of businesses	(12,031)	(5,447)
Equity in (income) losses of and write-down of investment in unconsolidated investees	(8,854)	21,725
Accretion of debt discount		5,253
Asset impairment charges		3,915
Cumulative effect of a change in accounting principle		1,127
Changes in:		
Accounts receivable	(1,195)	800

	Nine months ended September 30,	
Other assets and liabilities	2,281	(1,765)
Accounts payable and accrued expenses	(5,445)	4,634
Cash used in operating activities	(22,858)	(6,376)
Investing activities:		
Proceeds on disposition of businesses, net	15,700	11,249
Investments in and advances to business ventures		(721)
Distributions from business ventures	12,347	2,304
Additions to property, plant and equipment	(10,920)	(7,742)
Purchase of marketable securities	(500)	(2,000)
Acquisition of other intangibles	(743)	
Cash provided by investing activities	15,884	3,090
Financing activities:		
Dividends paid to minority interests	(6,500)	(3,256)
Borrowings of debt		2,279
Payments on debt and capital lease obligations	(1,481)	(858)
Cash used in financing activities	(7,981)	(1,835)
Cash provided by (used in) discontinued business components, net	15,129	(1,737)
Net increase (decrease) in cash and cash equivalents	174	(6,858)
Cash and cash equivalents at beginning of period	26,467	24,059
Cash and cash equivalents at end of period	$ 26,641	17,201

See accompanying notes to consolidated condensed financial statement

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

	7 1/4% Cumulative Convertible Preferred Stock		Common Stock						
	Number of Shares	Amount	Number of Shares	Amount	Paid-in Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)	Total Stockholders' Equity (Deficiency)
Balances at December 31, 2001	4,140	$ 207,000	94,035	$ 94,035	$ 1,102,769	$ (1,305,879)	$ (7,149)		$ 90,776
Net loss (restated)						(92,687)		$ (92,687)	(92,687)

	7 1/4% Cumulative Convertible Preferred Stock								
Other comprehensive income, net of tax:									
Foreign currency translation adjustments							(937)	(937)	(937)
Minimum pension liability							(1,375)	(1,375)	(1,375)
Total comprehensive loss (restated)								$ (94,999)	
Balances at September 30, 2002 (restated)	4,140	$ 207,000	94,035	$ 94,035	$ 1,102,769	$ (1,398,566)	$ (9,461)		$ (4,223)
Balances at December 31, 2002 (restated)	4,140	$ 207,000	94,035	$ 94,035	$ 1,102,769	$ (1,414,354)	$ (11,948)		$ (22,498)
Net income						14,338		$ 14,338	14,338
Other comprehensive income, net of tax:									
Foreign currency translation adjustments							(2,102)	(2,102)	(2,102)
Total comprehensive income								$ 12,236	
Balances at September 30, 2003	4,140	$ 207,000	94,035	$ 94,035	$ 1,102,769	$ (1,400,016)	$ (14,050)		$ (10,262)

See accompanying notes to consolidated condensed financial statements.

Metromedia International Group, Inc.

Notes to Consolidated Condensed Financial Statements

1. Basis of Presentation, Going Concern and Recent Developments

Basis of Presentation

The accompanying consolidated 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. ("MITI") and PLD Telekom, Inc. All significant intercompany transactions and accounts have been eliminated.

The Company is a holding company with ownership interests in telephony and cable television businesses that operate in northwestern Russia and the Republic of Georgia. For the nine months ended September 30, 2003, the telephony businesses generated 96% of consolidated revenues, while the cable television business generated 4% of consolidated revenues. On September 30, 2003, the Board of Directors formally approved management's plan of disposing its remaining non-core media business. The Company's non-core media businesses are comprised of four cable television networks, with operations in Russia, Romania, Belarus and Lithuania. The Company also owns interests in nineteen radio businesses operating in Finland, Hungary, Bulgaria, Estonia, Latvia and the Czech Republic. These condensed consolidated financial statements also include the results of the Company's discontinued business components (see Note 3, "Discontinued Business Components").

