

MOSCOW CABLECOM CORP  
Form 10-Q  
November 14, 2005  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2005

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: 0-1460

**MOSCOW CABLECOM CORP.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**06-0659863**

(I.R.S. Employer Identification No.)

**590 Madison Avenue, New York, New York**

**10022**

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(Address of principal executive offices)

(Zip Code)

**(212) 418-9600**

(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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of shares of the Registrant's \$.01 par value Common Stock outstanding at November 11, 2005 was 8,860,746 and the number of shares of the Registrant's \$.01 par value Series B Convertible Preferred Stock outstanding was 4,500,000.

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MOSCOW CABLECOM CORP.  
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MOSCOW CABLECOM CORP.  
 Consolidated Condensed Balance Sheets  
 (In thousands, except per share data)

	September 30, 2005 (unaudited)	December 31, 2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$13,667	\$ 1,817
Marketable securities	4,601	-
Accounts and other receivables, less allowance for doubtful accounts of \$107 and \$90	264	192
Inventories	797	681
Taxes receivable	2,692	1,751
Prepaid expenses and other current assets	3,465	1,291
 Total current assets	 25,486	 5,732
Property, plant and equipment, net	20,889	17,019
Construction in progress and advances	7,916	4,547
Prepaid pension expense	5,065	4,927
Intangible assets, net	5,002	5,456
Goodwill	5,115	5,115
Investment in Institute for Automated Systems	7,282	7,585
Other assets	1,978	1,383
 Total assets	 \$78,733	 \$51,764
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 598	\$ 4,598
Payable to related party	267	1,584
Accounts payable	2,193	1,884

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Accrued interest payable	1,712	57
Accrued liabilities	2,833	2,609
Total current liabilities	7,603	10,732
Long-term debt, less current maturities	20,746	2,371
Other long-term liabilities	1,390	1,212
Deferred income taxes	4,220	4,353
Total liabilities	33,959	18,668
Commitments and contingencies		
Stockholders' equity:		
Series A cumulative convertible preferred stock, no par value; authorized 800,000 shares; 150,144 shares issued and outstanding; liquidation preference \$18.75 per share	2,792	2,792
Series B convertible preferred stock, \$.01 par value; authorized 25,000,000 shares, issued and outstanding 4,500,000 shares	45	-
Common stock, \$.01 par value; authorized 40,000,000 shares; issued and outstanding 8,860,746 and 8,799,541 shares, respectively	89	88
Treasury stock, at cost, 24,500 shares	(180)	(180)
Additional paid-in capital	65,814	35,246
Accumulated deficit	(23,786)	(4,850)
Total stockholders' equity	44,774	33,096
Total liabilities and stockholders' equity	\$78,733	\$51,764

The accompanying notes are an integral part of these consolidated condensed financial statements.

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## MOSCOW CABLECOM CORP.

## Consolidated Condensed Statements of Operations

(In thousands, except per share data)

(unaudited)

	Three months ended September		Nine months ended September	
		30,		30,
	2005	2004	2005	2004
Sales and revenues				
Subscription fees, connection fees and equipment sales	\$2,367	\$1,447	\$6,905	\$4,010
Other	44	23	138	242
Total revenue	2,411	1,470	7,043	4,252
Cost of sales				
Services from related party	663	346	1,678	965
Salaries and benefits	377	465	950	818
Depreciation and amortization	431	400	1,273	1,049
Other	657	67	1,339	925
Total cost of sales	2,128	1,278	5,240	3,757
Gross margin	283	192	1,803	495
Operating expenses				
Salaries and benefits	1,898	640	4,622	2,266
Depreciation	112	93	321	304
General and administrative	1,430	1,130	3,918	2,882
Total operating expenses	3,440	1,863	8,861	5,452



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Loss from operations	(3,157)	(1,671)	(7,058)	(4,957)
Equity in losses of Institute for Automated Systems	(160)	(23)	(303)	(194)
Investment income and other income	282	231	873	859
Interest expense	(665)	(93)	(1,898)	(222)
Foreign currency translation (loss) gain	6	(17)	(69)	28
Loss before income taxes	(3,694)	(1,573)	(8,455)	(4,486)
Income tax benefit	63	242	469	365
Losses of subsidiaries prior to consolidation	-	-	-	525
Net loss	(3,631)	(1,331)	(7,986)	(3,596)
Preferred dividends	(56)	(57)	(169)	(193)
Beneficial conversion feature	-	-	(10,781)	-
Net loss applicable to common shares	\$(3,687)	\$(1,388)	\$(18,936)	\$(3,789)
<b><i>Earnings per common share:</i></b>				
Basic and diluted (Note 5)	\$(0.42)	\$(0.16)	\$(2.14)	\$(0.53)

The accompanying notes are an integral part of these consolidated condensed financial statements.

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## MOSCOW CABLECOM CORP.

Consolidated Condensed Statements of Stockholders' Equity  
For the Nine Months Ended September 30, 2005(In thousands)  
(unaudited)

	Series A Preferred Stock	Series B Preferred Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
Balance December 31, 2004	\$2,792	-	\$88	\$(180)	\$35,246	\$(4,850)	\$33,096
Series B Preferred Stock and warrants issued, net of transaction costs	-	45	-	-	19,442	-	19,487
In-the-money stock options granted, net of forfeitures	-	-	-	-	120	-	120
Stock grants	-	-	-	-	215	-	215
Exercise of stock options	-	-	1	-	10	-	11
Beneficial conversion feature of Series B Preferred Stock	-	-	-	-	10,781	(10,781)	-
Net loss	-	-	-	-	-	(7,986)	(7,986)
Preferred dividends	-	-	-	-	-	(169)	(169)
Balance September 30, 2005	\$2,792	\$45	\$89	\$(180)	\$65,814	\$(23,786)	\$44,774

The accompanying notes are an integral part of these condensed financial statements.



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MOSCOW CABLECOM CORP.  
Consolidated Condensed Statements of Cash Flows  
(In thousands)  
(unaudited)

	Nine months ended September 30,	
	2005	2004
<b><i>Cash flows from operating activities:</i></b>		
Net loss	\$(7,986)	\$(3,596)
<i>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</i>		
Losses of subsidiaries prior to consolidation	-	(525)
Equity in losses of Institute for Automated Systems	303	194
Depreciation and amortization	1,594	1,372
Stock-based compensation	335	723
Deferred income taxes	(133)	(231)
Pension income	(138)	(130)
Net gains from marketable securities	(114)	(295)
<i>Changes in operating assets and liabilities, net of changes from acquisitions of CCTV and Moscow Broadband in 2004:</i>		
Accounts and other receivables	(72)	(420)
Inventories	(116)	162
Prepaid expenses and other assets	(3,247)	(1,548)
Accounts payable and payables to affiliates	(1,008)	554
Accrued liabilities and other long-term obligations	1,782	2,844
Net cash (used in) operating activities	(8,800)	(896)
<b><i>Cash flows from investing activities:</i></b>		
Investment in CCTV	-	(11)
Purchases of property and equipment	(8,174)	(2,149)
Purchases of marketable securities	(7,046)	(386)
Proceeds from sales of marketable securities	2,559	3,450

Net cash (used in) provided by investing activities	(12,661)	904
<b><i>Cash flows from financing activities:</i></b>		
Proceeds from issuance of Series B Preferred Stock, net of expenses paid	19,557	-
Proceeds from term debt, net of fee paid	18,037	2,000
Principal payments on term debt	(4,125)	(125)
Payment of short-term borrowings	-	(250)
Redemption of Class A Preferred Stock	-	(165)
Stock options exercised	11	23
Preferred dividends paid	(169)	(212)
Net cash provided by financing activities	33,311	1,271
Net increase cash and cash equivalents	11,850	1,279
Cash acquired in CCTV and Moscow Broadband acquisitions	-	1,183
Cash and cash equivalents - beginning of period	1,817	845
Cash and cash equivalents - end of period	\$13,667	\$3,307

The accompanying notes are an integral part of these consolidated condensed financial statements.

