YOUTH STREAM MEDIA NETWORKS INC
Form 10-Q
February 13, 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 December 31, 2001

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 February 1, 2002, there were 31,107,000 shares of Common Stock, $.01 par value outstanding.

YouthStream Media Networks, Inc.
Form 10-Q
Index

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31, 2001 (Unaudited)	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,503	$ 14,927
Marketable debt securities, at amortized cost	2,774	5,655
Accounts receivable, net of allowance for doubtful accounts of $171 at December 31, 2001 and June 30, 2001, respectively	4,611	2,461
Inventories, net of allowance of $164 and $146 at December 31, 2001 and June 30, 2001, respectively	3,937	2,606
Other current assets	1,082	627
Total current assets	18,907	26,276
Property and equipment, net of accumulated depreciation of $5,664 and $5,787 at December 31, 2001 and June 30, 2001, respectively	6,446	6,612
Assets from discontinued operations		330
Deferred financing costs, net of accumulated amortization of $1,489		

and $1,105 at December 31, 2001 and June 30, 2001, respectively	2,991	3,375
Intangibles, net of accumulated amortization of $2,861		
at December 31, 2001 and June 30, 2001	12,193	10,785
Restricted cash	1,328	1,328
Total assets	$ 41,865	$ 48,706
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,326	$ 2,723
Accrued expenses	3,722	5,066
Current liabilities of discontinued operations	2,613	3,381
Deferred revenues	1,742	1,750
Deferred purchase price	1,125	1,500
Current portion capitalized lease obligations	15	46
Current portion of long-term debt	1,469	1,169
Total current liabilities	13,012	15,635
Non-current liabilities of discontinued operations......................	52	185
Long-term debt	17,792	18,630
Other liabilities	369	746
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, 31,107 shares and 30,091 shares issued and outstanding at December 31, 2001 and June 30, 2001, respectively	311	301
Additional paid-in capital	330,338	329,097
Accumulated deficit	(319,179)	(315,649
Treasury stock, 607 shares and 143 shares at December 31, 2001 and June 30, 2001, respectively	(830)	(239
Total stockholders' equity	10,640	13,510
Total liabilities and stockholders' equity	$ 41,865	$ 48,706

See notes to condensed consolidated financial statements

YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended December 31, 2001	Three months ended December 31, 2000	Six months ended December 31, 2001	Six months ended December 31, 20
Net revenues	$ 8,026	$ 6,968	$ 20,710	$ 17,2
Cost of sales	3,782	3,169	7,740	7,3
Gross profit	4,244	3,799	12,970	9,9
Selling, general, administrative and corporate expenses	6,441	7,023	13,850	13,6
Depreciation and amortization	224	487	338	1,8
Loss from operations	(2,421)	(3,711)	(1,218)	(5,5
Interest income	126	552	310	1,3
Other income	--	(14)	--	
Interest expense	(760)	(796)	(1,534)	(1,5
Loss before provision for income taxes	(3,055)	(3,969)	(2,442)	(5,8
Provision for income taxes	38	72	74	3
Loss from continuing operations	(3,093)	(4,041)	(2,516)	(6,1
Loss from discontinued operations	(365)	(16,966)	(666)	(42,0
Loss on disposal of discontinued operations	(348)	(164,971)	(348)	(164,9
Net loss	$ (3,806)	$(185,978)	$ (3,530)	$(213,1
Per share of common stock basic and diluted				
Loss from continuing operations	$ (0.10)	$ (0.14)	$ (0.08)	$ (0.
Loss from discontinued operations	(0.02)	(0.58)	(0.03)	(1.
Loss on disposal of discontinued operations	(0.01)	(5.66)	(0.01)	(5.
Net loss per basic and diluted common share	$ (0.13)	$ (6.38)	$ (0.12)	$ (7.
Weighted average basic and diluted common shares outstanding	30,270	29,172	30,092	29,0

See notes to condensed consolidated financial statements

2

YOUTHSTREAM MEDIA NETWORKS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six months ended December 31, 2001	Six months ended December 31, 2000

