GABELLI CONVERTIBLE & INCOME SECURITIES FUND INC
Form NSAR-A
August 28, 2008

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088 D000000 Y
SIGNATURE   AGNES MULLADY
TITLE       TREASURER
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at purpose, cumulative preferential dividends in cash at the rate of 4% a year on the face amount of $4 per share payable quarterly.

Redemption. The Company shall redeem all of the preferred stock outstanding as of December 31, 2010 at $4 per share, plus all accrued and unpaid dividends thereon. As of June 30, 2003, the redemption value of the total issued and outstanding shares of redeemable preferred stock totaled $5,269,000. The Company has the option in 2003 to repurchase all or a portion of preferred stock outstanding for 50% of its face amount plus 100% of accrued and unpaid dividends thereon, and during 2004 the Company has the option to repurchase all or a portion of the preferred stock at 75% of its face amount plus accrued and unpaid dividends thereon.

Convertibility and Voting Rights. The Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

Because the preferred stock is mandatorily redeemable and was issued in connection with a troubled debt restructuring, it is classified as a long term liability in accordance with SFAS 150 at the future redemption value of $5,269,000, including cumulative dividends, with no future accretion adjustments to the balance to be taken against stockholders equity (deficit) in subsequent periods.

7. REORGANIZATION

The Company announced a plan to move its Seattle operations to its New York office in March 2002. In April 2002, the Company finalized its transition plan, which resulted in the termination of 30 employees, and completed the transition in June 2002. The Company recorded a restructuring charge, which is included in selling, general and administrative expenses, during the fiscal year ended June 30, 2002 of approximately $519,000 relating to this decision, which included severance costs of $186,000, lease costs of $126,000 for a lease expiring November 2002, and $207,000 relating to the abandonment of certain fixed assets. As of June 30, 2003, the Company has remaining accruals of approximately $126,000 for lease obligation costs.

For the nine months ended June 30, 2003, the Company wrote off approximately $316,000 of fixed assets, net of proceeds from the equipment sales, relating to the closing of its corporate office in New York in November 2002.

8. STOCKHOLDER S EQUITY

In January 2003, the Company completed a debt restructuring transaction whereby approximately 3,985,000 common shares were issued to the holders of the YSTM Notes and YSTM 2 Note, in accordance with the terms of the debt restructuring to extinguish the YSTM Notes and YSTM 2 Note. The additional common shares were valued using the three-day average trading price one day before and one day after the effective date of the debt restructuring.

9. SEGMENT INFORMATION

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

The following is a summary of the major classes of assets and liabilities as of June 30, 2003 that remain from the Media segment:

		June 30, 2003 (In thousands) (unaudited)
Current assets, net	$	-0-
Current liabilities		(1,913)
Capitalized lease obligations		(41)
Net book value	$	(1,954)

10. LEGAL

The Company is a party to certain legal proceedings commenced against it by former employees of the Company s subsidiaries. These actions include a litigation pending in the District Court of Travis County, Texas by a former employee of the Company s CommonPlaces, LLC (CP) subsidiary claiming that he is entitled to receive, without cost, an aggregate of 215,083 shares of YouthStream common stock. The Company reached a settlement with the former employee in January 2003. As part of the settlement agreement, the Company made a $90,000 cash payment and issued a non-interest bearing promissory note for $250,000 due in January 2004 in the event that the Company should file for reorganization under Chapter 11 of the federal bankruptcy laws within one year and, as a result, the former employee would be required to return the $90,000 payment. The Company has not recorded the issuance of the promissory note, given that it has been deemed improbable that all of the conditions required under the settlement agreement would be fulfilled which would cause the promissory note to take effect. The Company is also involved in an arbitration filed in New York by the Company s former President and Chief Executive Officer seeking damages for alleged breach of his employment agreement, among other things. The Company is currently defending these actions and has asserted counterclaims in the action against its former CEO.

