

NETWORK CN INC  
Form 10-Q  
November 14, 2011

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2011

- 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: 000-30264

NETWORK CN INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or other jurisdiction of  
incorporation  
or organization)

90-0370486  
(I.R.S. Employer Identification No.)

Suite 3908, Shell Tower, Times Square  
1 Matheson Street, Causeway Bay, Hong Kong  
(Address of principal executive offices, Zip Code)

(852) 2833-2186  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

Edgar Filing: NETWORK CN INC - Form 10-Q

submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of each of the issuer's classes of common stock, as of November 14, 2011 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	96,504,467

TABLE OF CONTENTS

PART I  
FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4. Controls and Procedures</u>	32

PART II  
OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	33
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 3. Defaults Upon Senior Securities</u>	33
<u>Item 4. (Removed and Reserved)</u>	33
<u>Item 5. Other Information</u>	33
<u>Item 6. Exhibits</u>	33

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the following “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include, among others, those concerning our expected financial performance and strategic and operational plans, as well as all assumptions, expectations, predictions, intentions or beliefs about future events. You are cautioned that any such forward-looking statements are not guarantees of future performance and that a number of risks and uncertainties could cause actual results of the Company to differ materially from those anticipated, expressed or implied in the forward-looking statements. The words “believe”, “expect”, “anticipate”, “project”, “targets”, “optimistic”, “i”, “aim”, “will” or similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Risks and uncertainties that could cause actual results to differ materially from those anticipated include risks related to our potential inability to raise additional capital; changes in domestic and foreign laws, regulations and taxes; uncertainties related to China’s legal system and economic, political and social events in China; Securities and Exchange Commission regulations which affect trading in the securities of “penny stocks”; changes in economic conditions, including a general economic downturn or a downturn in the securities markets; and any of the factors and risks mentioned in the “Risk Factors” sections of our Annual Report on Form 10-K for fiscal year ended December 31, 2010 and subsequent SEC filings. The Company assumes no obligation and does not intend to update any forward-looking statements, except as required by law.

USE OF TERMS

Except as otherwise indicated by the context, references in this report to:

- “BVI” are references to the British Virgin Islands;
- “China” and “PRC” are to the People’s Republic of China; the “Company”, “NCN”, “we”, “us”, or “our”, are references to NETWORK CN Inc., a Delaware corporation and its direct and indirect subsidiaries: NCN Group Limited, or NCN Group, a BVI limited company; NCN Media Services Limited, a BVI limited company; NCN Group Management Limited, or NCN Group Management, a Hong Kong limited company; Crown Winner International Limited, or Crown Winner, a Hong Kong limited company; Crown Eagle Investment Limited, a Hong Kong limited company; Cityhorizon Limited, or Cityhorizon Hong Kong, a Hong Kong limited company, and its subsidiary, Huizhong Lianhe Media Technology Co., Ltd., or Lianhe, a PRC limited company; Linkrich Enterprise Advertising and Investment Limited, or Linkrich Enterprise, a Hong Kong limited company, and its subsidiary, Yi Gao Shanghai Advertising Limited, or Yi Gao, a PRC limited company; NCN Huamin Management Consultancy (Beijing) Company Limited, or NCN Huamin, a PRC limited company; and the Company’s variable interest entity, Beijing Huizhong Bona Media Advertising Co., Ltd., or Bona, a PRC limited company;
- “Quo Advertising ” are references to Shanghai Quo Advertising Co. Ltd, a PRC limited company;
- “RMB” are to the Renminbi, the legal currency of China;
- the “Securities Act” are to the Securities Act of 1933, as amended; and the “Exchange Act” are to the Securities Exchange Act of 1934, as amended; and
  - “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States.



Table of Contents

PART I  
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NETWORK CN INC.  
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 and as of December 31, 2010 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8

Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS	Note	As of September 30, 2011	As of December 31, 2010
<b>Current Assets</b>			
Cash		\$ 135,285	\$ 170,621
Accounts receivable, net	5	103,686	398,994
Prepayments for advertising operating rights, net	6	141,507	209,186
Investment in available-for-sale securities	7	-	123,077
Prepaid expenses and other current assets, net	8	163,841	385,422
Deferred charges, net		52,054	81,214
<b>Total Current Assets</b>		<b>596,373</b>	<b>1,368,514</b>
Equipment, Net		425,530	574,407
Deferred Charges, Net		-	31,692
<b>TOTAL ASSETS</b>		<b>\$1,021,903</b>	<b>\$1,974,613</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>Current Liabilities</b>			
Accounts payable, accrued expenses and other payables		\$1,058,698	\$1,194,838
1% convertible promissory notes due 2012, net	9	4,679,559	-
<b>Total Current Liabilities</b>		<b>5,738,257</b>	<b>1,194,838</b>
1% Convertible Promissory Notes Due 2012, Net	9	-	4,304,311
<b>TOTAL LIABILITIES</b>		<b>5,738,257</b>	<b>5,499,149</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>10</b>		
<b>STOCKHOLDERS' DEFICIT</b>			
Preferred stock, \$0.001 par value, 5,000,000 shares authorized None issued and outstanding			
Common stock, \$0.001 par value, 400,000,000 shares authorized Issued and outstanding: 84,504,467 as of September 30, 2011 and December 31, 2010*		84,504	84,504
Additional paid-in capital		119,782,390	119,751,647
Deferred stock-based compensation		-	(307,500 )
Accumulated deficit		(126,314,227)	(124,616,504)
Accumulated other comprehensive income		1,730,979	1,563,317
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>11</b>	<b>(4,716,354 )</b>	<b>(3,524,536 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		<b>\$1,021,903</b>	<b>\$1,974,613</b>

The accompanying notes are an integral part of the condensed consolidated financial statements.

\*As restated to give retroactive effect to the 1 for 5 shares reverse stock split which occurred on September 16, 2011.



Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

	Note	Three Months Ended September 30, 2011	September 30, 2010	Nine Months Ended September 30, 2011	September 30, 2010
<b>REVENUES</b>					
Advertising services		\$458,770	\$733,440	\$1,178,544	\$1,835,883
<b>COST OF REVENUES</b>					
Cost of advertising services		(256,067 )	(380,259 )	(824,533 )	(1,310,275 )
<b>GROSS PROFIT</b>		<b>202,703</b>	<b>353,181</b>	<b>354,011</b>	<b>525,608</b>
<b>OPERATING EXPENSES</b>					
Selling and marketing		(126,434 )	(102,165 )	(370,359 )	(287,103 )
General and administrative		(403,669 )	(508,285 )	(1,070,910)	(2,264,206)
Total Operating Expenses		(530,103 )	(610,450 )	(1,441,269)	(2,551,309)
<b>LOSS FROM OPERATIONS</b>		<b>(327,400 )</b>	<b>(257,269 )</b>	<b>(1,087,258)</b>	<b>(2,025,701)</b>
<b>OTHER (EXPENSES) INCOME, NET</b>					
Interest income		85	351	174	1,284
Other (expenses) income, net		68,148	(13,098 )	(137,141 )	56,866
Total Other (Expenses) Income, Net		68,233	(12,747 )	(136,967 )	58,150
<b>INTEREST AND OTHER DEBT -RELATED EXPENSES</b>					
Amortization of deferred charges and debt discount	9	(149,220 )	(133,870 )	(436,101 )	(391,390 )
Interest expense	9	(12,603 )	(12,603 )	(37,397 )	(37,577 )
Total Interest and Other Debt-Related Expenses		(161,823 )	(146,473 )	(473,498 )	(428,967 )
<b>NET LOSS BEFORE INCOME TAXES</b>		<b>(420,990 )</b>	<b>(416,489 )</b>	<b>(1,697,723)</b>	<b>(2,396,518)</b>
Income taxes		-	-	-	-
<b>NET LOSS</b>		<b>\$(420,990 )</b>	<b>\$(416,489 )</b>	<b>\$(1,697,723)</b>	<b>\$(2,396,518)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Change in unrealized gain (loss) on available-for-sale securities, net of taxes		-	48,442	-	(69,707 )
Foreign currency translation gain		4,132	7,293	14,103	29,569
Total other comprehensive income (loss)		4,132	55,735	14,103	(40,138 )