The accompanying interim condensed consolidated 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 September 30, 2003, and the results of its operations for the three and nine month periods ended September 30, 2003 and 2002 and its cash flows for the nine months ended September 30, 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

4. The Company historically accounted for unpaid dividends on its $7^1/_4$% 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, $0.5 million and $0.6 million for the three months ended March 31, 2002, June 30, 2002, September 30, 2002, December 31, 2002, March 31, 2003 and June 30, 2003 respectively. Under-reported dividend

expense amounts prior to 2002 were immaterial. With all quarterly compounding corrections applied, as of September 30, 2003 the total dividend in arrears was $41.4 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. For the statement of cash flows, the tax adjustments resulted in a decrease in the "Net loss" of $4.2 million with an offsetting increase in the use of cash from "Changes in Other Assets and Liabilities" of $4.2 million for the nine months ended September 30, 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:

	September 30, 2002					
	Three Months Ended			Nine Months Ended		
	Originally Reported	Restated	As Reclassified for Discontinued Components Presentation	Originally Reported	Restated	As Reclassified for Discontinued Components Presentation
Revenues	$ 24,368	$ 24,368	$ 15,852	$ 79,565	$ 79,565	$ 47,856
Operating loss	(7,253)	(7,253)	(5,468)	(25,705)	(25,705)	(21,251)
Income tax expense	(1,707)	(1,666)	(1,431)	(5,101)	(857)	(64)
Loss from continuing operations	(36,684)	(36,643)	(34,433)	(72,434)	(68,190)	(56,073)
Loss from discontinued components	(7,913)	(7,913)	(10,123)	(21,340)	(21,340)	(35,487)
Cumulative effect of a change in accounting principle				(3,157)	(3,157)	(1,127)
Net loss	(44,597)	(44,556)	(44,556)	(96,931)	(92,687)	(92,687)
Cumulative convertible preferred stock dividend	(3,752)	(4,104)	(4,104)	(11,256)	(12,095)	(12,095)
Net loss attributable to common stockholders	$ (48,349)	$ (48,660)	$ (48,660)	$ (108,187)	$ (104,782)	$ (104,782)

Loss per common share attributable to common stockholders Basic & Diluted:						
Continuing Operations	$ (0.43)	$ (0.44)	$ (0.41)	$ (0.89)	$ (0.85)	$ (0.72)
Discontinued components	(0.08)	(0.08)	(0.11)	(0.23)	(0.23)	(0.38)
Cumulative effect of a change in accounting principle				(0.03)	(0.03)	(0.01)
Net loss per common share attributable to common stockholders	$ (0.51)	$ (0.52)	$ (0.52)	$ (1.15)	$ (1.11)	$ (1.11)

Description of the Business

The Company's core businesses operate in northwestern Russia and the Republic of Georgia. The Company owns interests in and participates with partners in the management of business ventures that have various operational systems, consisting of fixed telephony networks, a wireless telephone system and a cable television system. Historically, all of the Company's core business ventures, other than PeterStar, have reported their financial results on a three-month lag. Therefore, the Company's condensed consolidated financial results for the three and nine months ended September 30, 2003 and 2002 include the financial results for those business ventures for the three and nine months ended June 30, 2003 and 2002, respectively.

Going Concern and Recent Developments

The Company is currently in the process of an overall restructuring in which its interests in most cable television and all radio broadcast 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 businesses will consist principally of PeterStar and its wholly-owned subsidiary, Baltic Communications, Ltd., the leading competitive local exchange carrier in St. Petersburg, Russia, of which the Company has a 71% business interest, and Magticom, a GSM mobile telephony operator in Tbilisi, Georgia, in which the Company has a 34.5% equity interest.