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of these consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of SFAS Nos. 4, 44 and 64, Amendment of SFAS 13, and Technical Corrections as of April 2000 . SFAS No. 145 revises the criteria for classifying the extinguishment of debt as extraordinary and the accounting treatment of certain lease modifications. SFAS 145 was effective May 15, 2002, and is not expected to have a material impact on the Company s consolidated financial statements other than the classification of any gains or losses related to the early extinguishment of debt.

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

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FAS 123 (SFAS 148). This statement amends SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and amends the disclosure requirements to SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition and annual disclosure to provisions of SFAS 148 are effective for interim periods beginning after December 15, 2002. Accordingly, the Company has adopted the disclosure requirements of SFAS 148 for the quarter ended March 31, 2003.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative and when a derivative contains a financing component. The clarification provisions of SFAS No. 149 require that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Company does not expect that the adoption of SFAS No. 149 will have a significant effect on the Company s financial statement presentation or disclosures.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity . SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company does not expect that the adoption of SFAS No. 150 will have a significant effect on the Company s financial statement presentation or disclosures.

INVENTORIES

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

REVENUE RECOGNITION

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

RESULTS OF OPERATIONS

(In thousands)

The Company s consolidated financial statements reflect reclassifications for prior periods due to the discontinued operation of the Company s online segment and sale of its media assets. On August 5, 2002, the Company sold substantially all of its media assets and discontinued its media segment. The only remaining segment is retail. The following analysis incorporates reclassifications of prior periods due to discontinued operations and revision of the reporting segments. The following financial analysis compares the three months and nine months ended June 30, 2003 (unaudited) to the three months and nine months ended June 30, 2002 (unaudited).

YouthStream generated revenues primarily from the sale of decorative wall posters, targeting teens and young adults, through on-campus sales events, retail stores and Internet sales.

Revenues decreased to $682,000 for the three months ended June 30, 2003 from $1.4 million for the three months ended June 30, 2002. The revenue decline was attributable to negative same store retail sales and a reduction in the number of retail stores.

Revenues decreased to $3.9 million for the nine months ended June 30, 2003 from $6.8 million for the nine months ended June 30, 2002. The revenue decline was attributable to negative same store retail sales and a reduction in the number of retail stores.

Cost of sales consists of the cost of decorative wall posters sold. Cost of sales as a percentage of revenues was 24% and 75% for the three months ended June 30, 2003 and for the three months ended June 30, 2002, respectively. The variance in the cost of sales ratio was attributable to the one-time write-off of inventory against cost of sales during the three months ended June 30,2002.

Cost of sales as a percentage of revenues was 25% and 33% for the nine months ended June 30, 2003 and for the nine months ended June 30, 2002, respectively. The variance in the cost of sales ratio was attributable to the one-time write-off of inventory against cost of sales during the three months ended June 30,2002.

Store Closing Costs

For the three months ended June 30, 2003, the Company incurred expenses of approximately $8,000 relating to the closing of retail stores. This amount includes $5,000 of expenses for the early termination of existing store leases and $3,000 of other costs.

For the nine months ended June 30, 2003, the Company incurred expenses of approximately $1.8 million related to the closing of retail stores. This amount includes $879,000 of expenses relating to the early termination of existing store leases, $635,000 of expenses relating to the write-down of inventory, $214,000 of expenses relating to the write-off of fixed assets deemed impaired as of the store closing dates and $62,000 of other costs.

For the three months ended June 30, 2003, selling, general, administrative and corporate expenses, were $1.5 million as compared to $11.0 million for the three months ended June 30, 2002. The decrease of $9.5 million was due to corporate overhead cost savings, resulting from the sale of the media business in the first quarter of fiscal 2003, occupancy and payroll related expense savings due to the reduction of the number of retail stores in operation in fiscal 2003 and the one-time write-off of Beyond The Wall goodwill in fiscal 2002.

For the nine months ended June 30, 2003, selling, general, administrative and corporate expenses, were $6.2 million as compared to $20.0 million for the nine months ended June 30, 2002. The decrease of $13.8 million was due primarily to corporate overhead cost savings, resulting from the sale of the media business, occupancy and payroll related expense savings due to the reduction of the number of retail stores in operation in fiscal 2003 and the one-time write-off of Beyond The Wall goodwill in fiscal 2002.