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (3,530)	$(213,190)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	666	42,067
Loss on disposal of discontinued operations	348	164,971
Net change in assets and liabilities of discontinued operations	(1,882)	(10,749)
Bad debt expense		(147)
Depreciation and amortization	1,273	2,736
Gain on sale of equipment		(9)
Amortization of deferred financing costs	384	425
Deferred rent	3	4
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(2,150)	(1,295)
Inventory	(1,331)	(2)
Other current assets	(455)	2,677
Accounts payable	(397)	(365)
Accrued expenses	(1,344)	(650)
Deferred revenues	(8)	1,001
Net cash used in operating activities	(8,423)	(12,526)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(867)	(865)
Proceeds from sale of equipment		37
Sale of investments in marketable debt securities	2,881	5,152
Other assets	(250)	58
Payment for business acquisitions (net of cash acquired)	(600)	(99)
Net cash provided by investing activities	1,164	4,283
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock and exercise of warrants and options	--	162
Common stock repurchase	(591)	--
Repayment of capitalized lease obligations	(36)	(149)
Proceeds from long-term debt	--	965
Repayment of long-term debt	(538)	(626)
Net cash (used in) provided by financing activities	(1,165)	352
Decrease in cash and cash equivalents	(8,424)	(7,891)
Cash and cash equivalents at beginning of period	14,927	18,232
Cash and cash equivalents at end of period	$ 6,503	$ 10,341
Supplemental cash flow information:		
Cash paid for interest	$ 595	$ 1,538
Cash paid for income taxes	$ 189	$ 142
Noncash financing activities:		
Issuance of warrants in connection with long-term debt	--	162
Issuance of common stock in connection with acquisitions	$ 1,251	$ 5,886

See notes to condensed consolidated financial statements

YOUTHSTREAM MEDIA NETWORKS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the period June 30, 2001 to December 31, 2001
(In thousands)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Capital Paid-in	Accumu Defi
Balances at June 30, 2001	30,091	$ 301	$329,097	$ (315
Issuance of common stock in connection with acquisition of Invino	558	6	687	
Issuance of common stock in connection with acquisition of Trent	458	4	554	
Stock repurchase	--	--	--	
Net loss	--	--	--	(3
Balances at December 31, 2001	31,107	$ 311	$ 330,338	$ (319

See notes to condensed consolidated financial statements

YOUTHSTREAM MEDIA NETWORKS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2001
(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"), Campus Voice, Inc. ("Campus Voice"), Beyond the Wall, Inc. ("Beyond the Wall"), 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.

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

	Three months ended December 31, 2001	Three months ended December 31, 2000	Six months ended December 31, 2001
Net revenues	$30	$541	$143
Loss from discontinued operations ...	(365)	(16,966)	(666
Loss on disposal of discontinued operations	(348)	(164,971)	(348
Net loss from discontinued operations	$(713)	$(181,937)	$(1,014

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. As of December 31, 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 December 31,		Six months ended December 31,	
	2001	2000	2001	2000
Reported net loss	$ (3,806)	$(185,978)	$(3,530)	$ (213,190)
Add back goodwill amortization		18,864		37,728
Adjusted net loss	$ (3,806)	$(167,114)	$(3,530)	$ (175,462)

Basic and diluted earnings per share:				
Reported net loss	$ (.13)	$ (6.38)	$ (.12)	$ (7.34)
Goodwill amortization	--	.65		1.30
Adjusted net loss	$ (.13)	$ (5.73)	$ (.12)	$ (6.04)

In December 2000, the Company wrote off approximately $127 million of goodwill relating to its internet segment.

4. LONG-TERM DEBT

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

	December 31, 2001	June 30, 2001
Note Payable to Bank (A)	$ 739	$ 1,072
Subordinated Notes - Private Placement (B)	5,000	5,000
Note Payable to Finance Company (C)	843	1,169
Subordinated Notes - Private Placement (D)	12,000	12,000
Subordinated Notes - Private Placement (E)	1,000	1,000
Other	66	6
	19,648	20,247
Less unamortized original issue discount attributed to subordinated notes	387	448
	19,261	19,799
Less current portion	1,469	1,169
	$17,792	$18,630

(A) This loan was secured by all of the assets of Campus Voice, Beyond the Wall and American Passage (the "Borrowers") and is guaranteed by the Company. This loan was payable in equal monthly installments, commencing in February 1998, over a maximum of six years. Interest was payable monthly at a rate of interest of 275 basis points above LIBOR for U.S. dollar deposits of one-month maturity.

