

YOUTHSTREAM MEDIA NETWORKS INC
Form 10-Q
November 22, 2002

=====

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from _____ to _____

Commission File Number: 0-27556

YOUTHSTREAM MEDIA NETWORKS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	13-4082185
-----	-----
(State or Other Jurisdiction of Incorporation of Organization)	(I.R.S. Employer Identification No.)

244 Madison Avenue, PMB #358 New York, NY	10016
-----	-----
(Address of Principal Executive Offices)	(Zip Code)

[(212) 622-7300]

(Registrant's Telephone Number, Including Area Code)

28 West 23rd Street, New York, New York 10010
(Registrant's Former Address)

Check 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 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 X No
----- -----

At September 30, 2002, there were 35,865,000 shares of Common Stock, \$.01 par value outstanding.

=====

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

YOUTHSTREAM MEDIA NETWORKS, INC.

FORM 10-Q

INDEX

	PAGE NUMBER -----
PART I--FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheets -- September 30, 2002 (Unaudited) and June 30, 2002	1
Unaudited Condensed Consolidated Statements of Operations -- Three Months Ended September 30, 2002 and 2001	2
Unaudited Condensed Consolidated Statements of Cash Flows -- Three Months Ended September 30, 2002 and 2001	3
Unaudited Condensed Consolidated Statement of Stockholders' Equity -- Three Months Ended September 30, 2002	4
Notes to Condensed Consolidated Financial Statements	5
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	13
ITEM 4. CONTROLS AND PROCEDURES	13
PART II--OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	14
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	14
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	14
SIGNATURES	15

PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

ASSETS

Current assets:

Cash and cash equivalents \$
 Accounts receivable, net
 Inventories, net
 Prepaid expenses
 Other current assets
 Restricted cash

Total current assets

Property and equipment, net of accumulated depreciation of \$940 and \$1,918 at
 September 30, 2002 and June 30, 2002, respectively

Deferred financing costs, net of accumulated amortization of \$2,083 and \$1,884 at
 September 30, 2002 and June 30, 2002, respectively

Assets from discontinued operations

Total assets

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable \$
 Accrued employee compensation
 Accrued expenses
 Current liabilities of discontinued operations
 Deferred Revenues
 Current portion of deferred purchase price
 Current portion of capitalized lease obligations
 Current maturities of long-term debt in default (see Note 4)

Total current liabilities

Non current liabilities of discontinued operations

Capitalized lease obligations

Other liabilities

Commitments and contingencies

Stockholders' Deficit

Preferred stock, \$0.01 par value, 5,000 shares authorized, no shares issued and
 outstanding

Common stock, \$0.01 par value, 100,000 shares authorized, 35,865 shares
 and 33,591 shares issued at September 30, 2002 and June 30, 2002, respectively

Additional paid-in capital

Accumulated deficit

Treasury stock, 607 shares at September 30, 2002 and June 30, 2002, respectively

Total stockholders' deficit

Total liabilities and stockholders' deficit

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

See notes to condensed consolidated financial statements

Page 1

YOUTHSTREAM MEDIA NETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three months ended September 30,	
	2002	2001
Net revenues	\$ 6,446	\$ 8,121
Cost of sales	1,188	1,462
Gross profit	5,258	6,659
Selling, general, administrative and corporate expenses ..	6,364	5,105
Depreciation and amortization	169	98
Income (loss) from operations	(1,275)	1,456
Interest income	23	184
Interest expense	(731)	(774)
Income (loss) before provision for income taxes	(1,983)	866
Provision for income taxes	(96)	(6)
Income (loss) from continuing operations	(2,079)	860
Loss from discontinued operations	(582)	(584)
Gain on disposal of discontinued operations	482	--
Net income (loss)	\$ (2,179)	\$ 276
Income (loss) per share of common stock basic and diluted		
Continuing operations	\$ (0.06)	\$ 0.03
Discontinued operations	(0.01)	(0.02)
Net income (loss) per basic and diluted common share	\$ (0.07)	\$ 0.01
Weighted average basic common shares outstanding	33,008	29,922
Weighted average diluted common shares outstanding	33,008	30,027