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MOSCOW CABLECOM CORP.

Notes to Consolidated Condensed Financial Statements (unaudited)

(1)

Accounting Policies

The accompanying unaudited interim financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Moscow CableCom Corp. (the Company) and related notes as contained in the Transition Report on Form 10-K for the ten-month period ended December 31, 2004. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and reflect all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the interim period. The condensed consolidated statements of operations for the interim periods are not necessarily indicative of the results for a full fiscal year.

In January 2005, the Company's Board of Directors approved a change in the Company's fiscal year from February 28/29 to December 31, effective December 31, 2004. This change was made to allow the Company to better align its financial reporting with the way it manages its business. The accompanying comparative consolidated condensed statements of operations and cash flows for the three and nine months ended September 30, 2004 have been prepared to facilitate the comparison and evaluation of the Company's consolidated results of operations for the three and nine months ended September 30, 2005.

*Consolidation*

The Company has consolidated the accounts of all its wholly-owned and majority-owned subsidiaries for the periods being reported. For the nine months ended September 30, 2004, the consolidated results of operations include the full results of operations of each of ZAO ComCor-TV (CCTV) and ABC Moscow Broadband Communication Ltd. (MBC) for the nine-month period with an adjustment to exclude that portion of their results of operations to the extent the Company did not have a direct or indirect interest in their results prior to the Company's acquisitions of CCTV and MBC on February 24, 2004. This adjustment has been reflected as Loss of subsidiaries prior to consolidation. As the Company's primary activities center around CCTV's operations, the Company operates as one reportable segment.

*Subscription Revenue, Connection Fees and Equipment Sales*

Revenue is primarily derived from the sale of cable television and Internet services to subscribers. All revenues are recorded (net of VAT) only when there is persuasive evidence of an arrangement, services have been delivered, the price is fixed or determinable and collection is reasonably assured. Customer arrangements for cable television or Internet services typically include a connection fee, required equipment purchase or rental as well as monthly service fee. The Company considers the various elements of these arrangements to be part of one bundled service offering to its customers. In accordance with Staff Accounting Bulletin 104, the Company defers connection fees, set-top box and modem sales and related costs, and recognizes them ratably over the estimated customer relationship period if the Company has demonstrated that the service offering to the customer will be profitable. In the event that Company believes the customer service offering has not yet demonstrated profitability, the loss on the service arrangement with the customer is recognized immediately. At present, the Company has determined that its Internet access services are profitable, but its delivery of cable television content has not yet demonstrated profitability.

#### *Marketable Securities*

At September 30, 2005, marketable securities include investments in the common stocks of financial institutions and auction rate securities, which are highly liquid variable-rate debt securities. While the auction rate securities have maturities in excess of one year, the interest rates are reset through auctions that are typically held every 28-35 days. The securities trade at par on the auction dates and interest is paid at the end of each auction period. Because of the short interest rate reset period, the book value of the securities approximates fair value.

During each of the three and nine-month periods ended September 30, 2005 and 2004, the Company also bought and sold marketable securities in the form of the common stocks of certain financial institutions.

#### *Recently Issued Accounting Standards*

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 123R supersedes APB Opinion No. 25 *Accounting for Stock Issued to Employees* and amends SFAS No. 95, *Statement of Cash Flows*. SFAS 123R requires all share-based payments to employees, including grants of

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employee stock options, to be recognized in the income statement based on their fair values. Upon effectiveness of this statement, pro forma disclosure will no longer be an alternative.

The Company expects to adopt SFAS 123R in the quarter which begins January 1, 2006.

SFAS 123R permits public companies to adopt its requirements using one of two methods:

1. A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123R that remain unvested on the effective date.
2. A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either for (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company has not yet determined the method it plans to adopt.

As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method and, as such, recognizes no compensation cost for employee stock options granted at fair market value. Accordingly, the adoption of SFAS 123R's fair value method may have a significant impact on the Company's results of operations, although it will have no impact on the Company's overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123R in prior periods, the impact of the accounting pronouncement would have approximated the impact of SFAS 123 as described below in the disclosure of pro forma net income and earnings. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement is not expected to have a material impact on our reported net operating cash flows or our net financing cash flows in periods after adoption.



In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections ( SFAS 154 ) which replaces Accounting Principles Board Opinion No. 20 Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28 . SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005 and, accordingly, is required to be adopted by the Company on January 1, 2006. The Company does not expect that the adoption of SFAS 154 will have a material impact on its consolidated results of operations and financial position.

#### *Stock-based Compensation Plans*

The Company follows APB 25 and related Interpretations, in accounting for its stock-based compensation plans and has elected to continue to use the intrinsic value-based method to account for stock option grants. The intrinsic value of stock-based compensation issued to employees as of date of grant is recognized as such grants are vested. In addition, for stock options granted, the Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure , an amendment of SFAS 123. Accordingly, no compensation expense has been recognized for the Company's stock option plans except for options granted with exercise prices that were lower than the market value on date of grant, as described in Note 2. Had we elected to recognize compensation expense based upon the fair value at the grant dates for awards under the stock option plans, net loss per share would have been increased to the pro forma amounts indicated in the following table (in thousands, except per share data):

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	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net loss:				
As reported	\$(3,687)	\$(1,388)	\$ (8,155)	\$(3,789)
Deduct: Total stock based compensation expense determined under the fair value method, net of taxes	(890)	(18)	(1,899)	(18)
Pro-forma net loss	\$(4,577)	\$(1,406)	\$(10,054)	\$ (3,807)
Basic and diluted net loss per share (see note 5):				
As reported	\$(0.42)	\$(0.16)	\$(2.14)	\$(0.53)
Pro-forma	\$(0.52)	\$(0.16)	\$(2.36)	\$(0.54)

The weighted average fair value of the Company's stock options was calculated using the Black-Scholes Option Pricing Model with the following assumptions for grants issued in 2005: no dividend yield; expected volatility ranging from 68.0% to 70.4%; risk free interest rate ranging from 3.36% to 3.92%; and expected lives of between 1.5 years and 5 years.

(2)

[Columbus Nova Financing Transaction](#)

On January 13, 2005, the Company closed on a \$51 million debt and equity financing package with certain affiliates of Columbus Nova Capital ( Columbus Nova ) pursuant to which the Company received \$22.5 million, before taking into account transaction costs currently estimated to total \$3,013,000, in exchange for 4,500,000 shares of newly-authorized Series B Convertible Preferred Stock (the Series B Preferred Stock ) and warrants to acquire 8,283,000 shares of Series B Preferred Stock at \$5.00 per share within five years of closing. Also, as part of the Columbus Nova financing, the Company's wholly-owned subsidiary, CCTV, received \$18.5 million of proceeds from a \$28.5 million five-year term loan from Columbus Nova which bears interest at 12.0% per annum (the CN Term Loan ). Proceeds from the CN Term Loan were used to repay a \$4 million bridge loan from Columbus Nova entered

into in 2004 in connection with the financing, and to pay \$612,500 of fees associated with the CN Term Loan. The remaining proceeds from this financing are being utilized to expand CCTV's last-mile hybrid fiber-coaxial network, to improve CCTV's administrative and operating infrastructure, to allow CCTV to expand its sales and marketing activities and to meet the cash needs of both the Company and CCTV until the Company can generate sufficient cash from operations. CCTV's access to the final \$10 million of the CN Term Loan is conditioned on its having achieved 500,000 homes passed. At September 30, 2005, CCTV had accessed 255,622 homes with its last mile network. There can be no assurances that CCTV will meet the 500,000 homes passed requirement to enable it to draw the final \$10 million of the CN Term Loan or that such homes passed requirement will be waived if CCTV does not meet the required level. If CCTV is not able to obtain the final \$10 million from the CN Term Loan, the requirement for additional financing to enable it to continue to expand its network and services will be accelerated, and there can be no assurances with respect to the Company's ability to attract additional financing or of the terms of any such financing it may obtain in such circumstances.