COMPREHENSIVE LOSS

\$(416,858 ) \$(360,754 ) \$(1,683,620) \$(2,436,656)

5

---

Table of Contents

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
NET LOSS PER COMMON SHARE – BASIC AND DILUTED*	13	\$(0.005 )	\$(0.005 )	\$(0.020 )	\$(0.028 )
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED*	13	84,504,467	84,504,467	84,504,467	84,510,621

The accompanying notes are an integral part of the condensed consolidated financial statements.

\* As restated to give retroactive effect to the 1 for 5 shares reverse stock split which occurred on September 16, 2011.

Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(UNAUDITED)

	Nine Months Ended	
	September 30, 2011	September 30, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(1,697,723)	\$(2,396,518)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment	182,080	204,120
Deferred charges and debt discount	436,101	391,390
Stock-based compensation for service	338,243	514,022
Loss on disposal of equipment	12,598	579,341
Net gain on deconsolidation of variable interest entities and disposal of subsidiaries	-	(5,692 )
Gain from write-off of long-aged payables	(3,254 )	(424,347 )
Loss (gain) from sales of available-for-sale securities	228,285	(17,965 )
Changes in operating assets and liabilities, net of effects from deconsolidation of variable interest entities and disposal of subsidiaries:		
Accounts receivable, net	295,308	(184,111 )
Prepayments for advertising operating rights, net	72,317	195,308
Prepaid expenses and other current assets, net	221,581	72,207
Accounts payable, accrued expenses and other payables	(229,041 )	(176,551 )
Net cash used in operating activities	(143,505 )	(1,248,796)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(25,402 )	(42,466 )
Proceeds from sales of equipment	-	55,001
Purchases of available-for-sale securities	-	(908,441 )
Proceeds from sales of available-for-sale securities, net	48,351	591,956
Net cash provided by (used in) investing activities	22,949	(303,950 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from shareholder's loans	100,000	-
Proceeds from directors' loans	96,154	-
Repayment of shareholder's loans	(100,000 )	-
Net cash provided by financing activities	96,154	-
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(10,934 )	43,211
NET DECREASE IN CASH	(35,336 )	(1,509,535)
CASH, BEGINNING OF PERIOD	170,621	1,969,549
CASH, END OF PERIOD	\$135,285	\$460,014

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes paid	-	-
Interest paid	\$24,932	\$50,180

The accompanying notes are an integral part of the condensed consolidated financial statements.

7

---

Table of Contents

NETWORK CN INC.  
NOTES TO CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Network CN Inc., its subsidiaries and variable interest entity (collectively “NCN” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of our financial position and results of operations.

The condensed consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 were not audited. It is management’s opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair presentation of financial statements. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, previously filed with the Securities and Exchange Commission on March 18, 2011.

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

Network CN Inc. was originally incorporated on September 10, 1993 in Delaware with headquarters in the Hong Kong Special Administrative Region of the People’s Republic of China (“PRC” or “China”). Since August 2006, Network CN Inc., its subsidiaries and variable interest entity for which it is the primary beneficiary (collectively “NCN” or the “Company” “we”, “our” or “us”) has been principally engaged in the provision of out-of-home advertising in China through the operation of a network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major cities.

Details of the Company’s principal subsidiaries and variable interest entity as of September 30, 2011 are described in Note 4 – Subsidiaries and Variable Interest Entity.

Reverse Stock Split

On July 5, 2011, the Board of Directors of the Company unanimously adopted resolution approving an amendment to the Certificate of Incorporation to effect a 1-for-5 reverse stock split of all outstanding shares of common stock, which the Company effected on September 16, 2011 (the “Reverse Split”) and a reduction of its authorized shares of common stock from 2,000,000,000 to 400,000,000 shares.

Shareholders received one new share of common stock in replacement of every five shares held on July 5, 2011, the record date for the Reverse Split. The Reverse Split did not change the stockholder’s ownership percentage of the common stock, except for minimal changes resulting from the treatment of fractional shares. The Company did not issue any fractional shares as a result of the Reverse Split. The number of shares issued to each stockholder was rounded up to the nearest whole number if, as a result of the Reverse Split, the number of shares owned by any

stockholder would not be a whole number.

The Reverse Split proportionately reduced all issued and outstanding shares of the Company's common stock, as well as common stock underlying stock options, warrants and other common stock based equity grants outstanding and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of the Company's convertible notes were also proportionately reduced and the respective conversion prices were proportionately increased.

Table of Contents

All references to shares in the accompanying financial statements and notes thereto including but not limited to the number of shares and per share amounts (except par value), unless otherwise noted, have been adjusted to reflect the Reverse Split retroactively. Previously awarded options and warrants to purchase shares of the Company's common stock have also been retroactively adjusted to reflect the Reverse Split.

Going Concern

The Company has experienced continuous recurring net losses in recent years. The net losses of the Company for the nine months ended September 30, 2011 and 2010 were approximately \$1.7 million and approximately \$2.4 million, respectively. As of September 30, 2011, the Company recorded a stockholders' deficit of approximately \$4.7 million and net current liabilities of approximately \$5.1 million. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's plans regarding those concerns are addressed in the following paragraph. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In response to current financial conditions, the Company has undergone a drastic cost-cutting exercise, including reduction of the Company's workforce, office rentals and other general and administrative expenses. Certain commercially non-viable concession right contracts were terminated and management has successfully negotiated with the authorizing party of current concession to reduce its advertising operating right fees. The Company has also continued to strengthen its sales force in order to increase its sales volume. In addition, the Company recently identified three media projects in China for which the Company is making a bid for consideration but the Company has not yet committed to any of these projects. If the Company is successful in its bid, the Company expects that these projects will improve the Company's future financial performance. Accordingly, in October 2011, the Company engaged three independent consultants to provide consulting services in connection with the Company's bid for the media projects.

The existing cash and cash equivalents together with highly liquid current assets are insufficient to fund the Company's operations for the next twelve months. The Company will need to rely upon some combination of cash generated from the Company's operations, the proceeds from the potential exercise of the outstanding option held by Keywin Holdings Limited ("Keywin") to purchase \$2 million in shares of the Company's common stock, or proceeds from the issuance of the Company's equity and debt securities as well as the exercise of the conversion option by the Company's note holders to convert the notes to the Company's common stock, in order to maintain the Company's operations. Based on the Company's best estimates, the Company believes that there are sufficient financial resources to meet the cash requirements for coming twelve months and the unaudited condensed consolidated financial statements have been prepared on a going concern basis. However, there can be no assurance the Company will be able to continue as a going concern.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation and Preparation

The unaudited condensed consolidated financial statements of the Company have been prepared in conformity with GAAP.