See notes to condensed consolidated financial statements

Page 2

YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

			Three months ended September
			2002

CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (2,179)		\$
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Loss from discontinued operations		582	
(Gain) on disposal of discontinued operations		(482)	
Net change in assets and liabilities of discontinued operations		(574)	
Bad debt expense		--	
Depreciation and amortization		169	
Loss on disposal of equipment		488	
Amortization of deferred financing costs		199	
Deferred rent		(12)	
Amortization of original issue discount on Subordinated Notes		29	
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable		1,935	
Inventory		(1,038)	
Other current assets		86	
Accounts payable		1,727	
Accrued expenses		563	
Deferred revenues		(127)	

Net cash provided (used in) operating activities	\$ 1,366		
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures		(42)	
Sale of investments in marketable debt securities		--	
Sale of Media Assets to Alloy		7,283	
Payment for business acquisitions		(25)	

Net cash provided by investing activities		7,216	
CASH FLOWS FROM FINANCING ACTIVITIES			
Common stock repurchase		--	
Repayment of capitalized lease obligations		(112)	
Repayment of long-term debt		--	

Net cash (used in) provided by financing activities		(112)	
Decrease in cash and cash equivalents		8,470	
Cash and cash equivalents at beginning of period		597	

Cash and cash equivalents at end of period	\$ 9,067		\$
		=====	=====

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

Noncash financing activities:

Capitalized lease obligations	--	\$
	=====	=
Issuance of common stock in connection with acquisitions	\$ 114	\$
	=====	=
Accrued earn-out	--	\$
	=====	=

See notes to condensed consolidated financial statements

Page 3

YOUTHSTREAM MEDIA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JUNE 30, 2002 TO SEPTEMBER 30, 2002
(IN THOUSANDS)
(UNAUDITED)

	Common Stock			Accumulated	Trea
	Shares	Amount	APIC	Deficit	Sto

Balances at June 30, 2002	33,591	\$ 336	\$ 330,774	\$ (336,161)	\$ (8
Issuance of common stock in connection with Invino acquisition	2,274	23	91	--	
Net loss	--	--	--	(2,179)	

Balances at September 30, 2002	35,865	359	330,865	(338,340)	(8
	=====				

Page 4

YOUTHSTREAM MEDIA NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of YouthStream Media Networks, Inc. ("YouthStream"), and its wholly-owned subsidiaries (collectively, the "Company"). The Company's operations consist of Network Event Theater, Inc. ("NET"), American Passage Media, Inc. ("American

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

Passage"), Trent Graphics, Inc. ("Trent"), and W3T.com, Inc. ("Teen.com"). On August 5, 2002 the Company sold substantially all of its media assets and certain liabilities in its NET and American Passage subsidiary to Alloy, Inc. and ceased operating the media segment. In December 2001, the Company discontinued its Teen.com operations and closed its Hotstamp college business. In December 2000, the Company discontinued the operations of CommonPlaces, LLC ("CommonPlaces"), sixdegrees, inc., ("sixdegrees"), CollegeWeb.com, Inc. ("CollegeWeb"), and Invino Corporation ("Invino"). See Note 2 - Discontinued Operations. YouthStream, through its subsidiaries, is now primarily a retail company that targets teenagers and young adults ages 12 to 24.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the year ending June 30, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Form 10-K for the fiscal year ended June 30, 2002.

FINANCIAL STATEMENT PRESENTATION

The Company has incurred recurring operating losses since its inception, as of September 30, 2002 had an accumulated deficit of \$338,000,000 and expects to have insufficient capital to fund all of its obligations. In August and September 2002, the Company defaulted on approximately \$18,000,000 of its long-term debt (see Note 4 -- Long-Term Debt). In addition, the Company's retail sales have been on the decline. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effect of the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty. The Company is also exploring strategic alternatives with respect to its business, which could include seeking to dispose of some or all of its remaining assets. The Company believes that consummation of disposition of all or substantially all of the assets associated with the retail business segment, would require a vote of the Company's shareholders.