The Series B Preferred Stock issued by the Company is convertible into Common Stock on a share-for-share basis and does not have any payment obligations except for preference rights in the event of liquidation. The CN Term Loan accrues interest which is compounded quarterly at the annual interest rate of 12%, although CCTV has the option to pay quarterly interest in cash.

The CN Term Loan also involved pledges of substantially all of the Company's and CCTV's assets including but not limited to fixed assets, securities, the shares of all significant subsidiaries and all future revenue. The Company and CCTV also committed to compensate Columbus Nova for any currency transaction losses and expenses that may be incurred in connection with any breach of the provision of the agreements.

As part of the transaction with Columbus Nova, members of the Company's management and consultants who were appointed in January 2005 received 1,161,050 of stock options at an exercise price of \$5.00 per share. In connection with negotiated termination agreements with each of these individuals, 723,595 of these options were canceled and 437,455 options were afforded accelerated vesting. The net fair value of \$120,000 for this in-the-money feature has

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been reflected as compensation expense. Such expense excludes any expense that may be required in future accounting periods pursuant to SFAS123R. See also note 12 for discussions of additional severance costs.

(3)

Intangible Assets and Goodwill

In May 2003, the Company entered into agreements with Moscow Telecommunications Corporation ( COMCOR ) in which the Company agreed to acquire control over 100% of the outstanding stock of CCTV through i) the contribution of cash into CCTV, of which \$3.5 million was made in May 2003; ii) the issuance of 4,220,879 shares of its Common Stock in exchange for the shares of CCTV held by or to be acquired by COMCOR; and iii) the issuance of 2,250,000 shares of its Common Stock in exchange for the 75% of MBC not previously owned by the Company.

On February 24, 2004, the Company issued 4,000,000 shares of its Common Stock to COMCOR and 2,250,000 shares of its Common Stock to the shareholders of MBC to acquire control over all the outstanding equity of CCTV.

In September 2004, the Company issued an additional 220,879 shares of its Common Stock to COMCOR to facilitate the settlement of approximately \$1,380,000 of CCTV's liabilities to COMCOR through the issuance of CCTV stock to COMCOR, that, in turn, COMCOR exchanged with the Company for the Common Stock in accordance with the agreements.

The consideration for the acquisition of CCTV and MBC was valued at \$30.7 million, which includes the cash contribution of \$3.5 million in May 2003 and \$27.2 million representing the value of shares of Common Stock issued based upon the market price of \$4.21 per share for the Company's Common Stock at the time the agreements were reached and announced in May 2003. The purchase price was allocated as follows: \$12.3 million to the net assets of CCTV, \$7.1 million to CCTV's 43.5% equity interest in the Institute for Automated Systems ( IAS ) and \$11.3 million related to intangible assets and goodwill on the transaction.

The Company's agreement with COMCOR, pursuant to which COMCOR provides signal delivery and other services from its fiber optic network to CCTV, was concluded at rates considered to be more favorable to the Company than current market terms. Accordingly, the Company has recorded an intangible asset related to the economic savings associated with this relationship. Although this agreement as further amended in March 2005 does not expire until 2055, the Company believes that obsolescence, demand, competition, and other economic factors may limit the usefulness of these agreements and, accordingly, the relationship is being amortized over a useful life of 10 years based on the consideration of the aforementioned factors.

CCTV's licenses to provide television broadcast and cable television services were determined to have a finite life of 10 years based upon the expectation of obsolescence, demand, competition, and other economic factors that limit the useful life of the asset. The Company's broadcast and cable television license has been renewed until April 2010. In addition, licenses for data transmission and other services for which no value has been assigned have been extended until May 2010. The Company expects that future license renewals will occur in the ordinary course of business.

During the nine months ended September 30, 2005, the Company recorded \$454,000 of amortization related to the COMCOR agreement and broadcast license assets. Over each of the next five years, the Company expects to recognize annual amortization of approximately \$604,000 related to these intangible assets.

At September 30, 2005, intangible assets were comprised as follows (in thousands):

	Gross value	Accumulated amortization	Net value
Agreement with COMCOR	\$3,490	\$ (610)	\$2,880
Broadcasting licenses	2,572	(450)	2,122
Totals	\$6,062	\$(1,060)	\$5,002

Goodwill recorded in connection with the acquisition of CCTV represents the excess of the acquisition price over the currently estimated fair value of the identified tangible and intangible assets of CCTV. In accordance with SFAS 142, goodwill is not being amortized and will be tested for impairment at least annually. The impairment test involves a comparison of the fair value of its reporting unit as defined under SFAS 142, with carrying amounts. If the reporting unit's aggregated carrying amount exceeds its fair value, then an indication exists that the reporting

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unit's goodwill may be impaired. The impairment to be recognized is measured by the amount by which the carrying value of the reporting unit being measured exceeds its fair value, up to the total amount of the assets.

(4)

Investment in Institute For Automated Systems

IAS is a telecommunications company that operates a data communications network in Russia. As a result of the acquisitions of CCTV and MBC in February 2004, the Company had a 43.5% equity interest in IAS, which was temporarily diluted to 12.0% in October 2004 as part of a process that provided IAS with sufficient funds to enable it to pay its long-term debt obligations. In April 2005, the planned restoration of the Company's ownership stake was completed upon the payment of approximately \$866,000, which as of December 31, 2004, is included in the reported value of IAS and within accrued liabilities. For the three and nine months ended September 30, 2005, the Company recorded \$160,000 and \$303,000 respectively, as its 43.5% equity in IAS's losses. The Company's equity in IAS's losses also includes the depreciation of the difference between the fair market value of IAS's real estate and their historical values as of the date of the Company's acquisitions of CCTV and MBC.

The Company's investment in IAS is recorded at \$7,282,000 as compared to 43.5% of IAS's equity, which is \$3,383,000. The difference is due to the valuation of IAS as part of the process to allocate the purchase price for the acquisition of CCTV and MBC including appropriate consideration of the additional payment which was made to enable the Company to maintain its ownership percentage. Such difference is primarily attributable to the unamortized fair value adjustment relating to real estate owned by IAS.

The following presents the summarized financial condition of IAS as of September 30, 2005 and December 31, 2004, and the results of its operations for the three and nine months then ended (in thousands):

Balance Sheet	September 30, 2005	December 31, 2004
Current assets	\$1,678	\$ 1,251
Non-current assets	7,487	7,912
Total assets	\$9,165	\$9,163
Current liabilities	\$1,229	\$ 836
Non-current liabilities	158	-

Total liabilities	1,387	836
Shareholders' equity	7,778	8,327
	\$9,165	\$9,163

Statement of Operations	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues	\$1,438	\$1,409	\$4,047	\$3,925
Cost of revenues	(1,262)	(1,062)	(3,407)	(3,083)
Operating expenses	(460)	(342)	(1,164)	(1,080)
(Income) loss from operations	(284)	5	(524)	(238)
Foreign currency transaction gain (loss)	2	7	(8)	3
Interest expense	(2)	(65)	(2)	(202)
Income tax expense	(9)	-	(15)	(9)
Net loss	\$ (293)	\$ (53)	\$ (549)	\$ (446)

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(5) Long-term Debt

Long-term debt consists of the following (in thousands):

	September 30, 2005	December 31, 2005
Convertible preferred stock, due September 2007; maturing at \$100 million; payable annually;	\$ 1,219	\$ 1,219
Commercial mortgage loan, due September 2010; maturing at \$1.6 million plus interest;	1,625	1,625
Commercial mortgage loan, due September 2010, maturing at 12% interest;	18,500	18,500
Commercial mortgage loan, closing in Columbus, Georgia, maturing at 12% interest;	-	-
Commercial mortgage loan, maturing at 12% interest;	21,344	21,344
Current liabilities	(598)	(598)



