

PEACE ARCH ENTERTAINMENT GROUP INC
Form 6-K
July 30, 2002

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C., 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934**

For the month of July, 2002

PEACE ARCH ENTERTAINMENT GROUP INC.

(Translation of Registrant's name into English)

#500, 56 East 2nd Avenue, Vancouver, B.C., Canada, V5T 1B1

(Address of principal executive office)

[Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20F or Form 40-F.

Form 20-F Form 40-F

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

82-_____

American Stock Exchange Symbol PAE
Toronto Stock Exchange Symbol PAE.A, PAE.B

THIRD QUARTER REPORT

**For the Three and Nine Months Ended
May 31, 2001 and 2002
(unaudited)**

PEACE ARCH ENTERTAINMENT GROUP INC.

CONSOLIDATED BALANCE SHEETS
As at May 31, 2001 and 2002 and August 31, 2001

(Expressed in thousands of Canadian dollars)

| | May 31, 2001 | August 31, 2001 | May 31, 2002 |
|---|---------------------------|-------------------------|------------------|
| | (unaudited) (restated) | (audited) (restated) | (unaudited) |
| ASSETS | | | |
| Cash and cash equivalents | \$ 4,950 | \$ 3,977 | \$ 2,309 |
| Accounts receivable | 7,430 | 4,474 | 2,537 |
| Tax credits receivable | 19,928 | 23,729 | 6,358 |
| Productions in progress | 6,096 | 3,039 | 615 |
| Prepaid expenses and deposits | 553 | 459 | 133 |
| Investment in television programming | 10,778 | 3,667 | 4,067 |
| Property and equipment | 7,251 | 7,277 | 893 |
| Deferred costs | 835 | 410 | 564 |
| Goodwill and trademarks | 2,687 | 238 | 220 |
| | \$ 60,508 | \$ 47,270 | \$ 17,696 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Bank indebtedness | \$ 15,327 | \$ 18,447 | \$ 5,449 |
| Accounts payable and accrued liabilities | 10,880 | 12,876 | 2,449 |
| Deferred revenue | 9,215 | 3,191 | 734 |
| Deferred gain | 58 | | |
| Debt | 11,239 | 11,215 | 10,161 |
| | 46,719 | 45,729 | 18,793 |
| Shareholders' equity: | | | |
| Share capital | 31,854 | 31,870 | 31,870 |
| Authorized: | | | |
| 100,000,000 Class A Multiple Voting Shares Issued 1,091,875 (May 31, 2001 1,111,245) | | | |
| 100,000,000 Class B Subordinate Voting Shares Issued 2,795,969 (May 31, 2001 2,776,599) 25,000,000 Preference Shares, issuable in series Issued nil | | | |
| Other paid-up capital | 467 | 467 | 606 |
| Deficit | (18,532) | (30,796) | (33,573) |
| | 13,789 | 1,541 | (1,097) |

| | May 31, 2001 | August 31, 2001 | May 31, 2002 |
|--|-----------------|--------------------|-----------------|
| | \$ 60,508 | \$ 47,270 | \$ 17,696 |

/s/ Juliet Jones

/s/ Derek Douglas

Juliet Jones
DirectorDerek Douglas
Director

The accompanying notes are an integral part of the consolidated financial statements

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PEACE ARCH ENTERTAINMENT GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended May 31, 2001 and 2002

(Expressed in thousands of Canadian dollars except per share information)

| | 3 months ended | | 9 months ended | |
|---|---------------------------|-------------------|---------------------------|-------------------|
| | 2001 | 2002 | 2001 | 2002 |
| | (unaudited) (restated) | (unaudited) | (unaudited) (restated) | (unaudited) |
| Revenue | \$ 7,825 | \$ 566 | \$ 48,799 | \$ 5,772 |
| Expenses: | | | | |
| Amortization of television programming and Production costs | 7,546 | 1,099 | 43,776 | 4,318 |
| Other costs of production and sales | 214 | 158 | 1,480 | 369 |
| Other amortization | 247 | 161 | 738 | 485 |
| Selling, general and administrative | 1,325 | 736 | 3,142 | 2,354 |
| Interest | 507 | 601 | 1,452 | 1,895 |
| | 9,839 | 2,755 | 50,588 | 9,421 |
| Loss from operations before undernoted | (2,014) | (2,189) | (1,789) | (3,649) |
| Gain on sale of assets | 58 | 72 | 174 | 484 |
| Loss before income taxes | (1,956) | (2,117) | (1,615) | (3,165) |
| Income taxes | 339 | (383) | 401 | (388) |
| Net loss for the period | \$ (2,295) | \$ (1,734) | \$ (2,016) | \$ (2,777) |
| Basic net loss per common share | \$ (0.60) | \$ (0.45) | \$ (0.53) | \$ (0.71) |