RECLASSIFICATIONS

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

2. DISCONTINUED OPERATIONS

In response to its liquidity issues and declining earnings, on August 5, 2002 the Company sold substantially all of its Media assets and assigned certain liabilities to Cass Communications, Inc., a subsidiary of Alloy, Inc. for gross proceeds of \$7,000,000 plus a working capital adjustment of an additional \$283,000, which resulted in a gain of approximately \$246,000 at the time of sale, the amount for which is included in the total gain on disposal of discontinued operations.

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

As a result of the sale, the Media segment operations were discontinued in the first quarter of fiscal 2003.

In December 2001, the Company discontinued its Teen.com website. In connection with the discontinuance of this business, the Company incurred a charge of \$348,000, related primarily to the write-off of property and equipment and an accrual for severance.

In December 2000, the Company discontinued the operations of CommonPlaces, LLC ("CommonPlaces"), sixdegrees, inc., ("sixdegrees"), CollegeWeb.com, Inc. ("CollegeWeb"), and Invino Corporation ("Invino"). Pursuant to the merger agreement between Invino Corporation ("Invino") and the Company, the Company paid the final installment of \$375,000 by issuing 2,273,531 shares of common stock and paying \$25,000 in cash. For accounting purposes, the value of the shares issued has been determined on the three-day average trading price one day before and one day after the date of issuance. The difference between the use of the 30-day and three-day average trading prices of the stock issued as well as the payment resulted in a gain of \$236,000. This has been accounted for as a gain on disposal of discontinued operations because effective December 2000 the Company discontinued the Invino operations.

Net revenues and loss from discontinued operations are as follows (in thousands):

	Three Months Ended September 30,	
	2002	2001
Net revenues	\$ 399	\$ 4,689
	=====	=====
Loss from discontinued operations	(582)	(584)
Gain on disposal of discontinued operations	482	--
	=====	=====
Net loss from discontinued operations	\$ (100)	\$ (584)
	=====	=====

3. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a disposal of a segment of a business. The Company elected early adoption of SFAS No. 144 as of July 1, 2001. As a result of the adoption of SFAS No. 144, the disposal of Teen.com, which was not a separate segment of the Company, qualified as a discontinued operation. The Company was not otherwise significantly impacted by the adoption of SFAS No. 144.

In April 2002, the FASB issued SFAS No. 145, "Recision of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2000. SFAS No.145 revises the criteria for classifying the extinguishment of debt as extraordinary and the accounting treatment of certain lease modifications. SFAS 145 is effective in fiscal 2003, and is not expected to have a material impact on the Company's consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 provides guidance on the timing of the recognition of costs associated with exit or disposal activities. The new guidance requires costs associated with exit or disposal activities to be recognized when incurred. Previous guidance required recognition of costs at the date of commitment to an exit or disposal plan. The provisions of the statement are to be adopted prospectively after December 31, 2002. Although SFAS No. 146 may impact the accounting for costs related to exit or disposal activities the Company may enter into in the future, particularly the timing of the recognition of these costs, the adoption of the statement will not have an impact on the Company's present financial condition or results of operations.