These unaudited condensed consolidated financial statements were prepared on a going concern basis. The Company has determined that the going concern basis of preparation is appropriate based on its estimates and judgments of future performance of the Company, future events and projected cash flows. At each balance sheet date, the Company evaluates its estimates and judgments as part of its going concern assessment. Based on its assessment, the Company believes there are sufficient financial and cash resources to finance the Company as a going concern in the next twelve



months. Accordingly, management has prepared the unaudited condensed consolidated financial statements on a going concern basis.

Table of Contents

(B) Principles of Consolidation

The unaudited condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and its variable interest entity. A variable interest entity is an entity in which the Company, through contractual arrangements, bears the risks of, and enjoys the rewards normally associated with ownership of the entity, and therefore the Company is the primary beneficiary of such entity, which is required to be consolidated for financial reporting purpose. All significant intercompany transactions and balances have been eliminated upon consolidation.

(C) Use of Estimates

In preparing unaudited condensed consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known and are disclosed to the extent they are material to the consolidated financial statements taken as a whole.

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the cash flow statements, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of September 30, 2011 and December 31, 2010, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

Allowance for doubtful debts is made against receivables to the extent they are considered to be doubtful. Receivables in the unaudited condensed consolidated balance sheet are stated net of such allowance. The Company records its allowance for doubtful debts based upon its assessment of various factors. The Company considers historical experience, the age of the receivable balances, the credit quality of its customers, current economic conditions, and other factors that may affect customers' ability to pay to determine the level of allowance required.

(F) Prepayments for Advertising Operating Rights, Net

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses, if any. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are, in general, charged to the unaudited condensed consolidated statements of operations on a straight-line basis over the operating period. All the costs expected to be amortized after twelve months of the balance sheet date are classified as non-current assets.

An impairment loss is recognized when the carrying amount of the prepayments for advertising operating rights exceeds the sum of the undiscounted cash flows expected to be generated from the advertising operating rights' use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(G) Investment in available-for-sale securities

The Company's marketable equity securities are classified as available-for-sale and are reported at fair value, with unrealized gains and losses, net of tax, recorded in accumulated other comprehensive income. Realized gains or losses

and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are reported in other (expense) income, net. The Company evaluates the investments periodically for possible other-than-temporary impairment. When assessing other-than-temporary impairment of equity securities, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, the Company's intent to hold the investment for a period of time which may be sufficient for an anticipated recovery in market value, and whether its cash flow needs may require the Company to sell the investment. If appropriate, the Company records impairment charges equal to the amount that the carrying value of an equity security exceeds the estimated fair value of such security as of the evaluation date. In computing realized gains and losses on available-for-sale securities, the Company determines cost based on amounts paid, including direct costs such as commissions to acquire the security, using the specific identification method.

Table of Contents

The determination of current or noncurrent status for individual available-for-sale securities is made on the basis of whether or not the securities are considered working capital available for current operations under Accounting Standards Codification, or ASC, 210-10-45. We determined that investment in available-for-sale securities have not been made for the purposes of control, affiliation, or other continuing business advantage. As of September 30, 2011, the Company had no investment in available-for-sale securities. As of December 31, 2010, investment in available-for-sale securities is classified as current assets on the unaudited condensed consolidated financial statements.

## (H) Equipment, Net

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided on a straight-line basis, less estimated residual values over the assets' estimated useful lives. The estimated useful lives are as follows:

Media display equipment	5 - 7 years
Office equipment	3 - 5 years
Furniture and fixtures	3 - 5 years
Motor vehicles	5 years
Leasehold improvements	Over the unexpired lease terms

Construction in progress is carried at cost less impairment losses, if any. It relates to construction of media display equipment. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use.

When equipment is retired or otherwise disposed of, the related cost, accumulated depreciation and provision for impairment loss, if any, are removed from the respective accounts, and any gain or loss is reflected in the unaudited condensed consolidated statements of operations. Repairs and maintenance costs on equipment are expensed as incurred.

## (I) Impairment of Long-Lived Assets

Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

## (J) Deferred Charges, Net

Deferred charges are fees and expenses directly related to the issuance of convertible promissory notes, including placement agents' fees. Deferred charges are capitalized and amortized over the life of the convertible promissory notes using the effective interest method. Amortization of deferred charges is included in amortization of deferred charges and debt discount on the unaudited condensed consolidated statements of operations while the unamortized

balance is included in deferred charges on the unaudited condensed consolidated balance sheets. All the costs expected to be amortized after twelve months of the condensed consolidated balance sheet date are classified as non-current assets.

Table of Contents

(K) Convertible Promissory Notes

On April 2, 2009, the Company issued new 1% unsecured senior convertible promissory notes to the previous 3% convertible promissory notes holders who agreed to cancel these 3% convertible promissory notes in the principal amount of \$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the new 1% unsecured senior convertible promissory notes in the principal amount of \$5,000,000. The 1% convertible promissory notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time by the holder into shares of the Company's common stock at a fixed conversion price of \$0.1163 per share, subject to customary anti-dilution adjustments. Pursuant to ASC Topic 470-50 and ASC Topic 470-50-40, the Company determined that the original convertible notes and new convertible notes were with substantially different terms and hence the exchange was recorded as an extinguishment of original notes and issuance of new notes.

The Company determined the new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815-40-25. Its embedded conversion option was qualified for equity classification pursuant to ASC Topic 815-40, and ASC Topic 815-10-15-74. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

(L) Revenue Recognition

The Company recognizes revenue in the period when advertisements are either aired or published.

(M) Stock-based Compensation

The Company adopted ASC Topic 718, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted after the date of adoption and unvested awards that were outstanding as of the date of adoption. ASC Topic 718 requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized as expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value, as required by ASC Topic 718. In accordance with ASC Topic 505-50, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached ("performance commitment date") or the date at which performance is complete ("performance completion date"). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

(N) Income Taxes

The Company accounts for income taxes under ASC Topic 740. Under ASC Topic 740, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement

carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under ASC Topic 740, the expense or benefit related to adjusting deferred tax assets and liabilities as a result of a change in tax rates is recognized in income or loss in the period that includes the enactment date.

## Table of Contents

### (O) Comprehensive Income (Loss)

The Company follows ASC Topic 220 for the reporting and display of its comprehensive income (loss) and related components in the financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in the unaudited condensed consolidated statements of operations and comprehensive loss.

### (P) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed in accordance with ASC Topic 260 by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

The diluted net loss per common share is the same as the basic net loss per share for the three and nine months ended September 30, 2011 and 2010, as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

### (Q) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the unaudited condensed consolidated statements of operations on a straight-line basis over the lease period.

### (R) Foreign Currency Translation

The assets and liabilities of the Company's subsidiaries and variable interest entity denominated in currencies other than U.S. dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For unaudited condensed consolidated statements of operations' items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders' equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the unaudited condensed consolidated statements of operations.

### (S) Fair Value of Financial Instruments

ASC Topic 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC Topic 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC Topic 820 establishes three levels of inputs that may be used to measure fair value:



Level 1 - Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

## Table of Contents

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The carrying value of the Company's financial instruments, which consist of cash, accounts receivable, prepayments for advertising operating rights, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, approximates fair value due to the short-term maturities.

### (T) Concentration of Credit Risk

The Company places its cash with various financial institutions. The Company believes that no significant credit risk exists as these cash investments are made with high-credit-quality financial institutions.

All the revenue of the Company and a significant portion of the Company's assets are generated and located in China. The Company's business activities and accounts receivable are from advertising services. Deposits are usually collected from customers in advance and the Company performs ongoing credit evaluation of its customers. The Company believes that no significant credit risk exists as credit loss.

