DETOUR MEDIA GROUP INC
Form 10QSB
August 29, 2001

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

# FORM 10-QSB

Quarterly Report Under
the Securities Exchange Act of 1934

For Quarter Ended: June 30, 2001

Commission File Number: 0-25388

DETOUR MEDIA GROUP, INC.
(Exact name of small business issuer as specified in its charter)

Colorado
(State or other jurisdiction of incorporation or organization)

84-1156459
(IRS Employer Identification No.)

7060 Hollywood Blvd., Suite 1150
Los Angeles, California
(Address of principal executive offices)

90028
(Zip Code)

(323) 469-9444
(Issuer's Telephone Number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
Yes __X__ No ____.

The number of shares of the registrant's only class of common stock issued and outstanding, as of August 28, 2001, was 36,651,118 shares.

## PART I

ITEM 1. FINANCIAL STATEMENTS.

The unaudited financial statements for the six month period ended June 30, 2000, are attached hereto.

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

The following discussion should be read in conjunction with our unaudited financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements.

OVERVIEW

We are engaged in publishing of a monthly magazine entitled Detour, which includes advertisements and articles relating to fashion, contemporary music and entertainment and social issues. Management describes the magazine as an "urban, avant-garde" publication. We derive approximately 80% of our revenues from advertising, with the balance from circulation. We maintain offices in both Los Angeles and New York City.

The Magazine is normally been published monthly, with the exception of the issues for December/January and June/July, for which one issue is published. The Magazine has been, in general, approximately 150 pages in length, comprised of about 50 to 60 pages of advertising, with the balance in editorial pages. However, due to our impaired financial condition, two double issues, December/January and February/March were published during the first quarter of 2001 and one double issue, April/May was published in the second quarter of 2001. As of the date of this Report, we plan on publishing future issues on a monthly basis,



with the exception of double issues for December/January and June/July. However, our plans are contingent upon our having sufficient working capital to fund such publications.

The following information is intended to highlight developments in our operations to present our results of operations, to identify key trends affecting our business and to identify other factors affecting our results of operations for the six month periods ended June 30, 2001 and 2000.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the Six Month Periods Ended June 30, 2001 and 2000

During the six month period ended June 30, 2001, our revenues decreased from the same period in 2000, as we generated revenues of $603,739, compared to revenues of $2,039,823 for the similar period in 2000, a decrease of $1,436,084 (70%). This was attributable to only three double issues of our Magazine being published during this period, compared to one double issue and five single issues being published during the six month period ended June 30, 2000, resulting in a decrease in advertising revenues. We published only three issues during this period and advertising revenue per issue decreased because of our lack of working capital.

In the six month period ended June 30, 2001, costs of sales also decreased 55%, to $573,806, compared to $1,268,421 for the similar period in 2000, a decrease of $694,615, which was also due to the publication of only three issues of our Magazine during the applicable period, compared to six issues in 2000.

Selling, general and administrative expenses were $2,065,955 for the six months ended June 30, 2001, compared to $1,857,756 for the similar period in 2000, an increase of $203,199 (11%). This increase was due to our continuing to incur significant fees and expenses in connection with our funding efforts and new business plan activities.

Interest expense increased from $369,459 in the six months ended June 30, 2000, to $507,991 for the six months ended June 30, 2001, an increase of $138,532 (37%) as a result of continued borrowing necessitated by cash shortages resulting from operating losses. See "Liquidity and Capital Resources" below. As a result, we generated a net loss of $(2,700,828) for the six month period ended June 30, 2001, ($0.09 per share) compared to a net loss of $(1,403,504) for the six month period ended June 30, 2000 ($.07 per share).



LIQUIDITY AND CAPITAL RESOURCES

At the end of the six month period ended June 30, 2001, we had $6,136 in cash and cash equivalents. Accounts receivable decreased to $184,509 from $639,971 at June 30, 2000, a decrease of $455,462 (71%), which management attributes to the fact that we published only three magazine issues during the applicable period. There was less advertising billed per issue, there were more uncollectible accounts, and we commenced a new factoring arrangement with Receivable Financing Corp. during 2001.

