YOUTH STREAM MEDIA NETWORKS INC
Form 10-Q
May 15, 2002

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

FORM 10-Q

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

For quarterly period ended March 31, 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.)

28 West 23rd Street, New York, New York	10010
(Address of Principal Executive Offices)	(Zip Code)

(212) 622-7300
(Registrant's Telephone Number, Including Area Code)

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 March 31, 2002, there were 31,508,000 shares of Common Stock, $.01 par value outstanding.

YOUTHSTREAM MEDIA NETWORKS, INC.

FORM 10-Q
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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 3 2002 (Unaudit
ASSETS	
Current assets:	
Cash and cash equivalents	$ 1,2
Marketable debt securities, at amortized cost	2,0

Accounts receivable, net of allowance for doubtful accounts of $102 and $171 at March 31, 2002 and June 30, 2001, respectively	4,1
Inventories	3,6
Other current assets	1,3
Restricted cash	1,0
Total current assets	13,3
Property and equipment, net of accumulated depreciation of $7,480 and $5,787 at March 31, 2002 and June 30, 2001, respectively	6,0
Assets from discontinued operations	
Deferred financing costs, net of accumulated amortization of $1,681 and $1,105 at March 31, 2002 and June 30, 2001, respectively	2,7
Intangibles, net of accumulated amortization of $2,861 at March 31, 2002 and June 30, 2001	12,1
Restricted Cash	3
Total assets	$ 34,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 2,1
Accrued expenses	3,1
Current liabilities of discontinued operations	1,8
Deferred revenues	1,1
Deferred purchase price	7
Current portion of capitalized lease obligations	
Current portion of long-term debt	3
Total current liabilities	9,4
Non-current liabilities of discontinued operations	
Long-term capitalized lease obligations	1
Long-term debt	17,9
Other liabilities	3
Commitments and contingencies	--
Stockholders' equity:	
Preferred stock, $.01 par value, 5,000 shares authorized, no shares issued and outstanding	--
Common stock, $.01 par value, 100,000 shares authorized, 31,508 shares and 30,091 shares issued and outstanding at March 31, 2002 and June 30, 2001, respectively	3
Additional paid-in capital	330,5
Accumulated deficit	(323,2
Treasury stock, 607 shares and 143 shares at March 31, 2002 and June 30, 2001, respectively	(8
Total stockholders' equity	6,7
Total liabilities and stockholders' equity	$ 34,7

See notes to condensed consolidated financial statements

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YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	Three months ended March 31,	
	2002	2001
Net revenues	$ 7,313	$ 5,560
Cost of sales	4,169	3,091
Gross profit	3,144	2,469
Selling, general, administrative and corporate expenses	6,582	6,231
Depreciation and amortization	212	489
Loss from operations	(3,650)	(4,251)
Interest income	130	391
Other income	--	34
Interest expense	(750)	(790)
Loss before provision for income taxes	(4,270)	(4,616)
Provision for income taxes	132	121
Loss from continuing operations	(4,402)	(4,737)
Loss from discontinued operations	--	(1,025)
Gain/(loss) on disposal of discontinued operations	303	--
Net loss	$ (4,099)	$ (5,762)
Per share of common stock basic and diluted		
Loss from continuing operations	$ (0.14)	$ (0.16)
Loss from discontinued operations	--	(0.04)
Gain/(loss) on disposal of discontinued operations	0.01	--
Net loss per basic and diluted common share	$ (0.13)	$ (0.20)
Weighted average basic and diluted common shares outstanding	30,505	29,481