The Borrowers were also party to an interest rate exchange agreement originally converting $3.0 million of the aforementioned floating rate debt to a fixed rate. Under the interest rate exchange agreement, the Borrowers are required to pay interest at a fixed rate of 9.11% on the notional amount covered by the interest rate exchange agreement. In return, the Company receives interest payments on the same notional amount at the prevailing LIBOR rate plus 275 basis points. The fair value of the interest rate exchange agreement at December 31, 2001 was immaterial.

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 December 31, 2001, 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 ("the 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 ("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, American Passage, and Campus Voice. 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 December 31, 2001			Three mo Decembe
	Media	Retail	Total	Media
Net revenues	5,216	2,810	8,026	$5,815
Depreciation and amortization ...	549	117	666	1,252
Loss from operations	(1,598)	(823)	(2,421)	(1,981)
Capital expenditures	169	155	324	319

	Six months ended December 31, 2001			Six mon Decembe
	Media	Retail	Total	Media
Net revenues	9,757	10,953	20,710	$9,715
Depreciation and amortization ...	1,031	242	1,273	2,406
Loss from operations	(3,171)	1,953	(1,218)	(5,646)
Capital expenditures	223	644	867	613

	December 31, 2001			Jun
	Media	Retail	Total	Media
Identifiable assets	$14,623	$13,997	$28,620	$20,497
Corporate			13,245	
Total Assets			$41,865	

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 following 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, the Company's ability to timely execute its business plan, the Company's management of growth, 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.

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 six months ended December 31, 2001 (unaudited) to the six months ended December 31, 2000 (unaudited).

RESULTS OF OPERATIONS
(In Thousands)

Youthstream's revenue consists of revenues generated 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. It's 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 catalog. In December 2001, the Company discontinued its Teen.com business and closed HotStamp college operations. The following table gives effect to the closing of the HotStamp programs and Ads as Art poster catalog that was not accounted for as discontinued operations.

	Three months ended December 31,		Six months ended December 31,	
	2001	2000	2001	2000
Revenues as stated in the Financial Statements	$ 8,026	$6,968	$ 20,710	$17,284
HotStamp college and cities program and Ads as Art poster catalog	(178)	(670)	(306)	(1,929)
Adjusted Revenue	$ 7,848	$6,298	$ 20,404	$15,355

Adjusted revenues increased to $7.8 million for the three months ended December 31, 2001 from $6.3 million for the three months ended December 31, 2000. Revenue growth was attributable to a 143.7% increase in the retail segment to $2.8 million coupled with a 2.1% decline in the media segment to $5.0 million for the three months ended December 31, 2001. 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 declined due to a decline in revenues from the out of home properties offset by strong growth in the event marketing business.

Adjusted revenues increased to $20.4 million for the six months ended December 31, 2001 from $15.4 million for the six months ended December 31, 2000. Revenue growth was attributable to a 21.4% increase in the media segment to $9.5 million and a 44.7% increase in the retail segment to $11.0 million for the six months ended December 31, 2001. 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.

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 47.1% for the three months ended December 31, 2001 from 45.5% for the three months ended December 31, 2000. The increase in the cost of sales represents a shift in our media revenues weighted more heavily to our event marketing business.

Cost of sales as a percentage of revenues decreased to 37.4% for the six months ended December 31, 2001 from 42.6% for the six months ended December 31, 2000. The decrease in the cost of sales is due primarily to retail revenue being 52.9% of total revenue for the period ending December 31, 2001 as compared to 43.8% for the six months ended December 31, 2000.

8

For the three months ended December 31, 2001, selling, general administrative and corporate expenses were $6.4 million as compared to $7.0 million for the three months ended December 31, 2000. The decrease of $0.6 million was due primarily to corporate cost cutting measures partially offset by increased cost relating to store openings in the retail operation.

For the six months ended December 31, 2001, selling, general administrative and corporate expenses were $13.9 million as compared to $13.6 million for the six months ended December 31, 2000. The increase of $0.3 million was due to increased cost relating to store openings in the retail division partially offset by cost cutting measures in the corporate department.