During the six month period ended June 30, 2001, we received $300,000 from Union Atlantic as a subsequent contribution to the 10% Convertible Debentures previously issued in June 2000. These Debentures are for a 5 year term and also contain warrants to purchase 75,000 shares of our common stock at exercise prices of $.515 per warrant for 37,500 of the warrants and $.5859 per warrant for the remaining 37,500 warrants. The Debentures may be converted at any time during a three year term at a conversion price equal to the lesser of $.90 per share, or 80% of the average three lowest closing bid prices of our common stock during the 22 day trading period prior to conversion. With respect to the $1 million convertible debentures previously issued in June 2000, $50,000 of principal and $5,202 in accrued interest was converted in June 2001, with the resulting issuance of 490,703 shares of our common stock.

We have numerous outstanding notes payable, including the following:

In August 1998, we obtained a loan in the principal amount of $550,000 from IBF Special Purpose Corporation II, to be used for general working capital. This loan currently bears interest at the default rate of 28% per annum and was due December 19, 1998, including a one-time extension fee paid to this lender of $5,500. The loan provides for an exit fee equal to 3% of the original principal amount of the loan ($16,500) and is secured by 1,000,000 shares of our common stock, which were provided by 7 shareholders, including Mr. Stein, who tendered 190,000 shares as part of the security. Mr. Stein has also personally guaranteed this obligation. In December 1998, we repaid $27,500 of the principal balance. We also paid all interest which had accrued through June 30, 2000. In April 2001, we tendered a payment of $170,000 on this obligation and entered into a Forbearance Agreement which provides, among other things, for us to pay this lender $25,000 per month until the entire balance is paid in full. Upon payment in full, the lender will return all of the stock provided as security. Interest continues to accrue at the default rate.

In December 1999, we obtained a $200,000 loan from Sigmapath Corporation, which accrues interest at the rate of 6% per annum and became due on March 8, 2000. We paid $100,000 on this obligation.



In March 2001, an action was filed against us by an officer of Sigmapath to collect the balance of $100,000 remaining due. However, this action was dismissed by the court because the plaintiff who brought the action was not the proper party in interest. Since its dismissal, we have not heard anything from this lender, nor otherwise been advised of any further action being brought.

In February 2001, we received a loan from an individual in the principal amount of $80,000, which we repaid in full in March 2001. We issued 75,000 shares of our "restricted" common stock as full consideration for this loan.

At June 30, 2001, we had nine other notes payable in the aggregate principal amount of $1,049,790, bearing interest at rates ranging from 8% to 12% per annum, all of which require a monthly or quarterly payment of principal and/or interest. These notes are due on demand or past due.

In 1995, our majority stockholder loaned us $932,313. In 1996, this note was converted to a demand note, bearing interest at the rate of 12% per annum. In 1996, this stockholder subsequently assigned this Note to JCM Capital Corp., a minority stockholder, who, upon information and belief, has assigned portions of this note to other unaffiliated parties. This note is secured by substantially all of our assets, except for accounts receivable. Accrued interest payable to this stockholder at June 30, 2001 totaled $553,407. Interest expense for this note was $56,000 during the six month period ended June 30, 2001.

Advances from stockholder represent advances made by our majority stockholder for working capital purposes. At September 30, 2000, the advances bore interest at 8% per annum and were payable on demand. In March 2000, our majority stockholder agreed to reduce the annual interest rate to 8% from 12%, effective January 1, 2000 and modify the repayment terms. Under the new repayment terms, the advances are repayable in monthly principal installments of $42,000 commencing January 1, 2001. However, we must use at least 25% of the net proceeds of any financing received by us to repay the advances. Further, all of the advances are due and payable in full at such time as we have received equity financing of at least $10 million. At June 30, 2001, $2,616,981 of principal was outstanding and classified as short-term. Accrued interest payable to the majority stockholder at June 30, 2001 totaled $956,334. Interest expense on the advances was $157,707 for the six month period ended June 30, 2001.