See notes to condensed consolidated financial statements

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

Nine mo
Mar

	2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (7,629)
Adjustments to reconcile net loss to net cash used in operating activities:	
Loss from discontinued operations	666
(Gain)/loss on disposal of discontinued operations	(13)
Net change in assets and liabilities of discontinued operations	(2,260)
Bad debt expense	3
Depreciation and amortization	1,961
Loss on sale of equipment	28
Amortization of deferred financing costs	576
Deferred rent	4
Amortization of original issue discount on Subordinated Notes	--
Changes in assets and liabilities, net of acquisitions:	
Accounts receivable	(1,655)
Inventory	(1,023)
Other current assets	(713)
Accounts payable	(557)
Accrued expenses	(1,891)
Deferred revenues	(602)
Net cash used in operating activities	(13,105)
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital expenditures	(1,250)
Proceeds from sale of equipment	--
Sale of investments in marketable debt securities	3,613
Other assets	(250)
Payment for business acquisitions (net of cash acquired)	(600)
Net cash provided by investing activities	1,513
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds from sale of common stock and exercise of warrants and options	--
Net proceeds from issuance of warrants in connection with long-term debt ..	--
Common stock repurchase	(591)
Repayment of capitalized lease obligations	(52)
Proceeds from long-term debt	--
Repayment of long-term debt	(1,481)
Net cash (used in) provided by financing activities	(2,124)
Decrease in cash and cash equivalents	(13,716)
Cash and cash equivalents at beginning of period	14,927
Cash and cash equivalents at end of period	$ 1,211
Supplemental cash flow information:	
Cash paid for interest	$ 2,484
Cash paid for income taxes	$ 132
Noncash financing activities:	
Capitalized lease obligations	$ 155
Issuance of warrants in connection with long-term debt	--

Issuance of common stock in connection with acquisitions	$ 1,462

See notes to condensed consolidated financial statements

YOUTHSTREAM MEDIA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD JUNE 30, 2001 TO MARCH 31, 2002
(IN THOUSANDS)
(UNAUDITED)

	Common Stock		Additional	Accumu
	Shares	Amount	Paid-in Capital	Defi
Balances at June 30, 2001	30,091	$ 301	$329,097	$(315
Issuance of common stock in connection with acquisition of Invino	958	9	894	
Issuance of common stock in connection with acquisition of Trent	458	4	554	
Issuance of common stock in connection with acquisition of sixdegrees	1	--	1	
Stock repurchase	--	--	--	
Net loss	--	--	--	(7
Balances at March 31, 2002	31,508	$ 314	$330,546	$(323

See notes to condensed consolidated financial statements

YOUTHSTREAM MEDIA NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 Passage"), Trent Graphics, Inc. ("Trent"), and W3T.com, Inc. ("Teen.com"). In December 2000, the Company discontinued the operations of CommonPlaces, LLC ("CommonPlaces"), sixdegrees, inc., ("sixdegrees"), CollegeWeb.com, Inc. ("CollegeWeb"), and Invino Corporation ("Invino"). In December, 2001 the Company

discontinued its Teen.com operations and closed its Hotstamp college business. See Note 2 - Discontinued Operations.

YouthStream Media Networks, Inc. through its subsidiaries is a leading cross-platform media, marketing services and retail company that targets teenagers and young adults ages 12 to 24. During fiscal 2001, YouthStream reorganized into two market segments: media and retail.

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 ended June 30, 2002. 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, 2001.

2. DISCONTINUED OPERATIONS

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

In December 2000, the Company announced its decision to discontinue its online segment, including the operations of its sixdegrees subsidiary and exit its Application Service Provider ("ASP") business. The ASP business included the technology that was acquired and further developed by CommonPlaces, CollegeWeb and Invino. The Company determined that the online businesses were not aligned with its long-term vision and strategy. The Company shut down its sixdegrees website on December 30, 2000, and final disposal of the ASP business occurred prior to June 30, 2001. In connection with the discontinuance of these businesses, the Company incurred a one-time charge of $164 million, related primarily to the write-off of goodwill, and also including other net assets and an accrual for estimated losses during the phase-out period.

The discontinuation of Teen.com and sixdegrees and the disposal of the ASP business have been classified as discontinued and prior periods have been restated.

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

	Three months ended March 31, 2002	Three months ended March 31, 2001	Nine m Marc
Net revenues	$ 0	$ 205	
Loss from discontinued operations	--	(1,025)	
Gain/(loss) on disposal of discontinued operations	303	--	

Net gain/(loss) from discontinued operations	$303	$(1,025)	

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations. SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 141 is applicable to business combinations beginning July 1, 2001.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 addresses the recognition and measurement of goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 also addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. Goodwill previously recorded in the Company's financial statements is affected by the provisions of SFAS No. 142. This statement provides that intangible assets with indefinite lives and goodwill will not be amortized, but will be tested at least annually for impairment. The Company elected early adoption of SFAS No. 142 in the first quarter of fiscal year 2002. As defined by SFAS No. 142, the Company identified two reporting units which constitute components of the Company's business. The Company is required to complete, within six months from the date of adoption, a transitional impairment test that requires a fair value determination as of July 1, 2001. The Company has performed the transitional impairment test, and has determined that the value of its intangible assets are fairly presented in the financial statements.

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.