4. LONG-TERM DEBT (IN DEFAULT)

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

	September 30, 2002	June 30, 2002
	-----	-----
Subordinated Notes -- Private Placement (A)	5,000	5,000
Note Payable to Finance Company (B)	496	496
Subordinated Notes -- Private Placement (C)	12,000	12,000
Subordinated Notes -- Private Placement (D)	1,000	1,000
Other	1	1
	-----	-----
	18,497	18,497
Less: Unamortized original issue discount attributed to subordinated notes	284	313
	-----	-----
	18,213	18,184
Less: Current portion of long-term debt	18,213	18,184
	-----	-----
Long-term debt total	--	--
	=====	=====

(A) In July 1998, the Company issued subordinated notes to accredited investors in the aggregate amount of \$5,000,000 less an original discount of \$188,000 ("NET Notes"). These notes bear interest at 11% per annum and are due in July 2003. In connection with the issuance of the subordinated notes, the Company issued 375,000 warrants to the accredited investors for \$188,000, and 150,000 warrants to the placement agent. Each warrant, which expires in July 2003, entitles the holder to purchase one share of the Company's common stock for \$4.125, the market price of the Company's common stock at the date of issuance. Based on an independent appraisal conducted at that time, the 525,000 warrants were valued at \$740,000. The value of the warrants and closing costs of \$314,000 have been recorded as deferred financing costs and are being amortized over the term of the subordinated notes. The original issue discount of \$188,000 is also being amortized over the term of the related debt. On September 8, 2002 NET failed to make the interest payment due on the NET Notes, constituting an event of default under the terms of the NET Notes. In September 2002, the holder of a majority of the NET Notes declared these notes due and payable under the terms of the NET Notes.

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

(B) In March 2000, the Company issued a note to a finance company in the amount of \$1,971,000 ("Equipment Note"). The note bears interest at the rate of 11.95% per annum and is payable in 36 equal monthly payments commencing in March 2000. The note is secured by certain equipment owned by NET. NET failed to make payments of approximately \$65,000 due on August 1, 2002 and \$65,000 due on September 1, 2002, in connection with the Equipment Note. On September 6, 2002, NET received notice from the finance company holding the Equipment Note stating that the entire outstanding indebtedness (\$496,000) under the Equipment Note is due and payable pursuant to the terms of the

Page 7

note. On September 16, 2002, the holder of the Equipment Note commenced litigation against NET seeking repayment of the note.

(C) In June 2000, the Company issued a subordinated note to an accredited investor in the amount of \$12,000,000, less an original issue discount of \$420,000 ("YSTM Note"). The note bears interest at 11% per annum and is due in June 2005. In connection with the issuance of the subordinated note, the Company issued 1,020,000 warrants to an accredited investor in exchange for \$420,000. Each warrant, which expires in June 2005, entitles the holder to purchase one share of the Company's common stock for \$5.9375, the market price of the Company's common stock at the date of issuance. Based on an independent appraisal at that time, the 1,020,000 warrants were valued at \$3,346,000. The value of the warrants and closing costs of \$494,000 were recorded as deferred financing costs and are being amortized over the term of the subordinated note. The original issue discount of \$420,000 is being amortized over the term of the related debt. On August 31, 2002, the Company failed to make an interest payment due on the YSTM Note, constituting an event of default under the terms of the YSTM Note. On September 9, 2002, the holder of the YSTM Note declared this note due and payable under the terms of the YSTM Note.

(D) In July 2000, the Company issued a subordinated note to an accredited investor in the amount of \$1,000,000, less an original issue discount of \$35,000 ("YSTM 2 Note"). The note bears interest at 11% per annum and is due in July 2005. In connection with the issuance of the subordinated note, the Company issued 60,000 warrants to an accredited investor in exchange for \$35,000. Each warrant, which expires in July 2005, entitles the holder to purchase one share of the Company's common stock for \$3.75, the market price of the Company's common stock at the date of issuance. Based on an independent appraisal at that time, the 60,000 warrants were valued at \$197,000. The value of the warrants was recorded as deferred financing costs and is being amortized over the term of the subordinated note. The original issue discount of \$35,000 is being amortized over the term of the related debt. On August 31, 2002 the Company failed to make an interest payment due on the YSTM 2 Note, constituting an event of default under the terms of the YSTM 2 Note. Under the terms of the YSTM 2 Note, the holder of the note has the right to declare this note immediately due and payable.