TRENDS

In order to implement our new business strategy described in our Form 10-KSB for the fiscal year ended December 31, 2000, we need to raise a minimum of $2 million of additional capital, over



and above what we have recently raised. The capital which we received recently was utilized to pay outstanding obligations which had accrued and we were unable to utilize these funds for implementation of our new business plan. Without the additional capital, it will be necessary to abandon our plans for Detour Music and Detour Europe. In addition, we will be required to continue to substantially reduce costs for the magazine and not able to sustain our existing advertising revenue or grow the circulation base. In the event all current discussions terminate without additional capital, we will have to enter a joint publishing arrangement with other magazine publishers or liquidate.

With an additional $2 million of capital, we will begin to implement our business strategy and, while no assurances can be provided, we should be profitable within 18 months after receipt of applicable funding.

INFLATION

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material affect on our results of operations during the six month period ended June 30, 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

By notice dated March 30, 2000, the staff of the Salt Lake City District Office of the Securities and Exchange Commission ("SEC" or "the Commission") notified us and our Chairman that it was recommending to the SEC that an enforcement action be filed against both us and our Chairman relating to accuracy of certain of our financial statements in 1997 and 1998. The recommended enforcement action was based on: (i) the improper presentation of certain quarterly financial information; and (ii) the failure to record in accordance with generally accepted accounting principles the proper compensation expense resulting from the issuance to consultants in 1997 of options to purchase 4,400,000 shares of common stock. According to the notice from the Commission, the SEC anticipates alleging that we had violated Section 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934, Rule 10b-5, Section 13(a) of the Exchange Act and various rules promulgated thereunder.

We believed that the issue regarding improper presentation of quarterly financial information relates to our averaging of certain costs and expenses in certain quarterly periods in 1997 and 1998 instead of calculating these costs and expenses precisely. To comply with the staff's requirement, we would be required to determine the actual costs and expenses for the affected quarters. The second issue related to whether we recorded the proper amount of compensation expense in connection with the issuance of the options to the consultants. We recorded an expense of $21,991, based on the exercise price of the options of $.005 per share. We understand that the staff believes that the expense should be the fair market value of the options at the time the options were issued. Under generally accepted accounting principles, any such additional compensation expense in connection with the options would result in a corresponding increase in our paid-in capital. Thus, while the expense would increase our net loss for 1997, the paid-in capital would be similarly increased and there would be no change to our total deficit in stockholders' equity as of the end of 1997.

In 2000, we advised the staff that we wished to cooperate fully and reach an agreement on an appropriate remedy to resolve this matter. We had determined to restate our financial statements to address the concerns raised by the staff.

On November 22, 2000, the matter was resolved by the Commission issuing a cease-and-desist proceeding pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934. The Commission ordered us to amend our filings with the Commission to properly reflect our financial condition and operating results, and as required by Section 13(b)(2) of the Exchange Act, make and keep books, record and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets. The Commission further ordered us to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that, among other things, transactions are recorded as necessary to permit the preparation of financial statements in conformity with generally accepted accounting principles. We have advised the Commission of our intention to amend our filing with the Commission. No civil penalties were assessed against us relevant to the settlement of this matter.

We have been named as a defendant in several other lawsuits in the normal course of our business. With the exception of one prospective matter, in the opinion of management after consulting with legal counsel, the liabilities, if any, resulting from these matters will not have a material effect on our financial statements.

ITEM 2. CHANGES IN SECURITIES

In April 2001, 1,333,333 shares of our common stock were issued pursuant to the exercise of outstanding warrants previously issued in favor of Trilogy Capital and Lexington Capital, which warrants were issued in connection with a prior financing to our company in 2000. The exercise price of these warrants were $.01 per share.



In June 2001, 1,780,000 shares of our common stock were issued to four separate consultants for services rendered and to be rendered to us. These shares were valued at the market price at the date of issuance, which ranged from $0.16 per share to $0.23 per share.

Also in June 2001, 490,703 shares of our common stock were issued as a result of the conversion of $50,000 in principal and $5,202 in accrued interest applicable to outstanding convertible debentures which we issued in June 2000. We also issued 1 million common stock purchase warrants to one consultant for services rendered and to be rendered. These warrants are exercisable at $0.25 per warrant at any time during the seven year period following the date of issuance.