Had the Company accounted for its goodwill under SFAS No. 142 for all periods presented, the Company's net loss and loss per share would have been as follows (in thousands except per share amounts):

	Three months ended March 31,		Nine months ended March 31,	
	2002	2001	2002	2001
Reported net loss	$ (4,099)	$ (5,762)	$ (7,629)	$ (218,952)
Add back goodwill amortization	--	718	--	38,446
Adjusted net loss	$ (4,099)	$ (5,044)	$ (7,629)	$ (180,506)

Basic and diluted earnings per share:

Reported net loss	$ (.13)	$ (0.20)	$ (.25)	$ (7.50)
Goodwill amortization	--	.02	--	1.31
Adjusted net loss	$ (.13)	$ (0.18)	$ (.25)	$ (6.19)

In December 2000, the Company wrote off approximately $127 million of goodwill relating to its Internet segment. For the three months and nine months ended March 31, 2001 goodwill amortization relating to discontinued operations totaled $0.4 million and $37.7 million, respectively.

4. LONG-TERM DEBT

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

	March 31, 2002
Note Payable to Bank (A)	$ --
Subordinated Notes - Private Placement (B)	5,000
Note Payable to Finance Company (C)	672
Subordinated Notes - Private Placement (D)	12,000
Subordinated Notes - Private Placement (E)	1,000
Other	3
	18,675
Less: Unamortized original issue discount attributed to subordinated notes ...	357
	18,318
Less: Current portion of long-term debt	360
Long-term debt total	$17,958

(A) On January 15, 2002, the Company repaid the loan and retired the interest rate exchange agreement.

(B) 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. 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, 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.

(C) In March 2000, the Company issued a note to a finance company in the amount of $1,971,000. 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 the Company.

(D) 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. 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, 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.

(E) 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. 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, 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.

5. 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 March 31, 2002, the Company purchased, on the open market, 607,000 shares at a cost of $830,000.

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 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.

The July 1999 Trent acquisition agreement provided for additional consideration for the purchase contingent upon Trent meeting certain targets as defined in the merger agreement (as amended). Accordingly, those targets were met and on September 30, 2001 the Company issued 458,000 shares of the Company's common stock, valued at $558,000, and paid $600,000 in cash. The additional purchase price of $1,158,000 was recorded as additional goodwill.

6. SEGMENT INFORMATION

The Company has two reporting segments: media and retail. The media segment represents the Company's media, marketing and promotional services provided to advertisers by NET and American Passage. The retail segment consists of on-campus and retail store poster

sales provided by Trent. The prior periods' segments have been restated to reflect the Company's internal reorganization (in thousands):

	Three months ended March 31, 2002			
	Media	Retail	Total	Media
Net revenues	$ 4,744	$ 2,569	$ 7,313	$ 4,018
Depreciation and amortization	552	136	688	549
Loss from operations	(2,277)	(1,373)	(3,650)	(3,131)
Capital expenditures	418	123	541	204

	Nine months ended March 31, 2002			
	Media	Retail	Total	Media
Net revenues	$ 14,501	$ 13,522	$ 28,023	$ 13,733
Depreciation and amortization..	1,610	351	1,961	2,955
Gain/(loss) from operations....	(4,003)	(953)	(4,956)	(7,042)
Capital expenditures	638	767	1,405	817

	March 31, 2002			
	Media	Retail	Total	Media
Identifiable assets	$ 13,566	$ 13,639	27,205	$ 20,497
Corporate			7,497	
Total Assets			$ 34,702	

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. The Company revised its reporting segments from online and offline to media and 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 and nine months ended March 31, 2002 (unaudited) to the three and nine months ended March 31, 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.

INTANGIBLE ASSETS

Intangible assets represent acquisition costs in excess of the net assets of businesses acquired and a covenant not-to-compete, which are amortized on the straight-line basis ranging from 3 to 15 years.

REVENUE RECOGNITION

The Company's primary source of revenue is derived from the sale of advertising space in media, which is owned either by the Company or by third parties and by the sale of marketing services. Revenue is generally recognized in the month of media publication and in the case of marketing services, the month such services are provided. Retail 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.

IMPAIRMENT OF GOODWILL

We periodically evaluate acquired businesses for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operational performance of our acquired businesses. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

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 from two segments, media and retail. The Company's media segment includes revenues from event marketing, proprietary events, on-campus theater events, media planning and buying in campus publications and out-of-home media, such as campus billboards. Its retail segment derives its revenues from the sale of decorative wall posters, targeting teens and young adults, through on-campus sales events, retail stores and Internet sales.