### (U) Segmental Reporting

ASC Topic 280 establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company's operating segments are organized internally primarily by the type of services rendered. Accordingly, it is management's view that the services rendered by the Company are of one operating segment: Media Network.

### (V) Recent Accounting Pronouncements

In April 2011, the Financial Accounting Standard Board (the "FASB") issued Accounting Standard Update, or ASU, No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends guidance for evaluating whether the restructuring of a receivable by a creditor is a troubled debt restructuring ("TDR"). This update responds to concerns that creditors are inconsistently applying existing guidance for identifying TDRs. This update is effective for a public entity for interim and annual periods beginning on or after June 15, 2011. Retrospective application is required for restructurings occurring on or after the beginning of the fiscal year of adoption for purposes of identifying and disclosing TDRs. However, an entity should apply prospectively changes in the method used to calculate impairment on receivables. At the same time it adopts ASU No. 2011-02, a public entity will be required to disclose the activity-based information about TDRs that was previously deferred by ASU No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 2010-20. Early adoption is permitted. The adoption of ASU No. 2011-02 did not have a material impact on our financial statements.

In April 2011, FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This update amends FASB Accounting Standards Codification, or ASC, Topic 860, specifically the criteria required to determine whether a repurchase agreement and similar agreements should be accounted for as sales of financial assets or secured borrowings with commitments. This update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Management is currently evaluating the potential impact of ASU No. 2011-03 on our financial statements.

In May 2011, FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs. This update clarifies the board's intent of current guidance, modifies and changes certain guidance and principles, and adds additional disclosure requirements concerning the three levels of fair value measurements. Specific amendments are applied to FASB ASC 820-10-35, Subsequent Measurement and FASB ASC 820-10-50, Disclosures. The amendments in this update are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. Management is currently evaluating the potential impact of ASU No. 2011-04 on our financial statements.

Table of Contents

In May 2011, FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. This update amends the FASB ASC Topic 220 to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This update should be applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. Management is currently evaluating the potential impact of ASU No. 2011-05 on our financial statements.

In September 2011, FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This update is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. This update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. Management is currently evaluating the potential impact of ASU No. 2011-08 on our financial statements.

**(W) Reclassifications**

Certain amounts reported for prior period have been reclassified to conform to the current period's presentation.

**NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITY**

Details of the Company's principal subsidiaries and variable interest entity as of September 30, 2011 were as follows:

Name	Place of Incorporation	Ownership/Control interest attributable to the Company	Principal activities
NCN Group Limited	BVI	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative and management services
Crown Eagle Investment Limited	Hong Kong	100%	Dormant
Crown Winner International Limited	Hong Kong	100%	Dormant
Beijing Huizhong Bona Media Advertising Co., Ltd.*	PRC	100%	Provision of advertising services

Edgar Filing: NETWORK CN INC - Form 10-Q

Yi Gao Shanghai Advertising Limited	PRC	100%	Provision of advertising services
Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Provision of high-tech services
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Dormant

\* Variable interest entity which the Company exerted 100% control through a set of commercial arrangements.

Table of Contents

## NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of September 30, 2011 and December 31, 2010 were as follows:

	As of September 30, 2011	As of December 31, 2010
Accounts receivable	\$ 116,833	\$ 411,592
Less: allowance for doubtful debts	(13,147 )	(12,598 )
<b>Total</b>	<b>\$ 103,686</b>	<b>\$ 398,994</b>

The Company recorded no allowance for doubtful debts for accounts receivables for the three and nine months ended September 30, 2011 and 2010.

## NOTE 6. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of September 30, 2011 and December 31, 2010 were as follows:

	As of September 30, 2011	As of December 31, 2010
Gross carrying amount	\$ 687,256	\$ 209,186
Less: accumulated amortization	(545,749 )	-
<b>Total</b>	<b>\$ 141,507</b>	<b>\$ 209,186</b>

Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended September 30, 2011 and 2010 were \$180,136 and \$286,538, respectively, while for the nine months ended September 30, 2011 and 2010 amounted to \$533,040 and \$864,697, respectively. The amortization expense of prepayments for advertising operating rights was included as cost of advertising services in the unaudited condensed consolidated statements of operations.

As the Company recorded a continuous net loss, the Company performed an impairment review of its prepayments for advertising operating rights. The Company compared the carrying amount of the prepayments for advertising operating rights to the sum of the undiscounted cash flows expected to be generated. The Company determined their fair values using a discounted cash flow analysis if the carrying values exceeded undiscounted cash flows. Accordingly, the Company recorded no impairment loss for the three and nine months ended September 30, 2011 and 2010.

## NOTE 7. INVESTMENT IN AVAILABLE-FOR-SALE SECURITIES

Investment in available-for-sale securities as of September 30, 2011 and December 31, 2010 were as follows:

	As of September 30, 2011	As of December 31, 2010
Listed equity securities in Hong Kong		
Gross adjusted cost	\$ -	\$ 276,636
Less: Temporary decline in value	-	(153,559 )
Other-than-temporary decline in value	-	-

Estimated fair value	\$ -	\$ 123,077
----------------------	------	------------

Table of Contents

As of September 30, 2011, the Company did not have any investment in available-for-sale securities on hand. As of December 31, 2010, the estimated fair value of the securities was \$123,077, a total of \$153,559 less than their adjusted costs. For the three months ended September 30, 2011 and 2010, the Company recorded a loss from sales of available-for-sale securities amounted to \$22,996 and \$13,098 respectively while for the nine months ended September 30, 2011 and 2010, the Company recorded a loss from sales of available-for-sale securities amounted to \$228,285 and a net gain from sales of available-for-sale securities amounted to \$17,965 respectively. Gain or loss from sales of available-for-sale securities was included as other (expenses) income, net in the unaudited condensed consolidated statements of operations.

The fair value of such securities was based on quoted market prices. These financial instruments consist of listed equity securities in Hong Kong, which are carried at fair value and were classified in Level 1 of the fair value hierarchy.

## NOTE 8. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of September 30, 2011 and December 31, 2010 were as follows:

	As of September 30, 2011	As of December 31, 2010
Payments from customers withheld by a third party	\$ 1,517,183	\$ 1,453,843
Other receivables	-	250,351
Prepaid expenses	161,644	132,945
Rental deposits	4,278	4,120
Sub-total	1,683,105	1,841,259
Less: allowance for doubtful debts	(1,519,264 )	(1,455,837 )
Total	\$ 163,841	\$ 385,422

The Company recorded no allowance for doubtful debts for prepaid expenses and other current assets for the three and nine months ended September 30, 2011 and 2010.

## NOTE 9. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

## (A) 3% Convertible Promissory Notes and Warrants

On April 2, 2009, the Company entered into a new financing arrangement with the holders of the previous 3% Convertible Promissory Notes and Warrants (“the 3% Convertible Notes Investors”) and Keywin.

Pursuant to a note exchange and option agreement, dated April 2, 2009 (the “Note Exchange and Option Agreement”), between the Company and Keywin, Keywin exchanged the 3% Convertible Promissory Notes in the principal amount of \$45,000,000, and all accrued and unpaid interest thereon, for 61,407,093 shares of the Company’s common stock and an option to purchase an aggregate of 24,562,837 shares of the Company’s common stock, for an aggregate purchase price of \$2,000,000, originally exercisable for a three-month period commencing on April 2, 2009 (the “Keywin Option”). Pursuant to several subsequent amendments, the exercise period of such option was eventually extended to a thirty-three-month period ending on January 1, 2012 and the Company has the right to unilaterally terminate the exercise period upon 30 days’ written notice. As of September 30, 2011, such option to purchase the Company’s common stock has not been exercised.