For the three months ended December 31, 2001, depreciation and amortization expenses were $0.7 million as compared to $1.4 million for the three months ended December 31, 2000. The decrease of $ 0.7 million was primarily due to the adoption of SFAS 142, which no longer requires goodwill to be amortized, and the write-down of goodwill relating to Teen.com, HotStamp and Ads as Art Catalog in the fourth quarter of fiscal 2001.

For the six months ended December 31, 2001, depreciation and amortization expenses were $1.3 million as compared to $2.7 million for the six months ended

December 31, 2000. The decrease of $1.4 million was primarily due to the adoption of SFAS 142, which no longer requires goodwill to be amortized, and the write-down of goodwill relating to Teen.com, HotStamp and Ads as Art Catalog in the fourth quarter of fiscal 2001.

For the three months ended December 31, 2001, interest income was $0.1 million as compared to $0.6 million for the three months ended December 31, 2000. The decrease of $0.5 million was due to lower cash balances and declining interest rates.

For the six months ended December 31, 2001, interest income was $0.3 million as compared to $1.3 million for the six months ended December 31, 2000. The decrease of $1 million was due to lower cash balances and declining interest rates.

For the three months ended December 31, 2001, interest expense was $0.8 million as compared to $0.8 million for the three months ended December 31, 2000.

For the six months ended December 31, 2001, interest expense was $1.5 million as compared to $ 1.6 million for the six months ended December 31, 2000. The decrease of $0.1 was due to the reduction in long-term debt.

For the three and six months ended December 31, 2001, loss from discontinued operations was $0.4 million and $0.7 million, respectively. The loss represents the net loss from Teen.com operations. For the three and six months ended December 31, 2000, loss from discontinued operations was $17 million and $42 million, respectively. The loss from discontinued operations represents the net loss of the online segment prior to the December 2000 measurement date.

For the three and six months ended December 31, 2001, loss on disposal of discontinued operations was $0.3 million. The loss on disposal represents the write down of Teen.com assets and severance costs. For the period December 31, 2000, 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 phase-out period.

LIQUIDITY AND CAPITAL RESOURCES

The Company used approximately $8.4 million of cash in operating activities for six months ended December 31, 2001, primarily to fund its working capital and discontinued operations. The Company funded its operations with cash generated by the sale of investments in marketable debt securities.

As of December 31, 2001, the Company had approximately $6.5 million in cash and equivalents. The Company believes that such amounts plus an additional amount of $2.8 million, which represents investments in marketable debt securities with maturities of less than one year, will be sufficient to fund working capital, including debt service and interest expense, at least through the period ending December 31, 2002. In the event that the Company's plans and assumptions for each of its operations, with regard to the Company's ability to fund operations, working capital, capital expenditures and debt repayments, prove to be inaccurate, the Company could be required to seek additional financing. 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. The Company may also seek additional debt or equity financing to develop or acquire additional businesses or conduct retail expansion or to fund its operations. 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. There can be no assurance that any additional financing will be available to the Company on acceptable terms, if at all.

The Company currently projects over thirty-five percent increase in revenues in fiscal year 2002 in both the media and retail segments. Growth in the media segment is expected to be broad based but driven primarily by event marketing activities. These projections assume improvement in the advertising market and continued growth in the Company's retail operations, among other things. The retail segment revenue growth is comprised of same store year-over-year growth, new store openings and price increases for the campus sales events. The Company also projects earnings before interest, taxes, depreciation and amortization ("EBITDA") to be positive in the full fiscal year 2002 due to projected increase in revenues, as well as projected improvements in operating margins. The Company currently expects a net loss of less than $10.0 million during fiscal year 2002. The

Company projects that it will sustain its revenue growth momentum through fiscal year 2003, which should result in improved EBITDA, sufficient to generate positive cash flow and positive net income in fiscal year 2003.

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.

PART II

OTHER INFORMATION

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

None.

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.

February 13, 2002

YOUTHSTREAM MEDIA NETWORKS, INC.

BY: /s/ JAMES G. LUCCHESI

JAMES G. LUCCHESI
President and
Chief Executive Officer

BY: /s/ IRWIN ENGELMAN

IRWIN ENGELMAN
Executive Vice President,
Chief Financial Officer and
Chief Accounting Officer