In fiscal 2001, the Company closed its HotStamp cities program and Ads as Art poster catalogs. In December 2001, the Company discontinued its Teen.com business and closed its HotStamp college operations.

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS MARCH 3
	2002	2001	2002
Revenues as stated in the Financial Statements	$7,313	$ 5,560	$28,023
HotStamp college and cities program and Ads as Art poster catalog	--	(288)	(306)
Adjusted Revenue	$7,313	$ 5,272	$27,717

Adjusted revenues increased to $7.3 million for the three months ended March 31, 2002 from $5.3 million for the three months ended March 31, 2001. Revenue growth was attributable to a 66.7% increase in the retail segment to $2.6 million coupled with a 27.2% increase in the media segment to $4.7 million for the three months ended March 31, 2002. Revenue growth in the Company's retail segment was attributable to the increase in the number of stores in operation, and same store growth year over year. Media revenue growth was due to a sharp increase in the event marketing business.

Adjusted revenues increased to $27.7 million for the nine months ended March 31, 2002 from $20.6 million for the nine months ended March 31, 2001. Revenue growth was attributable to a 23.3% increase in the media segment to $14.2 million and a 48.4% increase in the retail segment to $13.5 million for the nine months ended March 31, 2002. Media revenues increased primarily because of increased sales in the event marketing business. Revenue growth in the Company's retail segment was attributable to the increase in the number of stores in operation, and same stores growth year over year.

Cost of sales consists of the cost of decorative wall posters sold in our retail segment, and the cost of printing, freight, production, products and depreciation of equipment directly associated with our media segment.

Cost of sales as a percentage of revenues increased to 57.0% for the three months ended March 31, 2002 from 55.6% for the three months ended March 31, 2001. Cost of sales as a percentage of revenues decreased to 42.5% for the nine months ended March 31, 2002 from 45.8% for the nine months ended March 31, 2001. The decrease in the cost of sales is due primarily to retail revenue being 48.2% of total revenue for the period ending March 31, 2002 as compared to 40.3% for the nine months ended March 31, 2001.

For the three months ended March 31, 2002, selling, general, administrative and corporate expenses were $6.6 million as compared to $6.2 million for the three months ended March 31, 2001. The increase of $0.4 million was due primarily to increased cost relating to store openings in the retail operation partially offset by corporate cost cutting measures.

For the nine months ended March 31, 2002, selling, general, administrative and corporate expenses were $20.5 million as compared to $19.9 million for the nine months ended March 31, 2001. The increase of $0.6 million was due to increased cost relating to store openings in the retail division partially offset by corporate cost cutting measures.

For the three months ended March 31, 2002 and 2001, depreciation and amortization expense was $0.7 million.

For the nine months ended March 31, 2002, depreciation and amortization expenses were $1.9 million as compared to $3.5 million for the nine months ended March 31, 2001. The decrease of $1.6 million was primarily due to the adoption of SFAS 142, which no longer requires goodwill to be amortized.

For the three months ended March 31, 2002, interest income was $0.1 million as compared to $0.4 million for the three months ended March 31, 2001. The decrease of $0.3 million was due to lower cash balances and declining interest rates.

For the nine months ended March 31, 2002, interest income was $0.4 million as compared to $1.7 million for the nine months ended March 31, 2001. The decrease of $1.3 million was due to lower cash balances and declining interest rates.

For the three months ended March 31, 2002 and 2001, interest expense was $0.8 million.

For the nine months ended March 31, 2002, interest expense was $2.3 million as compared to $2.4 million for the nine months ended March 31, 2001. The decrease of $0.1 was due to the reduction in debt.

For the three months ended March 31, 2002, gain from discontinued operations was zero as compared to loss of $1.0 million for the three months ended March 31, 2001. For the nine months ended March 31, 2002, loss from discontinued operations was $0.7 million as compared to a loss of $43.1 million for the nine months ended March 31, 2001. The loss from discontinued operations represents the net loss from Teen.com and the online segment operations.

For the three months ended March 31, 2002, gain on disposal of discontinued operations was $0.3 million. For the nine months ended March 31, 2001, loss on disposal of discontinued operations was $165.0 million. The loss on disposal primarily represents the write-down of net assets, including goodwill of the online segment, and provision for operating losses during the phase-out period.