Pursuant to a note exchange agreement, dated April 2, 2009, among the Company and the 3% Convertible Notes Investors, the parties agreed to cancel the 3% Convertible Promissory Notes in the principal amount of



\$5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company's issuance of new 1% Unsecured Senior Convertible Promissory Notes due 2012 in the principal amount of \$5,000,000 (the "1% Convertible Promissory Notes"). The 1% Convertible Promissory Notes bear interest at 1% per annum, payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time by the holder into shares of the Company's common stock at an initial conversion price of \$0.1163 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the holders will have the right to redeem the 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest. The parties also agreed to terminate the security agreement and release all security interests arising out of the 3% Note and Warrant Purchase Agreement and the 3% Convertible Promissory Notes.

Table of Contents

Convertible promissory notes, net as of September 30, 2011 and December 31, 2010 were as follows:

	As of September 30, 2011	As of December 31, 2010
Gross carrying value	\$ 5,000,000	\$ 5,000,000
Less: Allocated intrinsic value of beneficial conversion feature	(1,447,745 )	(1,447,745 )
Add: Accumulated amortization of debt discount	1,127,304	752,056
	4,679,559	4,304,311
Less: Current portion	(4,679,559 )	-
Non-current portion	\$ -	\$ 4,304,311

The amortization of deferred charges and debt discount for the three and nine months ended September 30, 2011 and 2010 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Conversion Features	\$ 128,910	\$ 114,096	\$ 375,248	\$ 332,130
Deferred Charges	20,310	19,774	60,853	59,260
Total	\$ 149,220	\$ 133,870	\$ 436,101	\$ 391,390

The embedded beneficial conversion feature are recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The intrinsic value of beneficial conversion feature is calculated according to ASC Topic 470-20. The 1% Convertible Promissory Notes are considered to have a beneficial conversion feature as their effective conversion price was less than the Company's market price of common stock at commitment date. The value of beneficial conversion feature of 1% Convertible Promissory Notes amounted to \$1,447,745, is recorded as a reduction in the carrying value of the convertible promissory notes against additional paid-in capital. As the 1% Convertible Promissory Notes have stated redemption dates, the respective debt discount is amortized over the term of the notes from the respective date of issuance using the effective interest method.

## Interest Expense

The following table details the interest expenses:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
1% convertible promissory notes	\$ 12,603	\$ 12,603	\$ 37,397	\$ 37,398
Others	-	-	-	179
Total	\$ 12,603	\$ 12,603	\$ 37,397	\$ 37,577

## NOTE 10. COMMITMENTS AND CONTINGENCIES

## (A) Commitments

## 1. Rental Lease Commitment

Edgar Filing: NETWORK CN INC - Form 10-Q

The Company's existing rental leases do not contain significant restrictive provisions. The following is a schedule by year of future minimum lease obligations under non-cancelable rental operating leases as of September 30, 2011:

Three months ending December 31, 2011	\$23,240
Fiscal years ending December 31,	
2011	23,240
2012	92,959
2013 and thereafter	-
Total	\$116,199

Table of Contents

## 2. Annual Advertising Operating Rights Fee Commitment

The Company, through its PRC operating companies, has acquired advertising rights from third parties to operate different types of advertising panels for certain periods.

The following table sets forth the estimated future annual commitment of the Company with respect to the advertising operating rights of panels that the Company held as of September 30, 2011:

Three months ending December 31, 2011	\$222,324
Fiscal years ending December 31,	
2011	222,324
2012	727,664
2013	545,748
2014 and thereafter	-
Total	\$1,495,736

## 3. Capital commitments

As of September 30, 2011, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels of approximately \$19,000.

## (B) Contingencies

The Company accounts for loss contingencies in accordance with ASC Topic 450 and other related guidelines. Set forth below is a description of certain loss contingencies as of September 30, 2011 and management's opinion as to the likelihood of loss in respect of loss contingency.

On March 20, 2008, our wholly-owned subsidiary, NCN Huamin, entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd., or Chengtian, pursuant to which a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008 due to the fact that Chengtian had breached several provisions of the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of RMB3,475,482 (equivalent to approximately US\$505,000 at the then-prevailing exchange rate) for unpaid rental-related expenses, plus accrued interest, as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian, seeking an aggregate of RMB1,069,094 (equivalent to approximately US\$155,000 at the then-prevailing exchange rate) from Chengtian for overpayment of rental expenses and compensation for Chengtian's breach of contract. In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of RMB1,930,243 (equivalent to approximately US\$280,000 at the then-prevailing exchange rate).

In October, 2009, NCN Huamin appealed to Beijing Second Intermediate People's Court against the arbitration decision. On January 6, 2010, Beijing Second Intermediate People's Court made a final judgment to rescind the original judgment made by the Beijing Arbitration Commission.

Table of Contents

In June, 2010, NCN Huamin received a notice from Beijing Chaoyang People's Court dated May 24, 2010 that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin again, seeking an aggregate of RMB3,537,880 (equivalent to approximately US\$520,000 at the then-prevailing exchange rate) for unpaid rental-related expenses, plus fines and penalties for delayed payment as well as compensation for unilateral termination of the rental contract. On December 1, 2010, the Beijing Chaoyang People's Court made a judgment that Chengtian is liable to refund the rental deposit back to NCN Huamin of RMB1,455,197 (equivalent to approximately US\$219,000 at the then-prevailing exchange rate) and NCN Huamin is liable to pay Chengtian for the unpaid rent and rental-related expenses of RMB641,651 (equivalent to approximately US\$97,000 at the then-prevailing exchange rate), as a result, Chengtian is liable to refund a net balance of RMB813,546 (equivalent to approximately US\$122,000 at the then-prevailing exchange rate) back to NCN Huamin.

On December 12, 2010, Chengtian appealed to Beijing Second Intermediate People's Court against the Chaoyang People's Court's decision. On May 18, 2011, the Beijing Second Intermediate People's Court made a judgment to affirm the original judgment. As a result, Chengtian is liable to refund a net balance of RMB 813,546 (equivalent to approximately US\$125,000 at the then-prevailing exchange rate) to NCN Huamin.

Based on the outcome of this lawsuit, the Company reversed all the accrued rental-related expenses associated with this lawsuit amounting to RMB1,405,868 (equivalent to approximately \$216,000 at the then-prevailing exchange rate) in June 2011. In July, 2011, Chengtian refunded a net balance of RMB 813,546 (equivalent to approximately US\$126,000 at the then-prevailing exchange rate) to NCN Huamin.

Other than as described above, we are not aware of any material, active or pending legal proceedings against the Company or its subsidiaries or variable interest entity, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no material proceedings to which any of our directors, officers or affiliates of the Company, any owner of record or beneficiary of more than 5% of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or any of its subsidiaries and variable interest entity or has a material interest adverse to the Company or any of its subsidiaries and variable interest entity.

## NOTE 11. STOCKHOLDERS' DEFICIT

## Stock, Options and Warrants Issued for Services

1. In August 2006, the Company issued a warrant to purchase up to 20,000 shares of restricted common stock to a consultant at an exercise price \$3.50 per share. One-fourth of the shares underlying the warrant became exercisable every 45 days beginning from the date of issuance. The warrant remains exercisable until August 25, 2016. The fair market value of the warrant was estimated on the grant date using the Black-Scholes option pricing model as required by ASC Topic 718 with the following assumptions and estimates: expected dividend 0%, volatility 192%, a risk-free rate of 4.5% and an expected life of one (1) year. The value of the warrant recognized for the three and nine months ended September 30, 2011 and 2010 were \$nil. As of September 30, 2011, none of the warrants were exercised.