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| | 3 months ended | | 9 months ended | |
|--|----------------|---------------|----------------|---------------|
| | | | | |
| Fully diluted loss per common share | \$ | (0.60) | \$ | (0.45) |
| | \$ | (0.53) | \$ | (0.71) |

The accompanying notes are an integral part of the consolidated financial statements

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CONSOLIDATED STATEMENTS OF DEFICIT
For the Three and Nine Months Ended May 31, 2001 and 2002

(Expressed in thousands of Canadian dollars)

| | 3 months ended | | 9 months ended | |
|---|---------------------------|-------------|---------------------------|-------------|
| | 2001 | 2002 | 2001 | 2002 |
| | (unaudited) (restated) | (unaudited) | (unaudited) (restated) | (unaudited) |
| Deficit, beginning of period, as previously reported | \$ (4,288) | \$ (31,839) | \$ (5,780) | \$ (30,796) |
| Adjustment to reflect change in accounting for film costs | (11,949) | | (10,736) | |
| Deficit, beginning of period, as restated | (16,237) | (31,839) | (16,516) | (30,796) |
| Net loss for the period | (2,295) | (1,734) | (2,016) | (2,777) |
| Deficit, end of period | \$ (18,532) | \$ (33,573) | \$ (18,532) | \$ (33,573) |

The accompanying notes are an integral part of the consolidated financial statements

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PEACE ARCH ENTERTAINMENT GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three and Nine Months Ended May 31, 2001 and 2002

(Expressed in thousands of Canadian dollars)

| | 3 months ended | | 9 months ended | |
|--|---------------------------|-------------|---------------------------|-------------|
| | 2001 | 2002 | 2001 | 2002 |
| | (unaudited) (restated) | (unaudited) | (unaudited) (restated) | (unaudited) |
| Operating activities: | | | | |
| Net loss | \$ (2,295) | \$ (1,734) | \$ (2,016) | \$ (2,777) |
| Items not involving cash: | | | | |
| Amortization of television programming | 7,546 | 1,099 | 43,776 | 1,365 |

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| | 3 months ended | | 9 months ended | |
|--|-----------------|-----------------|-----------------|-----------------|
| Other amortization | 247 | 162 | 738 | 485 |
| Interest on debt discount | 55 | 46 | 166 | 135 |
| Gain on sale of assets | (58) | (72) | (174) | (484) |
| Investment in television programming | (10,597) | (1,126) | (51,994) | (1,765) |
| Changes in non-cash working capital | 7,897 | 13,504 | 617 | 9,174 |
| | <u>2,795</u> | <u>11,879</u> | <u>(8,887)</u> | <u>6,133</u> |
| Investing activities: | | | | |
| Change in deferred costs | (76) | (62) | (66) | (451) |
| Increase of goodwill and trademarks | (8) | (1) | (16) | (1) |
| Proceeds on sale of assets, net | | (43) | | 6,743 |
| Property and equipment acquired | (23) | (31) | (70) | (44) |
| | <u>(107)</u> | <u>(137)</u> | <u>(152)</u> | <u>6,247</u> |
| Financing activities: | | | | |
| Issue of common shares, net | 170 | | 179 | |
| Increase (decrease) in bank indebtedness | 501 | (10,869) | 9,530 | (12,998) |
| Decrease debt | (48) | (617) | (179) | (1,050) |
| | <u>623</u> | <u>(11,486)</u> | <u>9,530</u> | <u>(14,048)</u> |
| Increase (decrease) in cash and cash equivalents | 3,311 | 256 | 491 | (1,668) |
| Cash and cash equivalents, beginning of period | 1,639 | 2,053 | 4,459 | 3,977 |
| Cash and cash equivalents, end of period | <u>\$ 4,950</u> | <u>\$ 2,309</u> | <u>\$ 4,950</u> | <u>\$ 2,309</u> |
| Supplementary information: | | | | |
| Interest paid (net of amounts capitalized) | \$ 507 | \$ 845 | \$ 1,200 | \$ 1,686 |
| Income taxes paid | | | 18 | |
| Non-cash transaction: | | | | |
| Conversion of an accounts payable to debt | | | | 6,626 |

The accompanying notes are an integral part of the consolidated financial statements

PEACE ARCH ENTERTAINMENT GROUP INC.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended May 31, 2001 and 2002
(unaudited)**

(Dollar amounts in tables expressed in thousands of Canadian dollars)

1. Operations

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Based in Vancouver, British Columbia, Canada, Peace Arch Entertainment Group Inc., together with its subsidiaries, (collectively, the "Company") is a fully integrated company that creates, develops, finances, produces and distributes film, television and video programming for world-wide markets.

2.