In February, 2001, 78,750 shares of our common stock were issued pursuant to the exercise of outstanding warrants previously issued. The exercise price of these warrants were $.01 per share.

In each instance cited above, we relied upon the exemption from registration provided by Regulation D and/or Section 4(2), promulgated under the Securities Act of 1933, as amended, to issue the relevant shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NONE

ITEM 5. OTHER INFORMATION.

Subsequent Event

Effective August 22, 2001, our President and CEO, Andrew Left, tendered his resignation as an officer of our company and was replaced by Edward Stein on an interim basis. Mr. Left will continue to consult with our management on an informal basis.

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

(a) Exhibits - NONE

(b) Reports on Form 8-K - NONE.



DETOUR MEDIA GROUP, INC.
f/k/a DETOUR MAGAZINE, INC.

CONDENSED BALANCE SHEET

| | (Unaudited) June 30 2001 | (audited) December 31 2000 |
|---|---|---|
| ASSETS: | | |
| Current Assets | | |
| Cash | $ 6,136 | $ 71598.24 |
| Accounts Receivable | 184,509 | 397,447 |
| Prepaid expenses & other current assets | 20,899 | 11,598 |
| Total Current Assets | 211,544 | 480,643 |

| | | |
|---|---|---|
| Property And Equipment, Net | 32,243 | 42,753 |
| Other Assets | | |
| Intangibles, net | 0 | 0 |
| Security deposits | 16,125 | 16,125 |
| Total Other Assets | 16,125 | 16,125 |
| TOTAL ASSETS | $ 259,912 | $ 539,521 |
| LIABILITIES: | | |
| Current Liabilities | | |
| Bank overdraft | $ 0 | $ 0 |
| Accounts payable & accrued expenses | 1,888,661 | 1,957,614 |
| Deferred revenue | 0 | 0 |
| Due to employees | 21,110 | 0 |
| Notes payable | 1,512,921 | 1,559,921 |
| Accrued interest payable | 231,640 | 145,204 |
| Due to stockholder | 2,636,981 | 2,556,021 |
| Note payable stockholders | 932,313 | 932,313 |
| Interest payable, stockholders | 1,509,741 | 1,296,034 |
| Convertible debentures | 1,410,000 | 1,160,000 |
| Total Current Liabilities | 10,143,368 | 9,607,107 |
| EQUITY: | | |
| Common stock | 35,383 | 22,916 |
| Additional paid-in capital | 10,292,200 | 8,885,165 |
| Accumulated deficit | -20,211,038 | -17,975,667 |
| Total Equity | -9,883,455 | -9,067,586 |
| Total Liabilities & Equity | $ 259,912 | $ 539,521 |



DETOUR MEDIA GROUP, INC.
f/k/a DETOUR MAGAZINE INC

UNAUDITED CONDENSED STATEMENT OF OPERATIONS

| | For the Six Months Ended June 30, | | For Three Months April 1 to June 30 | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |

| | | | | |
|---|---|---|---|---|
| SALES | $ 603,995 | $2,039,823 | $ 204,170 | $ 955,816 |
| COST OF SALES | 573,806 | 1,268,421 | 336,490 | 555,474 |
| GROSS PROFIT | 30,187 | 771,402 | -132,320 | 400,342 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | 2,065,955 | 1,857,756 | 1,507,477 | 1,192,254 |
| OPERATING LOSS | -2,035,768 | -1,086,354 | -1,639,797 | -791,912 |
| Disposal of assets | 0 | 0 | 0 | 0 |
| Factoring fees | -7,069 | 0 | -7,069 | 0 |
| Financing Fees | -150,000 | 0 | 0 | 0 |
| Forgiveness of Debt | 0 | 52,309 | 0 | 357 |
| Interest expense | -507,991 | 369,459 | -313,491 | -167,710 |
| NET INCOME (LOSS) | -2,700,828 | -1,403,504 | -1,960,357 | -959,265 |
| Loss per share of common stock | | 0.07 | 0 | 0 |

