DETOUR MEDIA GROUP INC
Form 10QSB/A
October 17, 2001

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

FORM 10-QSB/A1

Quarterly Report Under
the Securities Exchange Act of 1934

For Quarter Ended: September 30, 1998

Commission File Number: 0-25388

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

DETOUR MAGAZINE, INC.
(Former Name)

Colorado
(State or other jurisdiction of incorporation or organization)

84-1156459
(IRS Employer Identification No.)

7060 Hollywood Blvd., Suite 1150
Los Angeles, California 90028
(Address of principal executive office)

6855 Santa Monica Boulevard, Suite 400
Los Angeles, California
(Former address of principal executive offices)

90038
(Zip Code)

(213) 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 October 10, 2001, was 36,572,364 shares.

PART I

ITEM 1. FINANCIAL STATEMENTS.

Our unaudited financial statements for the nine month period ended September 30, 1998, 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 the 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

Detour Media Group, Inc., f/k/a Detour Magazine, Inc., f/k/a Ichi-Bon Investment Corporation ("we," "us," "our" or our "company"), was incorporated under the laws of the State of Colorado on May 18, 1990. On June 6, 1997, pursuant to the terms of an Agreement and Plan of Reorganization, we acquired all of the issued and outstanding securities of Detour, Inc., a California corporation, in exchange for 4,500,000 shares of our "restricted" common stock. As a result, we were the surviving entity.

We are engaged in the 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.

Our magazine is published monthly, with the exception of the issues for January/February and July/August, 1997, for which one issue was published. The magazine has been, in general, approximately 192 pages in length, comprised of about 60 to 70 pages of advertising, with the balance in editorial pages. This reflects the limited, but growing, advertising base which typifies new publications.

This amendment is being filed in order to provide investors with revised financial statements for the nine month period ended September 30, 1998 in accordance with a consent order entered between us and the Securities and Exchange Commission. For a current understanding of our operations and business plan, readers are advised to review our annual report on Form 10-KSB/A1 for the fiscal year ended December 31, 2000, as well as our Form 10-QSB/A1 for the six month period ended June 30, 2001.

The following information is intended to highlight developments in our operations, to present our results of operations, to identify key trends affecting our businesses and to identify other factors affecting our results of operations for the nine month periods ended September 30, 1998 and 1997.

RESULTS OF OPERATIONS

Comparison of Results of Operations for the nine month period ended September 30, 1998 and 1997.

During the nine month period ended September 30, 1998, our revenues were $3,545,332, compared to revenues of $3,027,292 for the similar period in 1997, an increase of $518,040 (17.1%) from the similar period in 1997. This increase was attributable to increased subscriptions and newsstand sales. During this period, costs of sales were $2,625,335, compared to $1,482,370 for the similar period in 1997, an increase of $1,142,965 (77.7%). This was due primarily to the increase in print orders of our magazine (number of copies printed), caused by management's efforts to expand circulation, which resulted in increased printing, paper and distribution costs as a factor of such expansion. Management anticipated these costs in our budget, as we are engaged in a program to increase visibility of our Magazine, in order to increase revenues in the future. It is management's belief that the increased costs associated with various promotions will result in greater visibility and market share in the future, provided that we are able to obtain additional financing in the future. We expect to incur significant losses during the promotional period. However, there can be no assurances that we will generate greater revenues in the future as a result of these additional marketing efforts. Further, management has decided that its attempt to increase circulation of the Magazine by printing additional copies will not continue in the future. Rather, as a result of management's attempt to stem losses, the Magazine's print orders

and book size are expected to decrease in the immediate future, by reducing the amount of editorial content while attempting to maintain the increased revenues derived by us from our current advertising.