\$20,746

(6)

Loss Per Share

Loss per share is computed based on the weighted average number shares of Common Stock and equivalent shares outstanding. Diluted earnings per share assumes full conversion of all convertible securities into Common Stock at the later of the beginning of the year or date of issuance, unless antidilutive. For the three and nine-month periods ended September 30, 2005 and 2004, the assumed conversion of the Company's convertible securities, including the Series B Preferred Stock, had antidilutive effects on the Company's earnings per share.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Calculation of basic loss per share				
Numerator for basic and diluted loss per share:				
Net loss, as reported	\$(3,631)	\$(1,331)	\$ (7,986)	\$(3,596)
Preferred dividends	(56)	(57)	(169)	(193)
Beneficial conversion feature	-	-	(10,781)	-
Numerator for basic and diluted loss per share	\$(3,687)	\$(1,388)	\$(18,936)	\$(3,789)
Denominator for basic loss per share:				
Weighted average number of shares outstanding during the period	8,850	8,595	8,832	7,091
Effect of dilutive securities	-	-	-	-
Denominator for diluted loss per share	8,850	8,595	8,832	7,091
Basic loss per share	\$(0.42)	\$(0.16)	\$(2.14)	\$(0.53)
Diluted loss per share	\$(0.42)	\$(0.16)	\$(2.14)	\$(0.53)

In connection with the transaction with Columbus Nova, the Company has recorded a non-cash charge and a corresponding credit to additional paid-in-capital in the amount of \$10,781,000 relating to the beneficial conversion

feature ( BCF ) of the Series B Preferred Stock. The BCF charge was calculated as the difference between the proceeds from the equity portion of the Columbus Nova financing allocated to Series B Preferred Stock and the \$6.11 per share market value of the underlying Common Stock of the Company on the commitment date, subject to the limitation that the BCF cannot exceed the fair value of the Series B Preferred as determined by the allocation of such equity proceeds.

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The allocation of the equity proceeds was made based on a determination of the relative fair values of the Series B Preferred Stock and warrants. The fair value of the Series B Preferred was determined to equal the market value of the underlying Common Stock of the Company as of the commitment date, into which it is immediately convertible on a one-for-one basis. The fair value of the warrants was calculated using a Black-Scholes method which incorporated a volatility for the underlying Common Stock of 57%, and a risk free rate of return for Russian investments of 6.71%.

The amount of the equity proceeds allocated to warrants, when coupled with their \$5.00 per share exercise price, exceeded the market value of the underlying Common Stock to be received from their exercise. Accordingly, no beneficial conversion feature was recognized for warrants.

The recognition of the BCF charge into accumulated deficit has been considered in the calculation of the loss per share for the nine months ended September 30, 2005, which increased the year-to-date loss per share by \$1.22 per share.

(7)

Retirement Plans

The Company maintains a non-contributory defined benefit plan and a defined contribution plan which collectively cover substantially all U.S.-based full-time employees. The defined contribution plan is funded through employees contributions and employer's matching contributions. Pension expense for the Company's defined contribution plan totaled \$0 for each of the three and nine months ended September 30, 2005, and was \$1,000 and \$9,000 for the three and nine months ended September 30, 2004, respectively. The Company's matching contributions in 2005 have been made using forfeitures from previous contributions.

The projected benefit obligations of the Company's defined benefit plan were determined using the following assumptions:

	2005	2004
Discount rate	5.75%	6.00%

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Future compensation growth rate	5.00%	5.00%
Long-term rate of return on plan assets	7.50%	8.00%

The required use of expected long-term rate of return on plan assets may result in recognized pension income that is greater or less than the actual returns of those plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and therefore the pattern of income and expense recognition will more closely match the pattern of the services provided by the employees. Differences between actual and expected returns are recognized in the calculation of net periodic pension cost or (income) over five years as provided for in the accounting rules.

These expected returns on plan assets take into account long-term expectations for future returns and investment strategy.

The discount rate assumptions used for pension benefit plan accounting reflects the prevailing rates available on high-quality, fixed-income debt instruments. The rate of compensation increase is another significant assumption used in the actuarial model for pension accounting and is determined by the Company based upon its long-term plans for such increases.

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Components of periodic benefit gain:				
Service cost of benefits accrued	\$ 7	\$ 6	\$ 21	\$ 18
Interest cost on projected benefit obligations	201	205	603	615
Expected return on plan assets	(286)	(282)	(858)	(844)
Amortization of unrecognized actuarial losses	32	27	96	81
Net periodic benefit gain	\$ (46)	\$ (44)	\$(138)	\$(130)

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The Company has never made any contributions to the defined benefit plan, and it expects that it will not be required to make any contributions during 2005.

(8)

Related Party Transactions

The Company receives signal delivery services, data network services and traffic services from COMCOR. During the three and nine-month periods ended September 30, 2005, charges for such services totaled \$663,000 and \$1,678,000, respectively. Within the current year-to-date amount is \$376,000 of charges for traffic services provided by COMCOR which had been provided by a third party vendor in 2004. At September 30, 2005, the Company was indebted to COMCOR in the amount of \$267,000.

For the three and nine-month periods ended September 30, 2005, the Company recorded \$682,000 and \$1,901,000, respectively, of interest and other charges relating to the bridge loan with Columbus Nova and the CN Term Loan, which includes the amortization of the \$462,500 arrangement fee and the annual \$149,850 agency fee which were paid at the closing of the CN Term Loan. At September 30, 2005, the Company was indebted to Columbus Nova in the amount of \$18,500,000 for the Term Loan and \$1,653,000 for accrued interest thereon. At September 30, 2005, the Company had also accrued \$70,000 of amounts due to Columbus Nova for estimated costs incurred in connection with the equity and debt financing.

CCTV leases office space from IAS for which it paid a total of \$423,000 for the nine months ended September 30, 2005.

(9)

Income taxes

During the second quarter of 2005, the Company received a Stipulation for Judgment from the Commonwealth of Pennsylvania in which certain open tax matters from the Company's fiscal year ended February 28, 1990 were settled through the payment of approximately \$28,000. The Company had previously accrued \$390,000 in liabilities relating to this matter, and accordingly it recorded a \$362,000 credit to income tax expense which has increased the overall net income tax benefit for the nine-month period.

(10)

Supplemental Disclosure of Non-Cash Activity

In August 2005, the Company issued 19,681 shares of its Common Stock to a former executive in settlement of the cashless exercise of stock options to acquire 135,455 shares of the Company's Common Stock.

(11)

Commitments and Contingencies

At September 30, 2005, CCTV had issued commitments totaling \$3,350,000 in connection with technology upgrades, the build out of its last-mile access network in Moscow and the purchase of subscriber equipment.

Russian tax authorities have recently begun to attempt to restrict the ability to recover value added tax ( VAT ) paid to suppliers in excess of VAT received from customers for companies which have debt within their capital structures.

CCTV has received both favorable and unfavorable rulings from tax courts in Russia relating to its application for. CCTV is currently appealing certain interpretations of tax regulations in which the tax court's opinion, if it prevails, may result in a write-down of approximately \$250,000 in the value of the VAT recoverable recorded as of September 30, 2005. Accordingly, in the event that CCTV's appeals are not successful, certain portions of VAT recoverable that have been recorded and future payments of VAT to suppliers may not be fully recoverable through the offset of VAT received by CCTV from its customers as has been customary. At this time, the Company believes that its position will prevail and that it will be able to recover the tax receivable recorded as of September 30, 2005 and any future VAT paid. Accordingly, no provision for nonrecoverability has been made in the accompanying consolidated financial statements as of September 30, 2005. However, because of a certain degree of unpredictability in the overall process, there can be no assurances that the expected recoverability of this asset will actually occur and accordingly, at September 30, 2005 there is a possibility for a write-down of this asset in a future period.