Future Operations

The interim consolidated financial statements have been prepared on the "going concern" basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The application of the "going concern" basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continuing operations or, in the absence of adequate cash flows from operations, obtaining additional financing. There is substantial doubt about the appropriateness of the Company's use of the "going concern" assumption because of the significant losses from operations, material working capital and shareholder deficiencies, and dependence upon the continued financial support of its secured lenders. As such, realization of assets and discharge of liabilities are subject to significant uncertainty.

The Company has incurred significant losses from operations and has material working capital and shareholder deficiencies at May 31, 2002. Serious restructuring initiatives, including scaling down certain aspects of its operations, were carried out during the nine months ended May 31, 2002 in an effort to reduce operating costs. Management continues to review operations in order to identify additional strategies, including further cost reductions and obtaining future sales contracts, to increase cash flow, improve the Company's financial position and enable timely discharge of the Company's obligations. However, there is no assurance that these initiatives will be successful or adequate to enable the Company to continue operations.

The Company has credit facilities with a Canadian chartered bank and loans from subordinate lenders all of which are secured by charges on the assets of the Company. At May 31, 2002 the Company was in compliance with its debt covenants, however there can be no assurance that the Company will remain in compliance with its debt covenants, which if violated could result in a requirement to immediately repay its debt.

The interim consolidated financial statements do not reflect adjustments that would be necessary if the "going concern" basis was not appropriate. If the "going concern" basis was not appropriate for the interim consolidated financial statements, then significant adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. Additionally, the amounts reported could materially change because of a plan of reorganization, since the reported amounts in the interim consolidated financial statements do not give effect to adjustments to the carrying value of the underlying assets or amounts of liabilities that may ultimately result.

The appropriateness of the "going concern" basis is dependent upon the Company's ability to obtaining additional financing and generating profitable operations and positive cash flows sufficient to finance continuing activities. There is no assurance the Company will be successful.

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3.

Significant Accounting Policies

(a)

Basis of Presentation

The interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada for interim financial reporting. Accordingly, they do not include all of the information and footnote disclosures necessary for complete financial statements in conformity with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared consistent with the accounting policies described in the Company's Annual Report for the year ended August 31, 2001 and should be read in conjunction therewith.

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All material intercompany balances and transactions have been eliminated.

(b)

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Change in Accounting Policy

In June 2000, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 00-2 ("SOP 00-2"), "Accounting by Producers or Distributors of Films". SOP 00-2 supercedes Statement of Financial Accounting Standards No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" establishing new accounting standards on revenue recognition, capitalization and amortization of film costs, accounting for exploitation costs, including advertising and marketing expenses, and presentation and disclosure of related information in financial statements.

The Company has elected to early adopt SOP 00-2 commencing with its year ended August 31, 2001 and has applied the change retroactively. Prior periods' financial statements have been restated accordingly.

(c)

Comparative Figures

Certain comparative figures have been restated to conform to the basis of presentation adopted for the current period.

4.

Segmented Information

The Company manages its operations in two business segments: production services for projects in which the Company does not hold a financial interest in a film or video program, and proprietary programming which is programming the Company owns or in which it holds a financial interest. The Company operates only in Canada, although its programs are distributed throughout the world. Selected information for the Company's operating segments, net of inter-company amounts, is as follows:

| | Production Services | Proprietary Programming | Other | Total |
|---------------|--------------------------------|------------------------------------|--------------|--------------|
| 2001 | | | | |
| Revenue | \$ 2,159 | \$ 46,560 | \$ 80 | \$ 48,799 |
| Gross profits | 679 | 2,784 | 80 | 3,543 |
| Total assets | 7,637 | 52,762 | 109 | 60,508 |
| 2002 | | | | |
| Revenue | \$ 3,511 | \$ 2,078 | \$ 183 | \$ 5,772 |
| Gross profits | 189 | 713 | 183 | 1,085 |
| Total assets | 741 | 15,389 | 1,566 | 17,696 |

Gross profits are comprised of revenue less amortization of television programming, production costs, and other costs of production and sales.

SUPPLEMENTAL INFORMATION

For the convenience of the reader, operating results for the three and nine months ended May 31, 2001 and 2002 have been translated into US Dollars using the average exchange rate in effect for the periods. Balance sheet information has been translated into US Dollars using the Bank of Canada noon spot rate in effect at the balance sheet dates. These translations are not necessarily representative of the amounts that would have been reported if the Company had historically reported its financial statements in US Dollars. In addition, the rates utilized are not necessarily indicative of rates in effect at any other time.