5. REORGANIZATION

The Company announced its plan to move the Seattle operations to the New York office in March 2002. In April 2002, the Company finalized its transition plan, which resulted in the termination of 30 employees, and completed the transition in June 2002. The Company recorded a restructuring charge, which is included in selling, general and administrative expenses, in fiscal 2002 of approximately

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

\$519,000 relating to this decision, which included severance costs of \$186,000, lease costs of \$126,000 for a lease expiring November 2002, and \$207,000 relating to the abandonment of certain fixed assets. As of September 30, 2002, the Company has remaining accruals of approximately \$126,000 for lease obligation costs.

The Company wrote off approximately \$488,000 of fixed assets relating to the closing of its corporate office on November 7, 2002 which was located in New York since such assets were deemed to be impaired as of September 30, 2002.

6. STOCKHOLDER'S EQUITY

In May 2001, the Board of Directors authorized the Company to make open market purchases of the Company's common stock aggregating up to \$2 million. As of September 30, 2002, the Company had completed purchases, on the open market, 607,000 shares at a cost of \$829,000. These purchases were completed in the fourth quarter of fiscal 2001 and the first and second quarters of fiscal 2002.

In May 2001, the Company approved a Voluntary Stock Option Exchange Program to be carried out under the Company's 2000 Stock Incentive Plan. Employees were given the option to exchange all or a

Page 8

portion of their options on July 20, 2001, with an exercise price equal to or greater than \$9.00. In exchange, employees were eligible to receive, six months and one day after cancellation, new options for 80% of the number of shares covered by the cancelled options, with an exercise price equal to the fair market value of the Company's stock on the date of the new grant. On July 20, 2001, 743,800 options were cancelled, and 518,319 options were reissued on January 22, 2002.

In September 2002, the Company issued approximately 2.3 million common shares in connection with the Invino acquisition.

7. SEGMENT INFORMATION

The Company had two reporting segments: media and retail. The media segment represented the Company's media, marketing and promotional services provided to advertisers by NET and American Passage. On August 5, 2002 the Company sold substantially all of the assets and certain liabilities from this segment and discontinued its operation. The retail segment consists of on-campus and retail store poster sales provided by Trent.

The following is a summary of the major classes of assets and liabilities as of September 30, 2002 that remain from the Media segment:

	September 30, 2002 (In thousands)
Current assets, net	\$ 311
Current liabilities	(2,172)
Capitalized lease obligations	(79)

Net book value	\$ (1,940)
	=====

8. LEGAL

The Company is a party to certain legal proceedings commenced against it by former employees of the Company's subsidiaries. These actions include: (a) a litigation pending in the District Court of Travis County, Texas by a former employee of the Company's CommonPlaces, LLC ("CP") subsidiary claiming that he is entitled to receive, without cost, an aggregate of 215,083 shares of YouthStream common stock; (b) a litigation filed in the U.S. District Court for the District of Massachusetts, by a former CP employee seeking damages based on claims for breach of his employment contract, breach of implied covenants of good faith, and violation of the Massachusetts unfair and deceptive trade practices act; and (c) an arbitration filed in New York by the Company's former President and Chief Executive Officer seeking damages for alleged breach of his employment agreement, among other things. The Company is currently defending these actions and has asserted counterclaims against the plaintiffs in two of these actions.

In addition, certain creditors of the Company and its subsidiaries and certain holders of the Company's and its NET subsidiary's debt have asserted or have threatened claims against the Company and its subsidiaries, which are the result of the Company's failure to pay certain debts and liabilities as they came due.

Among the claims is a litigation filed in New York State Court by Wells Fargo in connection with the Wells Fargo Loan, seeking past due payments and future payments, late charges and interest costs and expenses, and certain collateral in connection with NET's failure to make certain payments owed under the Wells Fargo Loan. On November 18, 2002, the Company was issued a temporary restraining order by the Supreme Court of New York to prevent the Company from removing, transferring, pledging or assigning funds constituting the assets of NET and APMI, up to \$500,000.