The Company is engaged in various legal actions arising in the ordinary course of business. These include asserted and unasserted legal matters relating to former operating segments of the Company, and which the Company has no



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basis to conclude that the results of such matters may be material to the Company's results of operations or financial condition.

(12) Severance Costs

Salaries and benefits expenses for the nine months ended September 30, 2005 include approximately \$830,000 of severance benefits which is comprised of \$213,000 of severance costs for the planned termination of U.S.-based employees in connection with the transition of certain administrative activities to Moscow, Russia, and \$617,000 of severance costs relating to the termination of executives and consultants appointed in connection with the Columbus Nova financing transaction, and other executives terminated in connection with the third quarter appointment of new executive management. Such expenses are in addition to the expenses recorded in connection with the accelerated vesting of stock options discussed in Note 2.

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

FORWARD-LOOKING STATEMENTS

This report contains "forward-looking statements", as the phrase is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statement of the plans and objectives of management for future operations, and any statement of assumptions underlying any of the foregoing. These statements may contain words such as expects, anticipates, plans, believes, projects and words of similar meaning. These statements relate to our future business and financial performance, including CCTV's development, its ability to attract new subscribers, to continue to expand its network, to achieve positive cash flow and our ability to raise funds for CCTV's development. The actual outcome may differ materially from these statements. The risk factors listed in our Transition Report on Form 10-K for the ten-month period ended December 31, 2004, as well as any cautionary language in this quarterly report, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. There may be other risks that we have not described that may adversely affect our business and financial condition. We disclaim any obligation to update developments of these risks or to announce publicly any revision to any of the forward-looking statements contained in this report, or to make corrections to reflect future events or developments.

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the MD&A in the Company's Transition Report on Form 10-K for the ten-month period ended December 31, 2004.



Overview

The Company is a holding company which on February 24, 2004, completed the acquisition of 100% of CCTV, a Russian company that delivers cable television, high speed data transmission and Internet services to its customers in Moscow, Russia. CCTV is an early stage business that is currently expanding its network and attempting to increase its customer base. In the second quarter of 2005, the Company announced that CCTV would begin marketing its services under the brand name AKADO in order to better differentiate the Company from COMCOR and to enable CCTV to broaden the image of its product offerings from being limited to television services.

Prior to February 2004, the Company had an indirect equity interest in CCTV through its 25% equity interest in MBC, which in turn held 50% voting control over CCTV. As an integral component of the acquisition of CCTV, the Company also acquired the 75% of MBC that it did not previously own.

Prior to February 2004, CCTV had been jointly owned by COMCOR and MBC. As a result of the receipt of shares of our Common Stock to COMCOR in connection with the sale of its ownership of CCTV to the Company, COMCOR owns approximately 31.6% of the Company's outstanding voting equity securities, or 19.5% when taking into account the dilutive effects of the exercise of the warrants issued to Columbus Nova as described below. COMCOR provides signal delivery, Internet traffic and other services to CCTV under agreements entered into in connection with the Company's acquisition of CCTV and as subsequently amended in connection with the Columbus Nova financing transaction.

In January 2005, the Company closed on a \$51 million debt and equity financing package with Columbus Nova. As part of the debt and equity financing, the Company received \$22.5 million, before taking into account transaction costs currently estimated to total \$3,013,000, in exchange for 4,500,000 shares of newly-authorized Series B

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Convertible Preferred Stock ( Series B Preferred Stock ) at a price of \$5.00 per share, and we issued Columbus Nova five-year warrants to acquire 8,283,000 shares of Series B Preferred Stock at \$5.00 per share. In addition, our wholly-owned subsidiary, CCTV, received \$18.5 million of proceeds from the \$28.5 million five-year CN Term Loan. As a result of this debt and equity financing package, Columbus Nova has an approximately a 33.7% equity interest in the Company, or approximately a 59.2% equity interest on a fully diluted basis after considering the conversion of the Series B Preferred Stock and the exercise of the warrants to acquire 8,283,000 additional shares of Series B Preferred Stock.

The net proceeds from the Columbus Nova equity and debt financing are expected to provide us with the capital that we believe is needed to more aggressively build-out our hybrid-fiber coaxial network ( HFC Network ), expand sales and marketing programs and improve certain aspects of our administrative infrastructure. The transaction also involved the addition of new senior management and new members to our Board of Directors. Such new senior managers and consultants have since left the Company, and we have recorded provisions for severance payments and accelerated vesting of in-the-money stock options granted. Although we are expecting further growth in revenues from increased numbers of subscribers for our Internet and cable television services, such growth is largely dependent upon our ability to continue to expand our HFC Network in Moscow and the degree of success in our efforts to attract and retain subscribers for these services. In addition, competitive pressures in Moscow are expected to reduce average monthly tariff rates, particularly for subscribers for Internet services. Our cost structure has increased to accommodate planned growth, so, as a result, we do expect to incur higher levels of selling, general and administrative costs and interest expense for the remainder of 2005 and into 2006.

RESULTS OF OPERATIONS - THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2005 VS. THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2004

In January 2005, the Company's Board of Directors approved a change in the Company's fiscal year from February 28/29 to December 31, effective December 31, 2004. Accordingly, the Company is reporting its results of operations for the three and nine-month periods ended September 30, 2005 and is presenting this discussion and analysis of those results in comparison to the unaudited results of operations for the three and nine-month periods ended September 30, 2004. Such unaudited comparative amounts have been prepared using accounting policies consistent with past and present practice.

For the three months ended September 30, 2005, the Company reported net loss applicable to common shareholders of \$3,687,000, or \$0.42 per share, as compared to a loss of \$1,388,000 or \$0.16 per share for the three months ended September 30, 2004. These results are not entirely comparable because in January 2005, the Company began incurring interest costs associated with the CN Term Loan and additional general and administrative costs, including severance costs, associated with the management and consultants who were appointed in connections with the CN financing transaction. For the three months ended September 30, 2005, the Company incurred a loss from operations

of \$3,157,000, which before depreciation and amortization was \$2,614,000. This represents a widening of the operating losses reported for the prior year's third quarter, in which the loss from operations was \$1,671,000, or \$1,178,000 prior to depreciation and amortization charges. The Company's growing operations helped produce additional gross margin, but the growth in operating expenses reflects the financial commitments made to support an increase in the Company's operating infrastructure, and expanded sales and marketing costs. Among the increased expenses are costs incurred to develop and initially promote AKADO as the Company's new brand name in Moscow.

For the nine months ended September 30, 2005, the Company reported net loss applicable to common shareholders of \$18,936,000, or \$2.14 per share, as compared to a loss of \$3,789,000 or \$0.53 per share for the nine months ended September 30, 2004. These results are not comparable because the calculations of the current nine month loss per share includes the recognition of non-cash beneficial conversion feature charges to accumulated deficit totaling \$10,781,000 relating to securities issued to Columbus Nova which added \$1.22 per share to our per share losses for the period. See Management's Discussion and Analysis of Financial Condition and Results of Operations- Beneficial conversion feature of securities issued and Note 5 to the financial statements. Furthermore, the additional interest and costs of management and consultants, including severance costs, have affected the per share comparisons.

Furthermore, an add-back adjustment of \$525,000 as losses of subsidiaries prior to consolidation was recorded in 2004 to exclude that portion of CCTV's and MBC's results of operations from January 1, 2004 to February 24, 2004 to the extent that the Company did not have a prior direct or indirect equity interest in their results. For the nine months ended September 30, 2005, the Company incurred a loss from operations of \$7,058,000, which before depreciation and amortization was \$5,464,000. This represents a widening of the nine-month loss reported in the prior year, in which the loss from operations was \$4,957,000, or \$3,604,000 prior to depreciation and

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amortization charges. Such increased operating losses reflect the on-going financial commitments made to support an increase in the Company's operating infrastructure as noted in the discussion of the three-month period ended September 30, 2005 above.