For the three months ended June 30, 2003 and 2002, depreciation and amortization expense was $63,000 and $68,000, respectively.

For the nine months ended June 30, 2003 and 2002, depreciation and amortization expense was $359,000 and $471,000, respectively.

For the three months ended June 30, 2003, interest income was $1,000 as compared to $9,000 for the three months ended June 30, 2002. The decrease of $8,000 was due to lower cash balances and declining interest rates.

For the nine months ended June 30, 2003, interest income was $35,000 as compared to $265,000 for the nine months ended June 30, 2002. The decrease of $230,000 was due to lower cash balances and declining interest rates.

For the three months ended June 30, 2002, interest expense was $794,000.

For the nine months ended June 30, 2003, interest expense was $907,000 as compared to $2.3 million for the nine months ended June 30, 2002. The decrease of $1.4 million was attributable to a lower average debt balance in fiscal 2003 versus fiscal 2002, as a result of the debt settlement reached between the Company and its note holders in January 2003.

For the three months ended June 30, 2003, gain from discontinued operations was $24,000 as compared to a loss of $2.2 million for the three months ended June 30, 2002. The loss from discontinued operations represents the net loss from the Media operations.

For the nine months ended June 30, 2003, gain from discontinued operations was $153,000 as compared to a loss of $3.9 million for the nine months ended June 30, 2002. The loss from discontinued operations in fiscal 2003 and 2002 represents the net loss from the Media operations.

For the three months ended June 30, 2002, gain on disposal of discontinued operations was $865,000.

For the nine months ended June 30, 2002, gain on disposal of discontinued operations was $877,000.

LIQUIDITY AND CAPITAL RESOURCES

To date, the Company has financed its operations primarily through the sale of equity securities and debt. As of June 30, 2003, the Company had approximately $549,000 in cash and equivalents. The Company has never been profitable and expects to continue to incur operating losses in the future under its current business model. The Company s historical sales have never been sufficient to cover its expenses and it has been necessary to rely upon financing from the sale of equity securities and debt to sustain operations. There can be no assurance that the Company will obtain such additional capital or that such additional financing will be sufficient for the Company s continued existence. There can be no assurances that the Company will be able to generate sufficient revenues from current operations to meet the Company s obligations. These conditions raise substantial doubt about the Company s ability to continue as a going concern.

For the nine months ended June 30, 2003, the Company used approximately $3.6 million of cash in operating activities. For the nine months ended June 30, 2002, the Company used $11.9 million in operating activities.

For the nine months ended June 30, 2003, the Company generated $56,000 in investing activities. For the nine months ended June 30, 2002, the Company generated $1.7 million in investing activities primarily relating to the sale of investments in marketable debt securities, offset by $498,000 for capital expenditures.

Net cash used in financing activities was $5.0 million for the nine months ended June 30, 2003 and $1.7 million for the nine months ended June 30, 2002. The Company s principal commitments consist of obligations outstanding under operating leases totaling approximately $868,000. The operating lease commitments declined from $5.4 million as of June 30, 2002, owing primarily to the settlement to terminate the lease obligation for approximately $2.1 million in future rent on the New York City office.

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

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

The Company has incurred recurring operating losses since its inception. As of June 30, 2003 the Company had an accumulated deficit of approximately $342,000,000 and expects to have insufficient capital to fund all of its obligations. In January 2003 the Company completed a debt restructuring transaction with the holders of $18 million of its subordinated notes (described below). In addition, the Company s retail sales have been declining. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty. The Company is also exploring strategic alternatives with respect to its business, which could include seeking to dispose of some or all of its remaining assets. The Company may also consider a wide range of other business opportunities, some of which may be unrelated to the Company s current business.