As part of its overall restructuring efforts, the Company terminated substantially all of its employees at its U.S. headquarters as well as certain European-based business venture support personnel during the first quarter of 2003. These actions were taken to help alleviate liquidity problems the Company had faced for an extended period of time. However, the Company has entered into new

employment agreements with certain of these employees, including the Company's Chief Financial Officer, and has recruited accounting and finance personnel to work in Charlotte, North Carolina at the Company's new corporate headquarters.

The Company is a holding company; accordingly, it does not generate cash flows from operations. As of September 30, 2003 and January 31, 2004, the Company had $24.1 million and $23.3 million, respectively, of unrestricted cash at its headquarters level. The $24.1 million of cash at September 30, 2003 reflects the cash held at headquarters subsequent to the Company's $8.0 million semi-annual interest payment which was due on September 30, 2003, on its 10 1/2% Senior Discount Notes due 2007 (the "Senior Discount Notes").

In addition, as of September 30, 2003, the Company had $2.5 million of cash at the Company's consolidated business ventures. Furthermore, as of September 30, 2003, the Company's unconsolidated business ventures had $2.3 million of cash.

The Company projects that its current corporate cash reserves, anticipated cash proceeds of non-core business sales and anticipated continuing dividends from core business operations will be sufficient for the Company to meet its future operating and debt service obligations on a timely basis. If the Company does not realize the cash proceeds it anticipates on the future sale of its non-core businesses and does not receive the amount of dividends from core operations that it currently anticipates, the Company does not believe that it will be able to fund its planned operating, investing and financing cash flows through September 30, 2004. Assuming no proceeds from further sale of non-core assets nor dividends from core business operations, the Company projects that its cash flow and existing capital resources will permit it to pay the $8.0 million semi-annual interest payment due on March 30, 2004 on its Senior Discount Notes.

During 2003, the Company engaged in discussions with representatives of holders of a substantial portion of the Company's 10 1/2% Senior Discount Notes due 2007 with a current outstanding principal balance (fully accreted) of $152.0 million (the "Senior Discount Notes") concerning restructuring of the Senior Discount Notes. To date, no restructuring has been agreed upon and further restructuring discussions with these substantial Senior Discount Note holders have been suspended. Opportunities to restructure the Company's balance sheet, including to refinance the Senior Discount Notes and its preferred stock, which had an aggregate preference claim of $248.4 million as of September 30, 2003, are being pursued, but present Company plans presume the continued service of the Senior Discount Notes debt on current terms and the continued deferral of the payment of preferred stock dividends. The Company, cannot provide assurances at this time that capital restructuring effort will be undertaken or, if undertaken, that such effort would produce a material improvement in short-run cash flows or equity valuations.

The Company has sold several businesses, which have yielded proceeds in excess of carrying values. The Company continues to actively pursue the sale of remaining non-core businesses to raise additional cash and has undertaken to maximize cash distributions from all of its business ventures. The Company believes these measures will succeed in providing sufficient liquidity to meet cash demands for the coming twelve months and beyond. However, the Company cannot assure that it will be successful in selling any additional non-core businesses or that these sales will raise sufficient cash to meet short-term liquidity requirements. The Company also is subject to legal and contractual restrictions, including those under the indenture for the Senior Discount Notes, on its use of any cash proceeds from the sale of its assets or those of its business ventures or subsidiaries.

If the Company is not able to satisfactorily address the liquidity issues described above, the Company may have to resort to certain other measures, including ultimately seeking the protection afforded under the U.S. Bankruptcy Code. The Company cannot assure at this time that it will be successful in avoiding such measures. Additionally, the Company has a stockholders deficit and has suffered recurring net operating cash deficiencies.

The factors discussed above raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Actions related to the Company's Securities

On February 25, 2003, the Company received notice from the staff of The American Stock Exchange (the "Exchange") indicating that the Exchange filed an application with the United States Securities and Exchange Commission ("SEC") on February 20, 2003, to strike the Company's Common Stock and $7^1/_4$% Cumulative Convertible Preferred Stock from listing and registration on the Exchange, effective at the opening of the trading session on March 3, 2003. As a result, the Company's Common Stock (OTCBB: MTRM) and $7^1/_4$% Cumulative Convertible Preferred Stock (OTCBB: MTRMP) began trading on the OTC Bulletin Board.