2. In July 2009, the Board of Directors granted an aggregate of 360,000 shares of common stock to the then independent directors of the Company for their services to the Company covering the period from July 2, 2009 to July 1, 2010. Each independent director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Peter Mak (who resigned as a director of the Company on December 31, 2009): 120,000 shares; Ronald Lee: 120,000 shares; and Gerald Godfrey: 120,000 shares. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not be vested until July 1, 2010 after which the relevant share certificate will be handed to the independent directors. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$nil of non-cash stock-based compensation included in general and

administrative expenses on the unaudited condensed consolidated statements of operations for the three months ended September 30, 2011 and 2010, respectively, while during the nine months ended September 30, 2011 and 2010 such amounts were \$nil and \$18,000, respectively.

3. In July 2009, the Board of Directors granted an aggregate of 400,000 shares of common stock to Jennifer Fu, Chief Financial Officer and one employee of the Company individually for their services to the Company covering the period from July 15, 2009 to July 14, 2011. Such shares with par value of \$0.001 were issued on July 28, 2009 but will not vest until July 14, 2010 after which the relevant share certificate will be handed to the employees. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$18,750 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operations for the three months ended September 30, 2011 and 2010, respectively, while during the nine months ended September 30, 2011 and 2010 such amounts were \$7,500 and \$33,750, respectively.

Table of Contents

4. In July 2009, NCN Group Management entered into Executive Employment Agreements with Earnest Leung, Chief Executive Officer and Godfrey Hui, Deputy Chief Executive Officer. Pursuant to the agreements, Dr. Earnest Leung and Mr. Godfrey Hui were granted 6,000,000 and 2,000,000 shares, respectively, for their services rendered during the period from July 1, 2009 to June 30, 2011. Such shares with par value of \$0.001 each were issued to the concerned executives on July 28, 2009. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$1,200,000 of deferred stock compensation amortized over requisite service period. The amortization of deferred stock compensation of \$nil and \$150,000 was recorded as non-cash stock-based compensation and included in general and administrative expenses on the unaudited condensed consolidated statements of operations for the three months ended September 30, 2011 and 2010, respectively, while during the nine months ended September 30, 2011 and 2010 such amounts were \$300,000 and \$450,000, respectively.

5. In August 2010, the Board of Directors granted an aggregate of 360,000 shares of common stock to the independent directors of the Company for their services to the Company covering the period from July 2, 2010 to July 1, 2011. Each independent director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Ronald Lee, 120,000 shares; Gerald Godfrey, 120,000 shares; and Serge Choukroun, 120,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$12,272 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statement of operation for the three months ended September 30, 2011 and 2010, respectively, while during the nine months ended September 30, 2011 and 2010 such amounts were \$27,818 and \$12,272, respectively.

6. In July 2011, the Board of Director granted an aggregate of 360,000 shares of common stock to the independent directors of the Company for their services rendered during the year from July 1, 2011 to June 30, 2012. Each independent director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Ronald Lee, 120,000 shares; Gerald Godfrey, 120,000 shares; Serge Choukroun, 120,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$2,925 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statement of operation for the three months ended September 30, 2011 and 2010, respectively, while during the nine months ended September 30, 2011 and 2010 such amounts were \$2,925 and \$nil, respectively.

NOTE 12. RELATED PARTY TRANSACTIONS

Except as set forth below, during the nine months ended September 30, 2011 and 2010, the Company did not enter into any material transactions or series of transactions that would be considered material in which any officer, director or beneficial owner of 5% or more of any class of the Company's capital stock, or any immediate family member of any of the preceding persons, had a direct or indirect material interest.

On January 1, 2010, the Company and Keywin, of which the Company's Chief Executive Officer and director is the director and his spouse is the sole shareholder, entered into the third Amendment, pursuant to which the Company agreed to further extend the exercise period for the Keywin Option under the Note Exchange and Option Agreement between the Company and Keywin, to purchase an aggregate of 24,562,837 shares of our common stock for an aggregate purchase price of \$2,000,000, to an eighteen-month period ending on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice. On June 1, 2011, the exercise period for the Keywin Option was further extended to a thirty-three-month period ending on January 1, 2012.

During the nine months ended September 30, 2011 and 2010, the Company recorded a fee of \$87,357 and \$79,615, respectively for sharing an office with its facilities, of which the related company is the tenant. As of September 30, 2011 and December 31, 2010, the Company recorded an amount of \$60,000 and \$26,538 payable to the related company, respectively. Such payables were included in accounts payable, accrued expenses and other payables on the

unaudited condensed consolidated balance sheets. The amount is unsecured, bears no interest and repayable on demand.



Table of Contents

In June 2011, the Company received a loan of \$100,000 from its shareholder, Keywin. The amount is unsecured, bears no interest and repayable on demand. Such loan was fully settled by the Company during the three months ended September 30, 2011.

In September 2011, the Company received a loan of \$96,154 from its directors. As of September 30, 2011, the Company recorded an amount of \$96,154 payable to directors. Such payable was included in accounts payable, accrued expenses and other payables on the unaudited condensed consolidated balance sheets. The amount is unsecured, bears no interest and repayable on demand.

## NOTE 13. NET LOSS PER COMMON SHARE

Net loss per common share information for the three and nine months ended September 30, 2011 and 2010 was as follows:

	Three Months Ended		Nine Months Ended	
	September	September	September 30,	September
	30,	30,	September 30,	30,
	2011	2010	2011	2010
Numerator:				
Net loss attributable to NCN common stockholders	\$(420,990 )	\$(416,489 )	\$(1,697,723 )	\$(2,396,518 )
Denominator:				
Weighted average number of shares outstanding, basic	84,504,467	84,504,467	84,504,467	84,510,621
Effect of dilutive securities	-	-	-	-
Options and warrants	-	-	-	-
Weighted average number of shares outstanding, diluted	84,504,467	84,504,467	84,504,467	84,510,621
Net loss per common share – basic and diluted	\$(0.005 )	\$(0.005 )	\$(0.020 )	\$(0.028 )

The diluted net loss per common share is the same as the basic net loss per common share for the three and nine months ended September 30, 2011 and 2010, respectively, as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of September 30, 2011 and 2010 were summarized as follows:

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
Potential common equivalent shares:				
Conversion feature associated with convertible promissory notes to common stock	-	42,992,261	42,992,261	42,992,261
Common stock to be granted	20,000	20,000	20,000	20,000

to consultants for services  
(including non-vested shares)\*

Stock options granted to

Keywin	-	14,652,927	10,448,078	14,652,927
Total	20,000	57,665,188	53,460,339	57,665,188

Remarks: \* As of September 30, 2011, the number of potential common equivalent shares associated with warrants issued for services was nil, which was related to a warrant to purchase 20,000 shares of common stock issued by the Company to a consultant in 2006 for service rendered at an exercise price of \$3.50 which will expire in August 2016.

Table of Contents

NOTE 14. BUSINESS SEGMENTS

The Company operates in one single business segment: Media Network, providing out-of home advertising services.