The per share results in the three and nine-month periods ended September 30, 2005 do not reflect the increase in the Company's outstanding equity securities in the form of Series B Preferred Stock issued to Columbus Nova. The inclusion of such shares, which have a limited liquidation preference for four years, in the per share loss calculations are considered to be anti-dilutive because their inclusion would have the effect of lowering our reported loss per share. Had such shares been included in the per share calculations, our pro forma loss per share for the three and nine-month periods ended September 30, 2005 would have been \$0.28 and \$1.45, respectively. The per share amounts for the prior year only partially include the effects of the additional 200,879 shares of Common Stock that were issued in September 2004 pursuant to the terms of the acquisition agreements.

Revenue and Gross Margin Summary

For the three months ended September 30, 2005, the Company recorded total revenues of \$2,411,000 from which it recognized gross margin of \$283,000, or 11.7% of revenues. In the third quarter of 2004, the Company had recorded total revenues of \$1,470,000, from which it recognized gross margin of \$192,000, or 13.1% of revenues. For the nine months ended September 30, 2005, the Company recorded total revenues of \$7,043,000 from which it recognized gross margin of \$1,803,000, or 25.6% of revenues. For the first nine months of 2004, the Company had recorded total revenues of \$4,252,000, from which it recognized gross margin of \$495,000, or 11.6% of revenues. Components of revenue and gross margin are as follows (in thousands):

	Three months ended September 30,			Nine months ended September 30,		
	2005	2004	Change	2005	2004	Change
Television services	\$580	\$448	29.5%	\$1,671	\$1,178	41.9%
Internet access services	1,661	954	74.1%	4,900	2,554	91.9%
Connection fees and equipment sales	126	45	180.0%	334	278	20.1%
	2,367	1,447	63.6%	6,905	4,010	72.2%
Other revenue	44	23	91.3%	138	242	(43.0)%
Total revenue	2,411	1,470	64.0%	7,043	4,252	65.6%
Cost of sales	2,128	1,278	66.5%	5,240	3,757	39.5%

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Gross margin	\$283	\$192	47.4%	\$1,803	\$495	264.2%
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Subscription revenue, connection fees and equipment sales

Television and Internet service revenues increased as a result of the continued expansion of the Company's HFC Network and further progress in gaining subscribers and improving market penetration, as noted in the following table:

	September 30, 2005	December 31, 2004	September 30, 2004	Year-to-date change	One-year change
Homes Passed	255,622	198,479	197,563	28.8%	29.4%
Active Subscribers					
Terrestrial television	77,090	65,451	62,740	17.8%	22.9%
Cable television	9,466	7,268	6,262	30.2%	55.5%
Internet	24,985	16,063	12,722	51.2%	96.4%
Penetration levels					
Terrestrial television	30.2%	33.0%	31.8%		
Cable television	3.7%	3.7%	3.2%		
Internet	9.8%	8.1%	6.4%		

In addition, the Company has experienced an overall decline in its average monthly revenue per active subscriber ( ARPU ), which for terrestrial services increased to approximately \$1.46 for the quarter ended September 30, 2005 from approximately \$1.43 for the third quarter of 2004, while the year-to-date ARPU for these services was approximately \$1.48 as compared to approximately \$1.39 for the first nine months in 2004 primarily due to tariff increases in early 2004. Monthly ARPU for cable television services was \$11.00 for the third quarter of 2005 as compared to \$10.31 for the comparable period in 2004, and for the nine-month period ended September 30, 2005,

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monthly ARPU for cable television was \$11.56 as compared to \$9.77 for the first nine months of 2004. The increase is primarily due to the introduction of additional content from NTV+ which began in the second quarter of 2004. ARPU from Internet access services was \$25.57 for the three months ended September 30, 2005 as compared to \$29.39 for the three months ended September 30, 2004. Year-to-date, the monthly Internet ARPU is \$27.52 as compared to \$29.03 for the first nine months of 2004. Increased competitive pricing pressures have resulted in the Company being more aggressive in its offerings to its subscribers.

Market penetration has increased for Internet services largely as a result of the pace of growth in customers having exceeded the rate of expansion of the Company's HFC Network. During a six-month period, until late June 2005, the Company had temporarily suspended active marketing of its cable television services until it had received subscriber equipment that is compatible with a new digital platform which was installed late in the third quarter of 2005. Accordingly, we believe that the modest growth in market penetration levels for cable television services from a year ago is not indicative of the growth potential for these services. This has been somewhat exhibited by the growth in take-up of these services beginning in the third quarter of 2005, during which time the number of active subscribers for these services increased 47.8%.

Connection fees and equipment sales

For the three and nine months ended September 30, 2005, the Company recorded \$126,000 and \$334,000, respectively of connection fees and installation revenue as compared to the \$45,000 and \$278,000 of such revenues recorded during the three and nine months ended September 30, 2004. The increase in revenue relates to the significant increase in the rate of installing new customers as compared to the prior year.

Other revenue

For the three and nine months ended September 30, 2005, the Company recorded \$44,000 and \$138,000, respectively, of other revenue which, for the quarter represents an increase of 91.38% from the \$23,000 of other revenue recorded in the prior year, and year-to-date represents a decrease of 43.0% from \$242,000 of other revenue recorded in the prior year's nine-month total. In 2004, CCTV recorded approximately \$129,000 relating to its participation as a subcontractor of COMCOR in a City of Moscow build-out program in the Zelenograd region of Moscow.

Cost of sales

Cost of sales for the three months ended September 30, 2005 totaled \$2,128,000 or 88.3% of total revenue to produce gross margin of \$283,000. During the prior year's third quarter, cost of sales totaled \$1,278,000, or 86.9% of revenue. Cost of sales for the nine months ended September 30, 2005 totaled \$5,240,000 or 74.4% of total revenue to produce gross margin of \$1,803,000. During the prior year's first nine months, cost of sales totaled \$3,757,000, or 88.4% of

revenue. Charges totaling \$1,059,000 for use of secondary nodes for the relay of signals to the Company's network increased by approximately 48.9% over the prior year's nine month totals as a result of an increase in the number of secondary nodes leased and increases in the monthly charges for such nodes which took effect in March 2005. At September 30, 2005, the Company was leasing 291 secondary nodes from COMCOR as compared to 256 nodes as of September 30, 2004. Depreciation expense increased due to the continued expansion of the HFC Network, and traffic and content charges increased from the prior year due to increased subscriber levels for both television and Internet services, and from the introduction in 2004 of television content from NTV+. Lower gross margins in the third quarter as compared to the first two quarters were the result of increased installations of cable television subscribers in the third quarter resulted in an increase in equipment costs from the expensing of set-top boxes. Lower installations of these services in the first two quarters had resulted in decreased equipment costs earlier in the year, as compared to 2004.

#### Operating expenses

Operating expenses totaled \$3,440,000 and \$8,861,000, respectively, during the three and nine months ended September 30, 2005, which represent increases of 84.6% and 62.5% from the \$1,863,000 and \$5,495,000 of such expenses reported for the three and nine months ended September 30, 2004. Salaries and benefits for the three and nine-month periods increased 196.6% and 104.0%, respectively over prior year levels due to severance costs, increases in the workforce, and costs associated with management brought into the Company in January 2005, but who have since left the Company. Increased advertising and promotion costs as the Company began to promote its services and its new brand name in Moscow also contributed to the higher level of operating costs from the prior year.