On September 24, 2003, the Company's equity securities were removed from quotation on the OTC Bulletin Board trading system ("OTCBB") because the Company was not then in compliance with NASD Rule 6530. The Company was required to file its Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 with the SEC by September 23, 2003 to remain in compliance with Rule 6530. As a result, the Company's Common Stock (Pink Sheets: MTRM) and $7^1/_4$% Cumulative Convertible Preferred Stock (Pink Sheets: MTRMP) is now quoted on the Pink Sheets. Concurrent with the filing of this quarterly report on Form 10-Q for the quarter ended September 30, 2003, the Company became compliant with OTCBB trading eligibility requirements.

2. Summary of Significant Accounting Policies

Stock Option Plans

The Company has elected to use the intrinsic value-based method to account for its stock-based compensation in accordance with the provisions of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees" and disclose the pro forma effects on results of operations

as if the fair value method had been adopted to account for its stock-based employee compensation plans.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	**2002**	**2003**	**2002**
Net income (loss) attributable to common stockholders, as reported	$ 24	$ (48,660)	$ 1,341	$ (104,782)
Deduct: Stock-based employee compensation expense determined under fair value based method	(149)	(209)	(540)	(627)
Pro forma net (loss) income	$ (125)	$ (48,869)	$ 801	$ (105,409)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Net (loss) income per share attributable to common stockholders Basic and Diluted:				
As reported	$	$ (0.52)	$ 0.01	$ (1.11)
Pro forma	$	$ (0.52)	$ 0.01	$ (1.12)

Accounting Change

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." Accordingly, the Company recorded a transitional impairment charge of $16.7 million as of January 1, 2002, of which $15.6 million has been included in the loss from discontinued components with the remaining $1.1 million reflected as a change in accounting principle.

Reclassifications

Certain reclassifications have been made to the prior period's financial information to conform to the current period presentation.

3. Discontinued Business Components

On September 30, 2003, the Board of Directors formally approved management's plan to dispose of the remaining non-core media businesses of the Company. Management anticipates that the remaining non-core media businesses will be disposed of by June 30, 2004. In light of these events, the Company concluded that such businesses meet the criteria for classification as discontinued business components as outlined in SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and these entities have been presented as such within the condensed consolidated financial statements.

Accordingly, as of September 30, 2003, the income statement of the Company for current and prior periods has presented the results of operations of the discontinued components, including any gain or loss recognized on such disposition, in income (loss) from discontinued components and the balance sheet presents the assets and liabilities of such operations as assets and liabilities of discontinued components.

A summary of such assets that are to be disposed include:

- All remaining radio businesses; and

- All remaining cable television businesses with the exception of Ayety TV.

A summary of significant dispositions of such businesses from January 1, 2002 to September 30, 2003 are summarized below.

Adamant Transaction

On April 24, 2003, the Company completed an exchange with Adamant Advisory Services ("Adamant") of its ownership in certain of its business units in Russia for approximately $58.6 million, face value, of the Company's Senior Discount Notes held by Adamant. The Company conveyed to Adamant its ownership interests in Comstar, a Moscow-based fixed-line telephony operator; Kosmos TV, a Moscow-based cable television operator; and the Company's Russian radio businesses (the "Radio Businesses"). In addition to conveying the Senior Discount Notes to the Company, Adamant paid $5.0 million in cash and released the Company of its $3.5 million obligation to pay interest accrued on the Senior Discount Notes being exchanged. The consideration was determined by arms length negotiations between the Company and Adamant.