NOTE 15. SUBSEQUENT EVENTS

On October 13, 2011, the Board of Directors authorized the Company's engagement of three independent consultants to provide consulting services in connection with the Company's bid to win three PRC media projects which were still under negotiation as of the date of this Report. In October, 2011, the Company issued an aggregate of 12,000,000 shares of common stock under the Company's 2007 Amended and Restated Equity Incentive Plan as consideration for the consulting services pursuant to separate consulting services agreements entered into in October 2011.

Table of Contents

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

Cautionary Statements

The following management's discussion and analysis of financial condition and results of operations is based upon and should be read in conjunction with the Company's unaudited condensed consolidated financial statements and the notes thereto included in "Part I – Financial Information, Item 1. Financial Statements". All amounts are expressed in U.S. dollars.

Overview

Our mission is to become a leader in providing out-of-home advertising in China, primarily serving the needs of corporate customers. We seek to acquire rights to install and operate roadside advertising panels and mega-size advertising panels in major cities in China. In most cases, we would be responsible for installing advertising panels (although in some cases advertising panels might have already been installed) and we will be responsible for operating and maintaining the panels. Once the advertising panels are put into operation, we sell advertising airtime to our customers directly. Since late 2006, we have been operating an advertising network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major Chinese cities. Light Emitting Diode, or LED, technology has evolved to become a new and popular form of advertising in China, capable of delivering crisp, super-bright images both indoors and outdoors.

Our total advertising revenues were \$1,178,544 and \$1,835,883 for the nine months ended September 30, 2011 and 2010, respectively. Our net loss was \$1,697,723 and \$2,396,518 for the nine months ended September 30, 2011 and 2010, respectively. Although the global economy has experienced a steady recovery since mid-2009, our results of operations were still negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2011, including the following:

- the rising costs to acquire advertising rights due to competition among bidders;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- many customers continued to be cost-conscious in their advertising budget especially on our new digital form of media although there have been signs of recovery in China since late 2009.

To address these unfavorable market conditions we undertook drastic cost-cutting measures beginning in the second half of 2008 including reductions in our workforce, office rentals, selling and marketing related expenses and other general and administrative expenses. We also re-assessed the commercial viability of each of our concession rights contracts and determined that many of our concession rights are no longer commercially viable due to high annual fees; these commercially non-viable concession right contracts were terminated. Management has also successfully negotiated some reductions in advertising operating rights fees under existing contracts. Currently, we only have one concession right contract, pursuant to which we operate 52 roadside advertising panels along Nanjing Road in Shanghai, China. We have also restructured our sales team to strengthen our ability to generate revenues. The outcome of all these measures has been reflected in our financial results.

We also completed a debt restructuring in April 2009 which has directly lessened our cash constraints. For details, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009. In the same year, the

Company restructured its board composition and appointed Dr. Earnest Leung, as our Chief Executive Officer, in a bid to expand the Company and improve its financial performance.

In order to increase our operational efficiency and effectiveness, in early 2010, we began to restructure our organization by consolidating our PRC operations into one directly owned PRC entity, Yi Gao, in which we held a 70% majority equity interest at the time, with the remaining 30% minority equity interest controlled through a trust arrangement with Quo Advertising. On January 20, 2011, the State Administration of Industry and Commerce approved Yi Gao to change from a sino-foreign equity advertising joint venture to our wholly owned foreign enterprise and issued Yi Gao an updated business license identifying Yi Gao is a wholly owned foreign enterprise of our Hong Kong subsidiary, Linkrich Enterprise and including operating an advertising business within its business scope. In accordance with our trust declaration agreement, Quo Advertising transferred its 30% minority equity interest on Yi Gao to our subsidiary, Linkrich Enterprise at no consideration. As a result of this transfer, we now hold 100% of the equity interest in Yi Gao through direct ownership and we no longer rely on the trust arrangement with Quo Advertising to control the 30% minority equity interest.

## Table of Contents

### Recent Development

#### Reverse Split

On September 16, 2011, we filed a Certificate of Amendment to our Certificate of Incorporation with the Secretary of State of Delaware to effect a 1-for-5 reverse stock split of our outstanding common stock (the "Reverse Split") and a reduction of its authorized shares of common stock from 2,000,000,000 to 400,000,000 shares. Our common stock commenced trading on a post-split basis on September 22, 2011.

Shareholders received one new share of common stock in replacement of every five shares held on July 5, 2011, the record date for the Reverse Split. The Reverse Split did not change the aggregate value of any stockholder's shares of common stock or any stockholder's ownership percentage of the common stock, except for minimal changes resulting from the treatment of fractional shares. We did not issue any fractional shares as a result of the Reverse Split. The number of shares issued to each stockholder was rounded up to the nearest whole number if, as a result of the Reverse Split, the number of shares owned by any stockholder would not be a whole number.

The Reverse Split proportionately reduced all issued and outstanding shares of our common stock, as well as common stock underlying stock options, warrants and other common stock based equity grants outstanding and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of our convertible notes were also proportionately reduced and the respective conversion prices were proportionately increased.

All references to shares in this quarter report on Form 10-Q including but not limited to the number of shares and per share amounts (except par value), unless otherwise noted, have been adjusted to reflect the Reverse Split retroactively. Previously awarded options and warrants to purchase shares of our common stock have also been retroactively adjusted to reflect the Reverse Split.

#### Identification of Potential Projects

We recently identified three media projects in the People's Republic of China for which we are making a bid for consideration but we have not yet committed to any of these projects. If the Company is successful in its bid, we expect that these projects will improve our futures financial performance and turn the Company into a new chapter.

On October 13, 2011, to increase the Company's competitive power, the Board of Directors resolved the Company to engage three independent consultants to provide consulting services for each media project. The consulting services shall include, but not be limited to, design of the structure, terms, and mode of operation of the project, acting as project coordinator and representing the Company in negotiations in connection with the project. Considering the Company's current tight cash position and current low market share price which was \$0.005 per share at the date of Board resolution, the Board of Directors resolved to issue 4,000,000 shares of common stock under the Company's 2007 Amended and Restated Equity Incentive Plan which has been registered on Form S-8 with the United States Securities and Exchange Commission to each of them in lieu of cash as a consideration for their services. Such 4,000,000 shares of common stock shall be issued to each consultant upon the execution of his/her consulting services agreement.

On October 18, 2011, the Company entered into a consulting services agreement with Mr. Wong Wing Yeuk. On October 21, 2011, the Company entered into consulting services agreements with Ms Chan Oi Yin and Mr. Wong Yuk Chor. Accordingly, an aggregate of 12,000,000 shares of common stock under the Company's 2007 Amended and Restated Equity Incentive Plan which represented 12.4% of the Company's current shareholdings were issued to all of them in October 2011. Although there has a reduction in the proportionate ownership of the Company's existing

shareholders, the Company believed that it is in the best interest of the Company and the shareholders to issue shares as the only consideration to each of the consultants at this moment.

Table of Contents

For more information relating to our business, please refer to Part I, “Item 1 - Business” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Results of Operations

Comparison of Three Months Ended September 30, 2011 and September 30, 2010

**Revenues** – Our revenues consist primarily of income from out-of-home advertising panels. We recognize revenue in the period when advertisements are either aired or published. Revenues from advertising services for the three months ended September 30, 2011 were \$458,770, as compared to \$733,440 for the corresponding prior year period, a decrease of 37%. The decrease was mainly attributed to a decrease in advertising sales orders received for our current Nanjing Road Project and limited revenues generated from our advertising agency business in the 2011 period. Revenues from our advertising agency business for the three months ended September 30, 2011 were \$nil, as compared to \$108,364 for the three months ended September 30, 2010. The decrease was the result of increased competition in securing advertising agency business in the 2011 period.