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Equity in losses of IAS

For the three and nine months ended September 30, 2005, the Company recorded \$160,000 and \$303,000, respectively, as its 43.5% equity in the losses of IAS as compared to \$23,000 and \$194,000, respectively, of such equity in IAS's losses for the three and nine months ended September 30, 2004. IAS's year to date losses in 2005 were higher than the losses it reported for the comparable periods in the prior year primarily due to the absence of interest expense on a bank loan as a result of its repayment in the fourth quarter of 2004. In the third quarter, however, IAS's losses increased due to expenses incurred in connection with work performed to provide its telecommunication services to a group of retail shops for which revenues have not yet been generated. Current year equity in IAS's losses also includes a factor equivalent to depreciation on the portion of the purchase price allocation attributable to the fair market value of IAS's real estate holdings over their historical values.

Investment income and other income

For the three and nine months ended September 30, 2005, investment income and other income totaled \$282,000 and \$873,000, respectively, as compared to \$231,000 and \$859,000 in the comparable periods in the prior fiscal year. Higher levels of interest income from the investment of the proceeds from the issuance of the Series B Preferred Stock and the CN Term Loan from Columbus Nova were partially offset by lower gains from the Company's trading in the common stocks of certain financial institutions and the non-recurrence in 2005 of a precious metals recovery relating to a former operating segment of the Company in 2004.

Interest expense

Interest expense totaled \$665,000 and \$1,898,000, respectively, for the three and nine months ended September 30, 2005 as compared to the interest expenses of \$93,000 and \$222,000, recorded in the comparable periods in 2004. Interest expense on the \$18.5 million CN Term Loan, which was slightly offset by lower outstanding balances on the Company's 10.5% Subordinated Debentures, accounted for the increase. Interest expense for the three and nine months ended September 30, 2005, excludes \$103,000 and \$205,000, respectively, of interest on the CN Term Loan which has been capitalized into fixed assets and construction in process. The Company has the option of rolling interest on the CN Term Loan into the principal balance, or paying the interest quarterly. For the interest periods ended April 13, 2005, July 13, 2005 and October 13, 2005, Columbus Nova has granted the Company an extension until December 2005 to decide which option will be taken.

Income tax benefit

Income tax benefit has been accrued based upon the estimated effective tax rates for the fiscal year, after considering valuation allowances related to the Company's ability to realize such tax benefits and based upon the amortization or adjustment of previously recorded deferred income tax liabilities relating to changes in the recorded values of certain non-current assets. The Company currently recognizes valuation allowance for the net operating losses it is incurring



in 2005. During the three months ended June 30, 2005, the Company successfully settled a pending state tax matter which enabled it to reverse approximately \$362,000 of previously accrued tax liabilities in that quarter. Accordingly, the effective income tax benefit rates during the three and nine months ended June 30, 2005 was less than 2% and 6%, respectively.

Beneficial conversion feature of securities issued

A beneficial conversion charge with a corresponding credit to additional paid-in capital of \$10,781,000 was recorded in the first quarter of 2005 relating to the Series B Preferred Stock issued in connection with the equity portion of the Columbus Nova financing. This amount was determined based upon a comparison of the intrinsic value of the Series B Preferred Stock, which was deemed to be equal to the \$6.11 per share value of the underlying Common Stock into which it can convert, and the portion of the proceeds of the equity financing which was deemed to be attributable to the Series B Preferred based upon an allocation process. Such beneficial conversion feature charge was limited to the value of the equity proceeds that had been allocated to the Series B Preferred Stock. This allocation process was done in concert with a valuation of the warrants issued to Columbus Nova. The amount of the equity proceeds allocated to warrants, when coupled with their \$5.00 per share exercise price, exceeded the market value of the underlying Common Stock to be received from their exercise. Accordingly, no beneficial conversion feature was recognized for warrants.

Losses of subsidiaries prior to consolidation

For the three months ended March 31, 2004, the Company added back the net losses of each of CCTV and MBC to the extent that it did not have a direct or indirect equity interest in these entities from January 1, 2004 to the date of their acquisition, February 24, 2004.

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### Preferred dividends

Dividends on the Company's Series A Preferred Stock totaled \$56,000 and \$169,000, respectively for the three and nine months ended September 30, 2005 as compared to \$57,000 and \$193,000 of such dividends for the three and nine months ended September 30, 2004. The reduction reflects the effects of redemption and conversion of a total of 37,862 shares of the Series A Preferred Stock during the first nine months of 2004. There have been no redemptions or conversions of the Series A Preferred Stock in 2005.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2005, the Company's consolidated cash position was \$13,667,000, as compared to cash of \$1,817,000 as of December 31, 2004. In addition, at September 30, 2005, the Company had \$4,601,000 of marketable securities as compared to no such investments at December 31, 2004. During the nine months ended September 30, 2005, the Company used \$8,800,000 in its operating activities, which is comprised of a use of cash of \$6,139,000 in net losses as adjusted for non-cash items, and \$2,456,000 of cash used by changes in operating assets and liabilities. The net loss adjusted for non-cash items compares to a loss adjusted for non-cash items of \$2,488,000 for the comparable period in the prior year. Increased operating expenses and interest expense in the current year led to the increase from the prior year levels. The change in operating balances includes a net decrease of \$1,317,000 in the balance due COMCOR, which reflects the payment of previously accrued balances in accordance with new agreements reached regarding the terms of the services being provided by COMCOR and a reduction of \$866,000 relating to the payment of additional shares of IAS which had been committed to prior to December 31, 2004. Cash was also used during the nine-month period to pay expenses relating to the CN Term Loan that will be amortized over the five-year period of the loan. Increases in accrued liabilities, including amounts due from accrued interest expense and accrued severance payments due, helped reduce the use of cash for operating activities during the nine month period. During the nine months, the Company utilized \$12,661,000 from investing activities, of which \$7,046,000 was used for making investments in highly liquid variable rate auction rate securities and certain common stock investments, and \$8,174,000 was used for payments for capital expenditures to improve technology and expand the Company's HFC Network. Financing activities provided \$33,311,000 during the nine months ended September 30, 2005. Net proceeds of \$33,594,000 were received from the Columbus Nova equity and debt financing after considering expenses and fees paid and the repayment of the bridge loan extended by Columbus Nova in 2004. The Company has accrued an additional \$70,000 for estimated costs that may be due in connection with this transaction. The Company used \$294,000 for the payment of preferred dividends and debt service on a mortgage loan.

The Company currently continues to incur operating losses, and expects such losses to continue through the end of the current year and into 2006. In addition, the Company is committing funds to expand its HFC Network in Moscow and to update the delivery of its television services to a digital platform. This technology upgrade and marketing approaches that have been developed to increase the Company's subscriber base are expected to involve expenditures to provide digital compatible equipment to existing and future subscribers for little or no cost to such subscribers. As a result of all these factors, the Company expects to continue to use cash from its operations.

There can be no assurances that the proceeds received and which may be received from Columbus Nova will be sufficient to adequately build out CCTV's HFC Network to enable CCTV to attract a sufficient number of subscribers who elect to take up CCTV's cable-based services, or if the build-out of the homes passed network does progress, that CCTV can attract a sufficient number of subscriber services to be taken to generate the revenues that will be needed to achieve profitability. However, the Company expects that it may require additional funding prior to the end of 2006, in addition to the \$10 million of additional proceeds that can be received under terms of the CN Term Loan if CCTV passes 500,000 homes, or if this provision is otherwise waived. There can also be no assurances that CCTV will meet the 500,000 homes passed requirement to enable it to draw the final \$10 million of the CN Term Loan or that such homes passed requirement will be waived if CCTV does not meet the required level. If CCTV is not able to obtain the final \$10 million from the CN Term Loan, the requirement for additional financing to enable it to continue to expand its network and services will be accelerated, and there can be no assurances with respect to the Company's ability to attract additional financing or of the terms of any such financing it may obtain in such circumstances.