The Company has recorded a gain related to this transaction of approximately $31.6 million in the nine months ended September 30, 2003, which is comprised of a $24.6 million gain related to the early extinguishment of the exchanged Senior Discount Notes and a $7.0 million gain on the transfer of the Company's interests in the Radio Businesses. Such gain on debt was adjusted to $24.6 million in the third quarter of 2003, due to a favorable adjustment of $0.5 million to professional fees previously accrued. The gain on extinguishment was reflected in the

Company's income from continuing operations in the three months ended June 30, 2003, while the gain on sale of the Company's interests in the Radio Businesses was reflected in the income from operations of discontinued components in the three months ended June 30, 2003. In addition, in the year ended December 31, 2002, the Company recorded an additional impairment charge of $1.1 million to reflect Comstar and Kosmos TV, unconsolidated investees of the Company, at their respective fair values.

Snapper, Inc.

On November 27, 2002, the Company completed the sale of substantially all of the assets and certain liabilities of Snapper, Inc. ("Snapper") to Simplicity Manufacturing, Inc. ("Simplicity") for an ultimate sale price of $60.0 million. Snapper manufactures premium-priced power lawnmowers, garden tillers, snow throwers and related parts and accessories.

In accordance with the provisions of SFAS No. 142, the Company completed its evaluation of the fair value of Snapper and determined that, as of January 1, 2002, there was a transitional impairment charge required on the Company's then recorded goodwill. Accordingly, the Company recorded a $13.6 million transitional charge in 2002. In addition, the Company recorded an estimated loss on disposal of $10.1 million during the year ended December 31, 2002. Such loss was based on the minimum amount of cash expected once the final terms of the settlement with the buyer were agreed. The $10.1 million estimated loss was comprised of a write down of assets and estimated severance and disposal costs.

In the six months ended June 30, 2003, a final accounting for this transaction was made, and the Company adjusted a receivable that was due from Simplicity to $6.0 million to include additional net proceeds due to the Company of $0.7 million. The additional net proceeds were recorded as an

adjustment to the loss on sale in income from discontinued components in the six months ended June 30, 2003 and resulted in a total net loss on disposal of $9.4 million.

Simplicity paid the $6.0 million to the Company in the quarter ended September 30, 2003.

Technocom Transaction

On June 25, 2003, the Company sold its wholly owned subsidiary, Technocom Limited ("Technocom") for $4.5 million. Technocom holds interests in several Russian telecommunications enterprises including satellite-based transport operator Teleport-TP. Simultaneous with the sale of Technocom, the Company entered into agreements intended to settle all historical claims concerning Technocom-related businesses, including claims arising from litigation in Guernsey that Technocom initiated in 2002 concerning its majority-owned subsidiary Roscomm and from arbitration proceedings initiated in 2003 in connection with that Guernsey litigation. The Company further expects that the broad releases, from and among all potential claimants contained in the settlement agreements, will avoid any further dispute in connection with Technocom, its subsidiary businesses, or its past or present stakeholders.

The Company received cash proceeds of $4.5 million and incurred closing costs of $0.6 million, principally legal fees and severance costs, resulting in an estimated gain of $2.9 million on the disposition, which was recorded in the three months ended June 30, 2003.

Metromedia China Corporation

In July 2002, the Company commenced a rights offering to the existing minority shareholders of Metromedia China Corporation ("MCC"), a majority owned subsidiary. The rights offering expired on August 22, 2002. Management determined prior to commencing the rights offering that it might not be able to continue to fund the operations or meet the minimum capital contributions required under the existing charter documents for MCC's operating subsidiaries. Furthermore, management further recognized that if the rights offering were successful in raising the minimal funding required to sustain the operations, the Company would be substantially diluted in its ownership rights in MCC.

Accordingly, the Company recorded a charge to earnings in the three months ended June 30, 2002 totaling $0.9 million to reduce the carrying value of MCC to the Company's best estimate as to the value that would be realized from the disposition of its ownership interests in MCC and/or the operating subsidiaries of MCC.

On September 19, 2002, the Company notified the minority shareholders of MCC that it had negotiated the sale of two of the three MCC operating subsidiaries, to one of the general directors of MCC. In addition, on September 27, 2002, the Company began the asset sale closing process for the two operating subsidiaries and began the liquidation process for the third operating subsidiary.