In addition, certain landlords of stores which Beyond the Wall has vacated in advance of the expiration dates of the Store leases or failed to pay rent when due have commenced litigation against Beyond the Wall.

Given the Company's current financial situation, the costs of defending these proceedings, diversion of management's attention to these matters, or the outcome of such proceedings could have a material adverse effect on the Company's financial condition or operating results, including its ability to restructure its debts without seeking bankruptcy protection or being the subject of an involuntary bankruptcy petition, or its ability to continue as a going concern.

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the consolidated financial statements and related notes thereto.

The Company's consolidated financial statements reflect reclassifications for prior periods due to the discontinued operation of the Company's online segment and sale of its media assets. On August 5, 2002, the Company sold substantially all of its media assets and discontinued its media segment. The only remaining

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

segment is retail. The following analysis incorporates reclassifications of prior periods due to discontinued operations and revision of the reporting segments. The following financial analysis compares the three months ended September 30, 2002 (unaudited) to the three months ended September 30, 2001 (unaudited).

CRITICAL ACCOUNTING POLICIES

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories consist primarily of posters and related products.

REVENUE RECOGNITION

Revenue is derived from the sale of merchandise to consumers on college campuses and in stores. Retail revenue is recognized at the time of the sale to the consumer.

USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

ACCOUNTS RECEIVABLE

Accounts receivable consist primarily of amounts due to us from our normal business activities. We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risk identified in the portfolio.

RESULTS OF OPERATIONS

(In thousands)

YouthStream generated revenues primarily from the sale of decorative wall posters, targeting teens and young adults, through on-campus sales events, retail stores and Internet sales. On August 5, 2002, the Company sold substantially all of its media assets and discontinued its Media segment.

Revenues decreased to \$6.4 million for the three months ended September 30, 2002 from \$8.1 million for the three months ended September 30, 2001. Revenue decline was attributable to a negative same store sales and a reduction in the number of stores.

Cost of sales consists of the cost of decorative wall posters sold. Cost of sales as a percentage of revenues remained relatively consistent at approximately 18% for the three months ended September 30, 2002 and for the three months ended September 30, 2001.

For the three months ended September 30, 2002, selling, general, administrative and corporate expenses were \$6.4 million as compared to \$5.1 million for the

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

three months ended September 30, 2001. The increase of \$1.3 million was due primarily to higher insurance costs, higher severance expense and losses from the write-offs of fixed assets, offset by overhead cost savings, resulting from various cost cutting measures implemented by management.

For the three months ended September 30, 2002 and 2001, depreciation and amortization expense was \$169,000 and \$98,000, respectively.

For the three months ended September 30, 2002, interest income was \$23,000 as compared to \$184,000 for the three months ended September 30, 2001. The decrease of \$161,000 was due to lower cash balances and declining interest rates.

For the three months ended September 30, 2002 and 2001, interest expense was \$731,000 and \$774,000, respectively.

For the three months ended September 30, 2002, loss from discontinued operations was \$582,000 as compared to loss of \$584,000 for the three months ended September 30, 2001. The loss from discontinued operations in fiscal 2003 and 2002 represents the net loss from the Media operations.

For the three months ended September 30, 2002, gain on disposal of discontinued operations was \$482,000. The gain for the period ended September 2002 was attributable to the gain on the sale of the Media segment to Alloy, Inc., totaling \$246,000, and the gain on the settlement of an Invino purchase liability through the issuance of common shares, totaling \$236,000.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has financed its operations primarily through the sale of equity securities and debt. As of September 30, 2002, the Company had approximately \$9.1 million in cash and equivalents. The Company will require additional capital to fund its operations and settle outstanding liabilities through June 30, 2003. The Company has never been profitable and expects to continue to incur operating losses in the future. The Company's historical sales have never been sufficient to cover its expenses and it has been necessary to rely upon financing from the sale of equity securities and debt to sustain operations. The Company must obtain financing from debt, if made available, or on the sale of equity securities to continue to sustain its operations and to be able to meet its cash demands. There can be no assurance that the Company will obtain such additional capital or that such additional financing will be sufficient for the Company's continued existence. Furthermore, there can be no assurances that the Company will be able to generate sufficient revenues from the operation of the retail business to meet the Company's obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Page 11

For the three months ended September 30, 2002, the Company generated approximately \$1.4 million of cash in operating activities. For the three months ended September 30, 2001, the Company used \$3.6 million in operating activities.