The \$18.5 million drawdown on the CN Term Loan bears interest at the annual rate of 12% which has increased our costs from historical levels. The Company has the option to pay the interest quarterly, or to roll interest into the principal of the CN Term Loan at which time, such capitalized interest will also accrue interest expense. If the Company elects to pay the interest currently as it comes due, such use of cash may restrict its ability to fully implement the business expansion plans for CCTV in Moscow. If the interest is capitalized into the principal of the

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CN Term Loan, the compound growth in the expense and the liability could hamper the Company's ability to attract additional future financing or to justify meaningful value for the Company's equity securities. As previously noted, the Company has received an extension of until December 2005 to decide which option will be taken with respect to the quarterly interest payments which were due in April, July and October 2005.

The CN Term Loan also involved pledges of substantially all of the Company's and CCTV's assets, including but not limited to fixed assets, securities, the shares of all significant subsidiaries and all future revenue. The Company and CCTV also committed to compensate Columbus Nova for any currency transaction losses and expenses that may be incurred in connection with any breach of the provision of the agreements.

The Company is party to certain operating leases which will require \$7,000 of payments to be made during the remainder of 2005 and \$4,000 in 2006.

The Company's capital expenditures, including \$205,000 of unpaid capitalized interest, for the nine months ended September 30, 2005 are summarized as follows (in thousands):

	Q1	Q2	Q3	Total
Line extensions (network costs associated with entering new service areas)	\$1,435	\$3,075	\$2,825	\$7,335
Scalable infrastructure (primarily internet equipment)	285	196	-	481
Other administrative	133	40	390	563
	\$1,853	\$3,311	\$3,215	\$8,379

As of September 30, 2005, the Company had 288 employees and approximately 140 subcontracted workers in installation and administrative capacities. These personnel levels exclude workers of subcontractors who are active in the construction of the Company's HFC Network.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is exposed to market risk from changes in interest rates and from factors that impact equity investments in Russia, as discussed in the Company's Transition Report on Form 10-K for the ten months ended December 31, 2004.

**FOREIGN INVESTMENT RISK**

Since the Company's wholly-owned subsidiary, CCTV, operates in Russia, the Company is subject to the economic and political risks associated with operating in Russia. In addition, fluctuations in the value of the Russian ruble may affect the reporting of the Company's results of operation and financial condition in terms of U.S. dollars. The Company's current pricing strategies involve monthly tariffs that are closely tied to the value of the U.S. dollar but still paid in Russian rubles. This could result in fluctuations in revenues that are not met equally or proportionally with changes in the Company's expenses. Furthermore, beginning in 2005, certain of the Company's expenses are Euro-based and the Company bears the risk of fluctuations in the U.S. dollar-Euro exchange rate. The Company has not entered into any derivative instruments to hedge its Russian ruble or Euro currency risks. Operating CCTV also involves the risk of CCTV's ability to increase its revenues through the addition of subscribers for its cable television, high-speed data transmission and Internet services. The subscriber growth is largely dependent upon CCTV's ability to build-out its HFC Network from the Moscow Fiber Optic Network which it leases from COMCOR, which, in turn, is largely dependent upon CCTV receiving a sufficient amount of capital to pay for the equipment and construction costs.

**INTEREST RATE RISK**

At September 30, 2005, Andersen Land Corp., a wholly owned subsidiary of the Company, was liable in the amount of \$1,625,000 under a mortgage collateralized by a real estate property and an assignment of rental income from the lease of the property. Interest under this note will fluctuate at 2.25% above the London Interbank Offered Rate, which will expose the Company at each periodic renewal of the rate until its maturity in June 2010. At September 30, 2005, the interest rate on this mortgage loan was 6.54%, which is scheduled to be re-set in August 2006. The Company estimates that a 1% increase in the interest rate at this next interest rate re-set would increase interest expense for 2006 by approximately \$6,000.

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#### **Item 4. Controls and Procedures.**

(a) Evaluation of disclosure controls and procedures. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)), based on their evaluation of such controls and procedures conducted as of the end of the period covered by this report, are effective to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting. There has been no change in the Company's internal control over financial reporting during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II. Other Information**

#### **Item 1. Legal Proceedings.**

*Morton International, Inc. v. A.E. Staley Mfg. Co. et al. and Velsicol Chemical Corp. v. A.E. Staley Mfg. Co. et al.*

As originally reported in the Company's Form 10-K for the year ended February 28, 1997, in July 1996, two companion lawsuits were filed in the United States District Court for the District of New Jersey, by various owners and operators of the Ventron-Velsicol Superfund Site (the Site). The lawsuits, which were subsequently consolidated, were filed under the Comprehensive Environmental Resource Compensation and Liability Act ( CERCLA ), the Resource Conservation and Recovery Act, the New Jersey Spill Act and New Jersey common law, alleging that the

defendants (over 100 companies, including the Company's wholly-owned subsidiary, JM Ney), were generators of certain wastes allegedly processed at the Site. The lawsuits seek recovery of costs incurred and a declaration of future liability for costs to be incurred by the owners and operators in studying and remediating the Site.

As further reported in the Company's Form 10-Q for the period ended November 30, 2001, this case was dismissed without prejudice and the plaintiffs did not have the ability to reinstate their claims for a minimum of three years until October 2004. Although this limitation on the plaintiffs' ability to reinstate their claims has expired, the plaintiffs have not yet reinstated this case. If the plaintiffs do reinstate the case, given the legal and factual issues that remain outstanding, the Company currently has no basis to ascertain the range of loss, should any occur, with respect to an outcome that may be considered unfavorable. This contingent liability was not assumed by the buyer of JM Ney's net assets.

*Norman D. Mass and Lois Ravage Mass v. Amchem Products, Inc. et al. (New York State Supreme Court, County of New York, Index 101931-04), Loretta Brienza and Brent Brienza v. A.W. Chesterton Company et al. (New York State Supreme Court, County of New York, Index 104076-04), and Jay K. Fleckner v. Amchem Products, Inc. et al. (New York State Supreme Court, County of New York, Index 113970-04).*

As originally reported in the Company's Form 10-K for the year ended February 29, 2004, in March and April 2004, JM Ney, now known as Andersen Land Corp., was served with a summons and a complaint in the above-captioned Mass and Brienza matters in which it and in excess of one hundred (100) other parties were named as defendants in an asbestos-related civil action for negligence and product liability filed in the Supreme Court of New York for the County of New York (although the Brienza matter has been transferred to Nassau County) in which the plaintiffs claim damages from being exposed to asbestos and asbestos products alleged to have been manufactured or supplied by the defendants, including JM Ney's former dental division. In addition, as originally reported in the Company's Form 10-Q for the period ended November 30, 2004, in October 2004, Andersen Land Corp. also received a summons in which it and approximately 30 additional companies were named as defendants in an asbestos-related civil action for negligence and product liability filed in the Supreme Court of New York for the County of New York in which the plaintiff (Fleckner) claims damages from being exposed to asbestos and asbestos products alleged to have been manufactured or supplied by the defendants, including JM Ney's former dental division. The plaintiffs

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have not provided any specific allegations of facts as to which defendants may have manufactured or supplied asbestos and asbestos products which are alleged to have caused the injuries.

The Company believes that it has insurance that potentially covers these claims and has notified its insurance carriers to provide reimbursement of defense costs and liability, should any arise. Based upon the answers to the interrogatories that have been supplied by the plaintiffs' attorneys, it does not appear to the Company that JM Ney manufactured any products containing asbestos that are the subject of these matters. As of this date, the Company has no basis to conclude that the litigation may be material to the Company's financial condition or business. The Company intends to vigorously defend the lawsuits.

## **Item 6. Exhibits.**

(a) Exhibits required by Item 601 of Regulation S-K:

<u>Exhibit</u>	<u>Description</u>
31.1	Certification of the Company's Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Company's Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of the Company's Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.





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## SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **MOSCOW CABLECOM CORP.**

By:

/s/ Mikhail Smirnov

Mikhail Smirnov

Chief Executive Officer

Date:

November 14, 2005

By:

/s/ Andrew M. O Shea

Andrew M. O Shea

Chief Financial Officer and Secretary

Date:

November 14, 2005