The sale of the two operating subsidiaries was completed in early 2003.

Other Non-Core Activities

The Company disposed of its ownership interests in ALTEL and CPY Yellow Pages during 2002. Accordingly, such businesses and operations have been presented as discontinued components.

The Company recorded a non-cash charge to earnings of $0.8 million during the third quarter of 2002. The Company initiated an assessment of the recoverability of long-lived assets of Cardlink, as a

result of the businesses venture's failure to meet financial projections due to loss of its principal customer in the third quarter. Accordingly, the intangibles (broadcast rights) were written down to the estimated fair value based on the expected cash flows of Cardlink.

The operating results of the Snapper business segment are as follows (in thousands):

	Three months ended September 30, 2002	Nine months ended September 30, 2002
Revenues	$ 26,770	$ 108,648
Operating loss	(9,556)	(6,288)
Cumulative effect of a change in accounting principle		(13,570)
Net loss	$ (7,113)	$ (18,280)

The combined results of operations of the discontinued Radio businesses are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Revenues	$ 4,004	$ 4,898	$ 12,526	$ 13,629
Operating loss	(314)	(64)	(1,573)	(262)
Net (loss) income	$ (95)	$ 157	$ (931)	$ (1,031)

The combined results of operations of the discontinued Cable businesses are as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Revenues	$ 3,174	$ 3,098	$ 9,252	$ 9,166
Operating (loss) income	(881)	106	(800)	315
Cumulative effect of a change in accounting principle				(2,030)
Net (loss) income	$ (527)	$ 383	$ (234)	$ (1,554)

The combined results of operations of the disposed Telephony businesses (Altel, CPY Yellow Pages and Technocom), Cardlink and MCC are as follows (in thousands):

	Three months ended September 30, 2002	Nine months ended September 30, 2002

Revenues	$ 3,531	$ 17,323
Operating loss	(3,100)	(9,584)
Net loss	$ (3,553)	$ (14,719)

The results of operations of the disposed Technocom business as well as certain other activity related to discontinued operations were immaterial for 2003.

The principal balance sheet items included in Discontinued Business Components for the radio and cable companies (except Ayety TV) are as follows (in thousands):

	September 30, 2003	December 31, 2002
		(restated)
Cash and cash equivalents	$ 1,350	$ 4,114
Other receivables	1,064	6,049
Other current assets	4,364	4,769
Current assets	$ 6,778	$ 14,932
Goodwill	$ 8,733	$ 9,528
Property, plant and equipment, net	7,996	14,989
Intangible assets, net	4,047	6,503
Investments in and advances to business ventures		1,218
Other noncurrent assets	1,232	9,091
Noncurrent assets	$ 22,008	$ 41,329
Accounts payable	$ 4,094	$ 4,338
Accrued expense	3,962	16,716
Current portion of third party long-term debt		1,711
Current liabilities	$ 8,056	$ 22,765
Long-term liabilities	$ 92	$ 105

The balance sheet items as of September 30, 2003 exclude those ventures disposed of during the nine months ended September 30, 2003, principally the Russian radio businesses and the Telephony businesses.

4. Asset Impairment

2003 Impairment Charges

In the three months ended September 30, 2003, the Company recorded a non-cash charge to earnings of $0.8 million for the write-down of the Company's investment in Cosmos TV, which has been included as a write-down of investment in unconsolidated investees. The Company has received indicators of value in relation to selling the Company's interest in Cosmos TV, and has evaluated the carrying value of Cosmos TV and determined that there was a loss in value that was other than temporary. Accordingly, in accordance with APB Opinion No. 18, the Company recorded an impairment charge of $0.8 million against the goodwill related to the Company's investment in Cosmos TV during the third quarter of 2003.