For the three months ended September 30, 2002, the Company generated \$7.2 million in investing activities primarily relating to the \$7.3 million sale of the Media business to Cass Communications, Inc., a subsidiary of Alloy, Inc. For the three months ended September 30, 2001, the Company generated \$1.8 million in investing activities primarily relating to the sale of investments in marketable

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

debt securities, offset by \$543,000 for capital expenditures.

Net cash used in financing activities was \$112,000 for the three months ended September 30, 2002 and \$644,000 for the three months ended September 30, 2001.

The Company's principal commitments consist of obligations outstanding under operating leases totaling approximately \$3.3 million. The operating lease commitments declined from \$5.4 million as of June 30, 2002, owing to a settlement to terminate the lease obligation for future rent on the New York City office lease, totaling \$2.1 million.

The Company's capital requirements depend on its revenue growth, operating structure and the amount of resources devoted to the retail operations.

The Company does not have any material commitments for capital expenditures.

The Company's ability to improve its operations will be subject to prevailing economic conditions and to legal, financial, business, regulatory, industry and other factors, many of which are beyond the Company's control. To the extent that the Company finances its requirements through the issuance of additional equity securities, any such issuance would result in dilution to the interests of the Company's stockholders.

SUBSEQUENT EVENTS

In October, 2002 the Company received notice from NASDAQ that it did not comply with either the minimum \$2,000,000 net tangible asset requirement or the alternative minimum \$2,500,000 stockholders' equity requirement necessary for continued listing on NASDAQ's SmallCap Market, and that the Company's common stock was subject to delisting.

The Company requested a hearing before a NASDAQ Listings Qualifications Panel but cannot provide assurance that the Panel will grant the Company's request for continued listing. Under NASDAQ rules, delisting will be stayed pending the outcome of the hearing. The hearing is scheduled for December 2002.

Page 12

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

Our accounts receivable are subject, in the normal course of business to collection risks. We regularly assess these risks and have established policies on business practices to protect against the adverse effects of collections risks.

ITEM 4. CONTROLS AND PROCEDURES

In accordance with Item 307 of Regulation S-K promulgated under the Securities Act of 1933, as amended, and within 90 days of the date of this Quarterly Report on Form 10-Q, the Interim Chief Executive Officer and Acting Chief Financial Officer of the Company (the "Certifying Officers") have conducted evaluations of the Company's disclosure controls and procedures. As defined under Sections 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. The Certifying Officers have reviewed the Company's disclosure controls and procedures and have concluded that those disclosure controls and procedures are effective as of the date of this Quarterly Report on Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002, (18 U.S.C. 1350), each of the Certifying Officers executed an Officer's Certification included in this Quarterly Report on Form 10-Q.

As of the date of this Quarterly Report on Form 10-Q, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Page 13

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to certain legal proceedings commenced against it by former employees of the Company's subsidiaries. These actions include: (a) a litigation pending in the District Court of Travis County, Texas by a former employee of the Company's CommonPlaces, LLC ("CP") subsidiary claiming that he is entitled to receive, without cost, an aggregate of 215,083 shares of YouthStream common stock; (b) a litigation filed in the U.S. District Court for the District of Massachusetts, by a former CP employee seeking damages based on claims for breach of his employment contract, breach of implied covenants of good faith, and violation of the Massachusetts unfair and deceptive trade practices act; and (c) an arbitration filed in New York by the Company's former President and Chief Executive Officer seeking damages for alleged breach of his employment agreement, among other things. The Company is currently defending these actions and has asserted counterclaims against the plaintiffs in two of these actions.