The Company s new management intends to continue efforts to settle the Company s outstanding obligations and reduce operating costs. The Company believes that its current cash resources, combined with revenues from continuing operations and borrowings from related parties (as described below), will be adequate to fund its operations during the remainder of fiscal 2003. However, to the extent the Company s estimates are inaccurate and/or the Company is unable to successfuly settle outstanding obligations and reduce operating costs, the Company may not have sufficient cash resources to maintain operations. In such event, the Company may be required to consider a formal or informal restructuring or reorganization.

During August 2003, the Company's subsidiary borrowed $100,000 each from its Chairman and from a related party/shareholder to fund its operations. The notes are due December 31, 2003 and are secured by the real estate owned by the subsidiary. As consideration for the loan, the company issued to each lender warrants to purchase 400,000 shares of common stock, exercisable through August 31, 2008 at $0.11 per share, which was the fair market value on the date of the loan. The Company may borrow additional amounts from such lenders in the future on terms to be determined.

The Company s new management is exploring various strategic alternatives, including the sale of the Company s remaining business operations and the acquisition of one or more new business opportunities. However, there can be no assurances that such efforts will be successful. The Company may finance any acquisitions through a combination of debt and/or equity securities.

In December 2002 the Company was delisted from NASDAQ because it did not comply with the minimum $2,000,000 net tangible asset requirement or the alternative minimum $2,500,000 stockholders equity requirement necessary for continued listing on NASDAQ s SmallCap Market.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have any market risk with respect to such factors as commodity prices, equity prices, and other market changes that affect market risk sensitive investments.

The Company does not have any foreign currency risk, as its revenues and expenses, as well as its debt obligations, are denominated and settled in United States dollars.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act of 1934 is accumulated and communicated to the Company s management, including its principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including its principal executive and financial officers, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of the end of the fiscal quarter. Based upon and as of the date of that evaluation, the Company s principal executive and financial officers concluded that the Company s disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls

There were no changes in the Company s internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company s most recent evaluation.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to certain legal proceedings commenced against it by former employees of the Company s subsidiaries. These actions include a litigation commenced in the District Court of Travis County, Texas by a former employee of the Company s CommonPlaces, LLC (CP) subsidiary claiming that, based on a prior agreement, he is entitled to receive, without cost, an aggregate of 215,083 shares of YouthStream common stock. The Company reached a settlement with the former employee in January 2003. As part of the settlement agreement, the Company made a $90,000 cash payment and issued a non-interest bearing promissory note for $250,000 due in January 2004 in the event that the Company should file for reorganization under Chapter 11 of the federal bankruptcy laws within one year and, as a result, the former employee would be required to return the $90,000 payment. The Company has not recorded the issuance of the promissory note, given that it has been deemed improbable that all of the conditions required under the settlement agreement would be fulfilled which would cause the promissory note to take effect. The Company is also involved in an arbitration filed in New York by the Company s former President and Chief Executive Officer seeking damages for alleged breach of his employment agreement, among other things. The Company is currently defending these actions and has asserted counterclaims against the plaintiffs in two of these actions.

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

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

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

(b) Reports on Form 8-K

The Company filed the following Current Reports on Form 8-K during or related to the three months ended June 30, 2003:

Effective June 9, 2003, the Company restructured the aggregate $4,000,000 principal balance of notes payable issued in conjunction with the January 2003 restructuring.

Effective June 27, 2003, the Company terminated Ernst & Young LLP as its independent accountant and approved the retention of Weinberg & Co, P.A. as its new independent accountant

Effective June 27, 2003, the Company changed its fiscal year end from June 30 to September 30.

Effective July 26, 2003, the Company retained Weinberg & Co., P.A. as its new independent accountant.

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.

August 18, 2003

YOUTHSTREAM MEDIA NETWORKS, INC.

BY:

/s/ Jonathan V. Diamond
Jonathan V. Diamond
Chairman & Chief Executive Officer

BY:

/s/ Robert N. Weingarten
Robert N. Weingarten
Chief Financial Officer

INDEX TO EXHIBITS

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Jonathan Diamond
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Robert Weingarten
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