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DETOUR MEDIA GROUP, INC.
f/k/a DETOUR MAGAZINE, INC

UNAUDITED CONDENSED STATEMENT OF CASH FLOW

| | Six Months June 30, 2001 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net (loss) | $(2,700,828) |
| Depreciation and Amortization | 10,510 |
| Decrease (increase) in accounts receivable | 212,938 |
| Decrease (increase) in prepaid expenses and other current assets | (9,300) |
| Increase (decrease) in accounts payable and accrued expenses | (47,843) |
| Increase (decrease) in accrued interest payable | 86,436 |
| Increase in interest payable, stockholder | 213,704 |
| Total Adjustments | 466,445 |

NET CASH USED IN

| | |
|---|---|
| OPERATING ACTIVITIES | (2,234,383) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Net proceeds from (payments on) notes payable | 203,000 |
| Net proceeds from (payments to ) stockholders | 80,960 |
| Proceeds from issuance of stock | 789,000 |
| Common stock issued for services | 878,059 |
| Common stock issued for debt conversion | 55,202 |
| Fair value of warrants issued to non-employees for services | 162,700 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,168,921 |
| NET DECREASE IN CASH | (65,462) |
| CASH - beginning | 71,598 |
| CASH - ending | $ 6,136 |



DETOUR MEDIA GROUP, INC.
f/k/a DETOUR MAGAZINE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Six Month Period Ended June 30, 2001

1. Unaudited Interim Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with the instructions for Form 10-QSB and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for any quarter are not necessarily indicative of the results for any other quarter or for the full year.

2. Basis of Presentation

Business combination

On June 6, 1997, pursuant to the terms of an Agreement and Plan of Reorganization, Ichi-Bon Investment Corporation ("IBI") acquired all of the outstanding common stock of Detour, Inc. ("Old Detour") in exchange for 4,500,000 unregistered shares of IBI's common stock. As a result of the transaction, the former shareholders of Old Detour received shares representing an aggregate of 90% of IBI's outstanding common stock, resulting in a change in control of IBI. As a result of the merger, IBI was the surviving entity and Old Detour ceased to exist. Simultaneously therewith, IBI amended its articles of incorporation to reflect a change in IBI's name to "Detour Magazine, Inc." References to the "Company" or "Detour" refer to Detour Magazine, Inc. together with the predecessor company, Old Detour.

The acquisition of Old Detour has been accounted for as a reverse acquisition. Under the accounting rules for a reverse acquisition, Old Detour is considered the acquiring entity. As a result, historical financial information for periods prior to the date of the transaction are those of Old Detour. Under purchase method accounting, balances and results of operations of Old Detour will be included in the accompanying financial statements from the date of the transaction, June 6, 1998. The Company recorded the assets and liabilities (excluding intangibles) at their historical cost basis which was deemed to be approximate fair market value. The reverse acquisition is treated as a non-cash transaction except to the extent of cash acquired, since all consideration given was in



the form of stock.

Earnings per share

Earnings per share have been computed based on the weighted average number of common shares outstanding. For the three month period prior to the reverse acquisition discussed in the business combination section of Note 2 above, the number of common shares outstanding used in computing earnings per share is the number of common shares outstanding as a result of such reverse acquisition (5,000,000 shares).

3. History and Business Activity

Detour was originally incorporated as Ichi-Bon Investment Corporation on May 18, 1990, under the laws of the State of Colorado. The name was changed to Detour Magazine, Inc. concurrent with the business combination described in Note 2.

Prior to such business combination, Detour had not engaged in any operations or generated any revenue.

Old Detour was a publisher of a nationally distributed magazine entitled "Detour" which is published monthly and contains articles and pictorial displays on fashion, music and social commentary.

In March, 2001, our shareholders approved amendments to our Articles of Incorporation, which amendments included changing our name to "Detour Media Group, Inc." and increasing the number of authorized common shares to 100,000,000 shares.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DETOUR MEDIA GROUP, INC.
(Registrant)

Dated: August 28, 2001

By: s/ Edward T. Stein
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Edward T. Stein, President

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