Selling, general and administrative expenses were $2,844,506 for the nine months ended September 30, 1998, compared to $5,141,499 for the similar period in 1997, a decrease of $2,296,993. The primary reason behind this decrease was that we incurred consulting fees of $3,278,000 arising from revised valuations of stock options issued by us in 1997. This new valuation takes into account the market value of our common stock following issuance of the options ($1.50 per share) as opposed to the option exercise price per share ($0.01) and the term of the options granted (2 years). See "Part II, Item 1, Legal Proceedings" below. In addition, this increase was also attributable to the retention of a new management staff on August 1, 1997, the execution of a consulting agreement and fees payable thereon, also which took place on August 1, 1997 and increase commissions payable due to the increase advertising revenues. Mr. Evans resigned his positions with us in November 1998. Our sales advertising staff is paid on a commission basis. As a result, we generated a net loss of $(2,063,078) for the nine month period ended September 30, 1998 ($.13 per share), compared to a net loss of $(3,733,095) for the nine month period ended September 30, 1997 ($.75 per share).

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 1998, we had $21,381 in cash. We increased our accounts receivable to $505,444 from $371,773 for the similar period in 1997, an increase of $153,671 (43.7%), which management attributes to increased advertising.

In August 1998, we obtained a new loan in the principal amount of $550,000 from IBF Special Purpose Corporation II, Washington, D.C.. to be used for general working capital. This loan bears interest at the rate of 18% per annum and was due November 20, 1998. As of the date of this report, this loan is in default but has been extended for an additional 30 day period. The loan provides for an exit fee equal to 3% of the loan ($16,500). The 30 day extension period provided by the lenders required a one time extension fee of $5,500. Management is currently reviewing its options regarding this obligation, including seeking out other long term lenders. However, no assurances can be provided that such other arrangements will be made to insure that we do not enter into a default of this obligation.

We had two other outstanding notes payable to non-affiliates, including one note with an outstanding balance of $100,500, which accrues interest at the rate of 12% per annum and is due on demand. The remaining outstanding note aggregating $7,000 is payable to an

unaffiliated entity. Relevant thereto, in 1995, one of our stockholders loaned us $932,313 which bears interest at the rate of 12% per annum and is due upon demand. The obligation is secured by all of our assets. The note holder agreed to subordinate this security position relevant to our accounts receivable. This stockholder subsequently assigned this Note to JCM Capital Corp. We also owes Ed Stein, one of our officers and a director, the principal amount of $1,592,442, which accrues interest at the rate of 12% per annum. Mr. Stein has entered into an agreement with us not to require any repayment of this obligation at least until December 31, 1998, or more likely, until such time as we had sufficient capital resources available in which to repay this obligation without jeopardizing our ability to continue our business operations.

We factor our monthly domestic accounts receivable with Riviera Financial, Inc., Los Angeles, California ("Riviera"). The majority of factoring provided by Riviera is on a non-recourse basis. On average, we pay a fee to Riviera of approximately 4.5% per month. Historically, we factor approximately $2.5 million per annum in accounts receivable with Riviera. Riviera's maximum fee for factoring our receivables is 9% per month, with a hold back of 11% on each invoice until receipt of funds. Therefore, Riviera is only factoring 89% of our total eligible domestic advertising receivables. In addition, Riviera also acts the capacity of credit manager for the Magazine by performing credit checks, mailing invoices, making collection calls and posting receivables. It is anticipated that, provided we successfully sell a substantial portion of our common stock in the private offering described herein, the factoring relationship with Riviera will be terminated, as management believes that it will no longer be necessary due to sufficient cash then available to us. However, there are no assurances that we will sell a sufficient number of shares of our common stock to allow us to terminate.

TRENDS

Management believes that we will continue to operate our business at a loss for the next year or two, but is cautiously optimistic that we will begin generating profits from operations beginning in the 2000 fiscal year. This will occur as a result of cost cutting measures which have been adopted by management and anticipation of increased circulation of and advertising in our magazine and corresponding revenues therefrom. Management has reduced staff and moved to smaller offices. In addition, all operating expenses are being reduced. Relevant thereto, a new printing contract with R.R. Donnelly & Sons, Inc. was signed in November 1998, further reducing costs of sales. However, there can be no assurances that we will become profitable within the time parameters described herein, or at all.

INFLATION

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material affect on the results of operations during the nine month period ended September 30, 1998.

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.

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. This amendment is being filed as a result of the aforesaid order.

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 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 have determined 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. The revised financial statements included in this amended Report reflect the expense recorded at the fair market value of the options at the time the options were issued.