In addition, certain creditors of the Company and its subsidiaries and certain holders of the Company's and its NET subsidiary's debt have asserted or have threatened claims against the Company and its subsidiaries, which are the result of the Company's failure to pay certain debts and liabilities as they came due.

Among the claims is a litigation filed in New York State Court by Wells Fargo in connection with the Wells Fargo Loan, seeking past due payments and future payments, late charges and interest costs and expenses, and certain collateral in connection with NET's failure to make certain payments owed under the Wells Fargo Loan. On November 18, 2002, the Company was issued a temporary restraining order by the Supreme Court of New York to prevent the Company from removing,

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

transferring, pledging or assigning funds constituting the assets of NET and APMI, up to \$500,000.

In addition, certain landlords of stores which Beyond the Wall has vacated in advance of the expiration dates of the Store leases or failed to pay rent when due have commenced litigation against Beyond the Wall.

Given the Company's current financial situation, the costs of defending these proceedings, diversion of management's attention to these matters, or the outcome of such proceedings could have a material adverse effect on the Company's financial condition or operating results, including its ability to restructure its debts without seeking bankruptcy protection or being the subject of an involuntary bankruptcy petition, or its ability to continue as a going concern.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As discussed in Footnote 4, the Company failed to make schedule interest payments in the first quarter of fiscal 2003 on its long-term debt notes, which resulted in a default on its NET Notes due 2003, YSTM Note due 2005, YSTM 2 Note due 2005 and Equipment Note due 2003.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Reports on Form 8-K:

Current Report on Form 8-K dated August 20, 2002, regarding the sale of the Company's Media segment to Cass Communications, Inc., a subsidiary of Alloy, Inc.

Current Report on Form 8-K/A dated September 4, 2002, attaching a press release and the asset purchase agreement regarding the sale of the Company's Media segment to Cass Communications, Inc., a subsidiary of Alloy, Inc.

Current Report on Form 8-K dated September 11, 2002 regarding the Company's and Network Event Theater, Inc.'s failure to make interest and deferred interest payments on the \$12,000,000 subordinated note due June 30, 2005, \$1,000,000 subordinated note due July 31, 2005, \$5,000,000 subordinated note due July 8, 2003 and the note in the aggregate principal amount of \$1,971,000.

Current Report on Form 8-K attaching the certifications required by 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 in connection with the Company's Annual Report on Form 10-K.

Exhibits:

99.1 Certificate of Chief Executive Officer and Chief Financial Officer pursuant to section 18 U.S.C. section 1350 dated November 20, 2002.

Page 14

SIGNATURES

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

November 20, 2002

YOUTHSTREAM MEDIA NETWORKS, INC.

BY:

Jonathan Diamond
Interim Chief Executive Officer

BY:

Wesley Ramjeet
Acting Chief Financial Officer

Page 15

Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Jonathan Diamond, Interim Chief Executive Officer of YouthStream Media Networks, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of YouthStream Media Networks, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 20, 2002

Jonathan Diamond
Interim Chief Executive Officer

Page 16

Certification of CEO Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Wesley Ramjeet, Acting Chief Financial Officer of YouthStream Media Networks, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of YouthStream Media Networks, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 20, 2002

Wesley Ramjeet
Acting Chief Financial Officer

Page 17

CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of YouthStream Media Networks, Inc. (the "Company") for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jonathan Diamond, as Interim Chief Executive Officer of the Company, and Wesley Ramjeet, as Acting Chief Financial Officer of the Company, each

Edgar Filing: YOUTHSTREAM MEDIA NETWORKS INC - Form 10-Q

hereby certifies, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, to the best of his and her knowledge, respectively, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Name: Jonathan Diamond
Title: Interim Chief Executive Officer
Date: November 20, 2002

Name: Wesley Ramjeet
Title: Acting Chief Financial Officer
Date: November 20, 2002