2002 Impairment Charges

In the three months ended September 30, 2002, the Company recorded a non-cash charge of $25.8 million for the writedown of the Company's investment in Comstar, which has been included as a write-down of investment in unconsolidated investees. As the Company began the process of selling its investment in Comstar, the Company evaluated the carrying value of Comstar and determined that there was a loss in value that was other than temporary. Accordingly, in accordance with APB Opinion No. 18, the Company recorded an impairment charge of $25.8 million against the license related to the Company's investment in Comstar during the third quarter of 2002.

The Company recorded a non-cash charge to earnings of $3.8 million during the third quarter of 2002. The Company initiated an assessment of the recoverability of long-lived assets and investments in Ayety TV as a result of the business venture's failure to meet financial projections. Accordingly, the goodwill and intangibles (principally a non-compete agreement) were written down to their estimated fair values based on the expected cash flows of Ayety TV.

5. Business Ventures Held for Sale

Certain cable and telephony business ventures in which the Company disposed of its interests in or that the Board of Directors have approved a formal plan for disposal were/are accounted for using the equity method of accounting. The Company has presented its investments in such ventures as "Business ventures held for sale" in noncurrent assets. Such presentation resulted in a reduction of the Company's "Investments in and advances to ventures" totaling $1.8 million and $37.7 million at September 30, 2003 and December 31, 2002, respectively.

The results of such business ventures are required to be presented in the Statements of Operations of the Company as continuing operations and have been included in the "Equity in income of unconsolidated investees."

Such ventures principally include:

Cable television businesses	Date of Disposition
Alma TV	May 24, 2002
Baltcom TV	August 1, 2003
Cosmos TV	
Kosmos TV	April 24, 2003
Teleplus	November 21, 2003
Fixed Telephony businesses	
Comstar	April 24, 2003
MTR Svyaz	June 25, 2003
Teleport-TP	June 25, 2003
Wireless Telephony businesses	
BELCEL	July 25, 2002
Tyumenruskom	September 24, 2003

The combined results of operations for such business ventures until the date of sale for the three and nine months ended September 30, 2003 and 2002 are summarized as follows (in thousands):

	Three months ended September 30, 2003			
	Fixed Telephony	Wireless Telephony	Cable Television	Total
Revenues	$	$ 913	$ 2,931	$ 3,844
Operating income (loss)		(28)	298	270
Net income		(47)	483	436
Equity in losses of unconsolidated investees	$	$	$ (964)	$ (964)

	Three months ended September 30, 2002			
	Fixed Telephony	Wireless Telephony	Cable Television	Total
Revenues	$ 15,855	$ 1,294	$ 4,257	$ 21,406
Operating income (loss)	1,062	337	(599)	800
Net income	351	525	(602)	274
Equity in (losses) income of unconsolidated investees	$ (27,690)	$ 488	$ 57	$ (27,145)

	Nine months ended September 30, 2003			
	Fixed Telephony	Wireless Telephony	Cable Television	Total
Revenues	$ 16,624	$ 3,216	$ 12,417	$ 32,257
Operating income (loss)	1,183	405	(547)	1,041
Net income	(344)	70	632	358
Equity in losses of unconsolidated investees	$ (337)	$	$ (62)	$ (399)

	Nine months ended September 30, 2002			
	Fixed Telephony	Wireless Telephony	Cable Television	Total
Revenues	$ 55,376	$ 3,836	$ 12,966	$ 72,178
Operating income (loss)	1,846	979	(1,286)	1,539
Net income (loss)	(1,857)	785	(3,022)	(4,094)
Equity in (losses) income of unconsolidated investees	$ (34,197)	$ 1,058	$ (973)	$ (34,112)

The Cable television business and Tyumenruskom include the results of operations for the three and nine months ended June 30, 2003, as such businesses are on a three month lag.