LIQUIDITY AND CAPITAL RESOURCES

The Company used approximately $13.1 million of cash in operating activities for nine months ended March 31, 2002, primarily to fund its working capital, interest expense and discontinued operations. The Company partially funded its operations with cash on hand and cash generated from the sale of investments in marketable debt securities.

As of March 31, 2002, the Company had approximately $1.2 million in cash and equivalents and $2.0 million of marketable debt securities with maturities of

less than one year to fund working capital, including debt service and interest expense. In addition, the Company had $1.3 million of restricted cash of which approximately $0.6 million is expected to become unrestricted on or before May 31, 2002 and $0.4 million before July 31, 2002. The Company believes that it will require additional capital to fund its operations through December 31, 2002, including two interest payments totaling approximately $1 million, due on June 30 and July 8, 2002, with respect to certain outstanding debt.

The Company is actively pursuing a number of alternatives to increase cash available to fund operations. First, the Company has received an informal indication from certain of the holders of its outstanding debt of a willingness to defer payment of a portion of the June and July interest payments. The Company is also considering certain other actions, including factoring certain subsidiary receivables and mortgaging or selling certain real estate owned by a Company subsidiary. In addition, the Company has received indications of interest from certain individuals and entities with respect to their willingness to make available to the Company additional funds at the Company's request. Accordingly, the Company believes that it will have available to it the opportunity to obtain cash needed to fund its operations at least through the end of the current calendar year; however, there can be no assurances that the Company will achieve these objectives. The Company's decision to effect any borrowing or seek formal agreement to defer its interest payments will be based upon a determination of the Company's actual cash needs, which will depend on various factors, including the effect of cost-saving measures recently implemented by the Company, the success of the Company's efforts to derive funds from other sources that it has available to it, and the timing of the receipt of anticipated revenues from the Company's operations relating to the school year commencing in the Fall of 2002.

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.

Additionally, to the extent that the Company incurs indebtedness or issues debt securities in connection with financing activities, the Company will be subject to all of the risks associated with incurring substantial indebtedness, including the risk that interest rates may fluctuate and cash flow may be insufficient to pay principal and interest on any such indebtedness. The Company has no current arrangements with respect to, or sources of, additional financing and there can be no assurance that any additional financing will be available to the Company on acceptable terms, if at all.

The Company now projects that its full-year EBITDA loss will be higher than its previous guidance of $4 million. The Company also expects a full-year net loss higher than its previously projected $10 million for the full fiscal 2002. While the Company is not yet in a position to determine the full-year EBITDA and net loss, it currently believes the EBITDA loss will not be less than $6 million and the net loss will not be less than $12 million. The Company's revised projections are due to factors including one-time charges associated with its recently announced Seattle office closing, increased insurance expenses, and lower than expected margins on certain event marketing and retail business, among other things.

The foregoing discussion contains certain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, changing consumer tastes, the impact of competitive products and pricing, conditions in the markets in which the Company conducts business, including the advertising, media and retail

markets, and general economic conditions. The Company undertakes no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

SUBSEQUENT EVENTS

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 and expects to complete the transition by June 30, 2002. This move, in combination with recent cost cutting and other actions, is expected to save the Company approximately $3 million in fiscal year 2003.

After the close of the fiscal third quarter, James "P.T." Lucchesi and Irwin Engelman ceased to be employed by the Company. Dennis Roche was appointed the Company's President, replacing Mr. Lucchesi, and Wesley Ramjeet was appointed the Company's Acting Chief Financial Officer, replacing Mr. Engelman.

On April 23, 2002 the Company received a notice from the National Association of Securities Dealers ("NASDAQ"), stating that for the thirty consecutive trading days prior to April 23, the price of the Company's common stock had closed below the minimum $1.00 per share requirement for continued inclusion on the NASDAQ National Market (the "Minimum Bid Requirement"). The Company has until July 22, 2002 to regain compliance with the Minimum Bid Requirement, which can be achieved if the bid price of the Company's common stock closes at $1.00 per share or more for a minimum of ten consecutive trading days, or to take certain other actions, which may include seeking to transfer its securities to the NASDAQ SmallCap Market. The Company believes that it will satisfy all listing requirements necessary to achieve a transfer to the NASDAQ SmallCap Market if it seeks such a transfer.

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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.

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PART II

OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

None.

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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.

May 15, 2002

YOUTHSTREAM MEDIA NETWORKS, INC.

BY:

Dennis Roche
President

BY:

Wesley Ramjeet
Acting Chief Financial Officer

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