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 - NONE

ITEM 3. DEFAULTS UPON SENIOR SECURITIES - NONE

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

NONE

ITEM 5. OTHER INFORMATION - NONE

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

(a) Exhibits - none

(b) Reports on Form 8-K

None

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DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.
CONDENSED BALANCE SHEET

	(unaudited) For the Nine Months Ended September 30 1998	(audited) For the Fiscal Year Ended December 31 1997
ASSETS:		
CURRENT ASSETS		
Cash	$ 21,381	$ 11,089
Accounts receivable	505,444	281,889
Prepaid expenses and other current assets	415,432	61,079
Total current assets	942,257	354,057
PROPERTY AND EQUIPMENT, Net	131,569	132,591
OTHER ASSETS		
Security deposits	15,700	13,750
Total other assets	15,700	13,750
TOTAL ASSETS	$ 1,089,526	$ 500,398
LIABILITIES:		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 1,357,507	$ 870,714
Deferred revenue	551,394	192,057
Notes payable	832,754	372,000
Accrued interest payable	4,825	19,216
Due to stockholder	1,592,442	932,313
Note payable stockholders	932,313	609,976

Interest payable, stockholders	134,871	224,615
Total Current Liabilities	5,406,106	3,220,891
EQUITY:		
Common stock	15,362	10,369
Additional paid-in capital	4,775,066	4,313,068
Accumulated deficit	(9,107,008)	(7,043,930)
TOTAL EQUITY	(4,316,580)	(2,720,493)
TOTAL LIABILITIES AND EQUITY	$ 1,089,526	$ 500,398

DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.
UNAUDITED CONDENSED STATEMENT OF OPERATIONS

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	1998	1997	1998	1997
SALES	$ 3,545,332	$ 3,027,292	$ 1,175,446	$ 1,265,894
COST OF SALES	2,625,335	1,482,370	1,019,887	549,814
GROSS PROFIT	919,997	1,544,922	155,559	716,080
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,728,182	1,856,588	844,217	850,807
OPERATING LOSS	(1,808,185)	(311,666)	(688,658)	(134,727)
Factoring fees	(116,324)	(6,911)	(61,090)	5,767
Consulting fees	0	(3,278,000)	0	0
Interest expense	(138,569)	(136,518)	(8,250)	(50,000)
NET INCOME (LOSS)	$(2,063,078)	$(3,733,095)	$ (757,998)	$ (178,960)
Loss per share of common stock	$ (0.13)	$ (0.75)	$ (0.05)	$ (0.04)
Weighted averages shares outstanding	15,362,669	5,000,000	15,362,669	5,000,000

DETOUR MEDIA GROUP, INC.
f/k/a Detour Magazine, Inc.
UNAUDITED CONDENSED STATEMENT OF CASH FLOW

	For the Nine Months Ended September 30,	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)	$(2,063,078)	$(3,733,095)
Depreciation and amortization	26,730	28,684
Value of warrants issued as consulting fees	0	3,278,000
Increase in accounts receivable	(223,555)	(177,694)
Decrease (increase) in prepaid expenses and other current assets	(356,303)	3,729
Increase in accounts payable and accrued expenses	486,793	658,458
Increase (decrease) in deferred revenue	359,337	0
Decrease in accrued interest payable	(14,391)	0
Increase (decrease) in interest payable, stockholder	(89,744)	110,000
TOTAL ADJUSTMENTS	188,867	3,901,177
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(1,874,211)	168,082
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of fixed assets	(25,708)	(14,300)
Net proceeds from officer	0	52,241
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(25,708)	37,941
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in bank overdraft	0	(23,062)
Net proceeds from (disbursements on) notes payable	460,754	(13,300)
Net proceeds from stockholder	982,466	69,288
Proceeds from issuance of stock	466,991	0
Disbursements upon merger and recapitalization	0	(81,784)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,910,211	(48,858)
NET DECREASE IN CASH	10,292	157,165
CASH - beginning	11,089	0
CASH - ending	$ 21,381	$ 157,165

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DETOUR MEDIA GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Nine Month Period Ended September 30, 1998

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, 1998, 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 nine 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.

SIGNATURES

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

DETOUR MEDIA GROUP, INC.
(Registrant)

Dated: October 17, 2001

By:s/Edward T. Stein

Edward T. Stein, President