PEACE ARCH ENTERTAINMENT GROUP INC. US DOLLARS

Selected Financial and Operating Information For the Three and Nine Months Ended May 31, 2001 and 2002

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(Reported in accordance with generally accepted accounting principles in Canada)

(Expressed in thousands of US Dollars except per share information)

| | 3 months ended | | 9 months ended | |
|-----------------------------------|---------------------------|-------------|---------------------------|-------------|
| | 2001 | 2002 | 2001 | 2002 |
| | (unaudited) (restated) | (unaudited) | (unaudited) (restated) | (unaudited) |
| Revenue | \$ 5,040 | \$ 360 | \$ 31,951 | \$ 3,652 |
| Net loss for the period | (1,478) | (1,103) | (1,320) | (1,757) |
| EBITDA | (774) | (862) | 376 | (497) |
| Fully diluted loss for the period | \$ (0.39) | \$ (0.28) | \$ (0.35) | \$ (0.45) |

Selected Balance Sheet Information

As at May 31, 2001 and 2002

(Reported in accordance with generally accepted accounting principles in Canada)

(Expressed in thousands of US Dollars except per share information)

| | 2001 | 2002 |
|--|---------------------------|---------------|
| | (unaudited) (restated) | (unaudited) |
| Cash and cash equivalents | 3,203 | 1,512 |
| Accounts receivable | 4,807 | 1,661 |
| Tax credits receivable | 12,893 | 4,162 |
| Productions in progress | 3,944 | 403 |
| Investment in television programming | 6,974 | 2,663 |
| Property and equipment | 4,691 | 585 |
| Goodwill and trademarks | 1,738 | 144 |
| Total Assets | 39,153 | 11,585 |
| Bank indebtedness | 9,916 | 3,567 |
| Accounts payable and accrued liabilities | 7,039 | 1,603 |
| Deferred revenue | 5,961 | 481 |
| Debt | 7,271 | 6,652 |
| Share capital | 20,611 | 20,864 |
| Deficit | (11,992) | (21,979) |
| Shareholders' equity (deficit) | 8,922 | (718) |

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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.

Peace Arch Entertainment Group Inc.

(Registrant)

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Date July 29, 2002

By /s/ JULIET JONES

(Signature)*

Juliet Jones, President and CEO

*Print the name and title under the signature of the signing officer.

GENERAL INSTRUCTIONS

A. Rule as to Use of Form 6-K,

This form shall be used by foreign private issuers which are required to furnish reports pursuant to Rule 13a-16 or 15d-16 under the Securities Exchange Act of 1934.

B. Information and Document required to be Furnished,

Subject to General Instruction D herein, an issuer furnishing a report on this form shall furnish whatever information, not required to be furnished on Form 40-F or previously furnished, such issuer (I) makes or is required to make public pursuant to the law of the jurisdiction of its domicile or in which it is incorporated or organized, or (ii) files or is required to file with a stock exchange on which its securities are traded and which was made public by that exchange, or (iii) distributes or is required to distribute to its security holders.

The information required to be furnished pursuant to (I), (ii) or (iii) above is that which is material with respect to the issuer and its subsidiaries concerning: changes in business; changes in management or control; acquisitions or dispositions of assets; bankruptcy or receivership; changes in registrant's certifying accountants; the financial condition and results of operations; material legal proceedings; changes in securities or in the security for registered securities; defaults upon senior securities; material increases or decreases in the amount outstanding of securities or indebtedness; the results of the submission of matters to a vote of security holders; transactions with directors, officers or principal security holders; the granting of options or payment of other compensation to directors or officers; and any other information which the registrant deems of material importance to security holders.

This report is required to be furnished promptly after the material contained in the report is made public as described above. The information and documents furnished in this report shall not be deemed to be "filed" for the purpose of Section 18 of the Act or otherwise subject to the liabilities of that section.

If a report furnished on this form incorporates by reference any information not previously filed with the Commission, such information must be attached as an exhibit and furnished with the form.

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C. Preparation and Filing of Report

This report shall consist of a cover page, the document or report furnished by the issuer, and a signature page. Eight complete copies of each report on this form shall be deposited with the Commission. At least one complete copy shall be filed with each United States stock exchange on which any security of the registrant is listed and registered under Section 12(b) of the Act. At least one of the copies deposited with the Commission and one filed with each such exchange shall be manually signed. Unsigned copies shall be conformed.

D. Translations of Papers and Documents into English

Reference is made to Rule 12b-12(d) [17 CFR 240.12b-12(d)]. Information required to be furnished pursuant to General Instruction B in the form of press releases and all communications or materials distributed directly to security holders of each class of securities to which any reporting obligation under Section 13(a) or 15(d) of the Act relates shall be in the English language. English versions or adequate summaries in the English language of such materials may be furnished in lieu of original English translations.

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Notwithstanding General Instruction B, no other documents or reports, including prospectuses or offering circulars relating to entirely foreign offerings, need be furnished unless the issuer otherwise has prepared or caused to be prepared English translations, English versions or summaries in English thereof. If no such English translations, versions or summary have been prepared, it will be sufficient to provide a brief description in English of any such documents or reports. In no event are copies of original language documents or reports required to be furnished.

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