6. Business Dispositions and Transactions

Tyumenruskom Transaction

On September 24, 2003, the Company sold its interest in the Russian mobile phone company Tyumenruskom to a Russian company for cash consideration of $1.2 million. In addition, the Company was released from its guarantee of Tyumenruskom's debt by a vendor. The Company had previously recorded a reserve related to this guarantee that totaled $1.4 million on the date of the transaction. The Company recognized a gain on the disposition of $2.6 million, which is recorded in the three months ended September 30, 2003.

Baltcom TV Transaction

On August 1, 2003, the Company sold all of its interest in the Latvian cable television company Baltcom TV ("Baltcom") to the Latvian company SIA Alina ("Alina") for cash consideration of $14.5 million. Alina was the owner of 45% of Baltcom prior to the transaction. The Company recognized a gain of $9.3 million on the disposition, which was recorded in the three months ended September 30, 2003.

OMCL / CAT Transaction

On August 27, 2002, the Company sold its indirect 74.1% interest in Omni-Metromedia Caspian, Ltd. ("OMCL"). OMCL was a holding company through which the Company owned a 50%

interest in Caspian American Telecommunications LLC ("CAT"), a wireless telephony venture in Azerbaijan. The Company received proceeds of $0.1 million and incurred transactional costs of $0.1 million, which were composed of legal fees and a severance payment to CAT's former co-general director. No loss was recognized on the disposal of CAT due to prior write-downs; however, the Company recognized a gain of

$2.4 million on the sale of its business interest in OMCL to reverse a contingent liability that previously had been recorded for this business in the fourth quarter of 2000.

CIBBV / BELCEL Transaction

On July 25, 2002, the Company closed on the sale of its 100% ownership interest in Commstruct International Byelorussia B.V. ("CIBBV"). CIBBV was a holding company for a 50% interest in Belarus-Netherlands BELCEL Joint Venture ("BELCEL"), which owns a wireless network in Belarus. The Company received cash proceeds from the sale of $1.7 million and incurred immaterial transaction costs. The Company recorded a gain on the disposition of $1.3 million.

Alma TV Transaction

On May 24, 2002, the Company sold its indirect 50% interest in Alma TV, a cable television provider in Kazakhstan. The Company received cash proceeds of $9.4 million from the sale and incurred transactional costs of $0.9 million, which were comprised principally of a $0.8 million broker fee with the remaining balance related to legal and accounting fees. The Company recorded a gain on the disposition of $1.7 million.

7. Investments in and advances to business ventures

Credit Agreements with Business Ventures

Advances are made to business ventures and subsidiaries in the form of cash, for working capital purposes, payment of expenses or capital expenditures, or in the form of equipment purchased on behalf of the business ventures. Interest rates charged to the business ventures and subsidiaries range from prime rate to prime rate plus 6%. The credit agreements generally provide for the payment of principal and interest from 90% of the business ventures' and subsidiaries' available cash flow, as defined, prior to any substantial distributions of dividends to the business venture partners. The Company has entered into credit agreements with its business ventures and subsidiaries, including those classified as discontinued operations, of which $3.0 million in funding obligations remain at September 30, 2003. The Company's funding commitments are contingent on its approval of the respective business ventures' and subsidiaries' business plans. Due to dispositions of business ventures (See Note 5 "Business Ventures Held for Sale"), interest accruals and limited funding by the Company, partially offset by credit agreement repayments, such commitment has been significantly reduced over the past eighteen months. In addition, Magticom repaid its obligation in early 2003 and such credit agreement was terminated. Based on agreements currently in place, management expects that such commitment will cease to exist once the remaining discontinued businesses have been disposed.

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The following table summarizes the credit agreement activity for the nine months ended September 30, 2003 and 2002 (in thousands):

	Total Contract Amount		Total Available Credit	
	Nine months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Balance at January 1, 2003 and 2002, respectively	$ 103,963	$ 207,880	$ 18,388	$ 46,330
Reductions due to dispositions of businesses	(45,884)	(78,700)	(7,156)	(29,228)
Reductions due to termination of agreements, net of increases in agreements	(18,900)	(25,626)		(6,558)
Decrease due to advances given and interest accrued, net of payments received				