**Cost of Revenues** – Cost of revenues primarily consists of fees to obtain rights to operate advertising panels, advertising agency service fees, media display equipment depreciation expenses and other miscellaneous expenses. Cost of revenues for the three months ended September 30, 2011 were \$256,067, a decrease of 33% as compared to \$380,259 for the three months ended September 30, 2010. The significant decrease was mainly attributable to the decrease in the amortization of advertising operating rights fee by 37% to \$180,136 for the three months ended September 30, 2011, as compared to \$286,538 for the corresponding prior year period as a result of the re-negotiation of certain concession advertising operating rights fees to lower prices and the decrease in sales orders received by our advertising agency business. The cost of our advertising agency business for the three months ended September 30, 2011 was \$nil, a decrease of 100%, as compared to \$91,391, for the corresponding prior year period due to decrease in the revenues generated from advertising agency business.

**Gross Profit** – Our gross profit for the three months ended September 30, 2011 was \$202,703, as compared to gross profit of \$353,181 for the corresponding prior year period. The decrease in gross profit was primarily due to a significant decrease in our revenues generated from our current Nanjing Road Project.

**Selling and Marketing Expenses** – Selling and marketing expenses primarily consists of advertising and other marketing related expenses, compensation and related expenses for personnel engaged in sales and sales support functions. Selling and marketing expenses for the three months ended September 30, 2011 increased by 24% to \$126,434, as compared to \$102,165 for the corresponding prior period. The increase was mainly due to an increase in our promotional and marketing activities.

**General and Administrative Expenses** – General and administrative expenses primarily consists of compensation related expenses (including salaries paid to executive and employees, stock-based compensation expense for stock granted to directors, executive officers and employees for services rendered calculated in accordance with Accounting Standards Codification, or ASC, Topic 718, employee bonuses and other staff welfare and benefits, rental expenses, depreciation expenses, fees for professional services, travel expenses and miscellaneous office expenses). General and administrative expenses for the three months ended September 30, 2011 decreased by 21% to \$403,669, as compared to \$508,285 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to the decrease in stock-based compensation expenses for service amounting to \$178,097 as a result of the completion of requisite services period in 2011 period for certain previously granted stock, as well as the factors including reduction of the Company’s other general and administrative expense, offset by a one-time gain on write-off of long aged payables amounted to \$224,347 during the three months ended September 30, 2010.



Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended September 30, 2011 increased to \$161,823 or by 10%, as compared to \$146,473 for the corresponding prior year period. The increase was mainly due to the increase in amortization of deferred charges and debt discount. Such increase was as a result of using the effective interest method for amortization.

Other (Expenses) Income, Net – Other income, net for the three months ended September 30, 2011 was \$68,233, as compared to other expense, net of \$12,747 for the corresponding prior year period. The increase in other income, net was mainly attributed to the receipt of refund from Chengtian litigation net of respective legal fees amounting to \$88,013 offset by the loss from sales of available-for-sale securities amounting to \$22,996 in the 2011 period. Other expenses, net for the prior year period was mainly attributed to loss from sales of available-for-sale securities amounting to \$13,098.

Table of Contents

**Income Taxes** – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the three months ended September 30, 2011 and 2010 as the Company and all of its subsidiaries and variable interest entity operated at a taxable loss during the respective periods.

**Net Loss** – The Company incurred a net loss of \$420,990 for the three months ended September 30, 2011, an increase of 1%, as compared to a net loss of \$416,489 for the corresponding prior year period. The increase in net loss was driven by decrease in gross profit and increase in selling and marketing expenses offset by the decrease in general and administrative expenses and increase in other income, net, all as more particularly described above.

**Comparison of Nine Months Ended September 30, 2011 and September 30, 2010**

**Revenues** – Revenues from advertising services for the nine months ended September 30, 2011 were \$1,178,544, as compared to \$1,835,883 for the corresponding prior year period, a decrease of 36%. The decrease was mainly attributed to (1) a decrease in advertising sales orders received for our current Nanjing Road Project; (2) limited revenues was generated from our advertising agency business in the 2011 period and (3) a loss of further sales orders from those advertising projects that were terminated in 2010. Revenues from our advertising agency business for the nine months ended September 30, 2011 were \$27,265, as compared to \$360,479 for the nine months ended September 30, 2010. The 92% decrease was the result of increased competition in securing advertising agency business in the 2011 period.

**Cost of revenues** – Cost of revenues for the nine months ended September 30, 2011 were \$824,533, a decrease of 37% as compared to \$1,310,275 for the nine months ended September 30, 2010. The significant decrease was mainly attributable to the decrease in the amortization of advertising operating rights fee by 42% to \$533,040 for the nine months ended September 30, 2011, as compared to \$917,276 for the corresponding prior year period as a result of (1) the termination of commercially non-viable concession right contracts during the early 2010; (2) the renegotiation of certain concession advertising operating rights fees to lower prices and (3) the decrease in sales orders received for advertising agency business. The cost of our advertising agency business for the nine months ended September 30, 2011 was \$12,765 a decrease of 96%, as compared to \$304,686 for the corresponding prior year period due to a decrease in the revenues generated from advertising agency business.

**Gross Profit** – Our gross profit for the nine months ended September 30, 2011 was \$354,011, as compared to gross profit of \$525,608 for the corresponding prior year period. The decrease in gross profit was primarily due to the decrease in our revenues.

**Selling and Marketing Expenses** – Selling and marketing expenses for the nine months ended September 30, 2011 increased by 29% to \$370,359, as compared to \$287,103 for the corresponding prior period. The increase was mainly due to an increase in promotional and marketing activities.

**General and Administrative Expenses** – General and administrative expenses for the nine months ended September 30, 2011 decreased by 53% to \$1,070,910, as compared to \$2,264,206 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to the following factors: (1) a one-time loss on disposal of equipment amounting to \$562,173 recorded during the nine months ended September 30, 2010; (2) a reversal of over-provision of rental related expenses in connection with the Chengtian litigation amounting to \$215,639 recorded during the nine months ended September 30, 2011; (3) a reversal of over-provision of tax allowance for shares granted to executives amounting to \$297,415 recorded during the nine months ended September 30, 2011 as a result of the decline in our stock price when the requisite service period is completed; (4) a decrease in stock-based compensation amounting to \$175,779 as a result of the completion of requisite services period in 2011 period for certain previously granted stock and (5) continuous reduction of the Company's workforce, rental, and other general and administrative expenses as well as close down of our Beijing office in 2010, offset by a gain on write-off

of long-aged payables amounting to \$424,347 during the nine months ended September 30, 2010.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the nine months ended September 30, 2011 increased to \$473,498, or by 10%, as compared to \$428,967 for the corresponding prior year period. The increase was mainly due to the increase in amortization of deferred charges and debt discount. Such increase was as a result of using the effective interest method for amortization.

Table of Contents

Other (Expenses) Income, Net - Other expenses, net for the nine months ended September 30, 2011 was \$136,967, as compared to other income, net of \$58,150 for the corresponding prior year period. The increase in other expenses, net was mainly attributed to the loss from sales of available-for-sale securities amounting to \$228,285 were recorded in 2011, offset by the receipt of refund related to the Chengtian litigation, net of respective legal fees amounting to \$88,013 was recorded during the nine months ended September 30, 2011. Other income, net for prior year period was mainly attributed to gain from sales of available-for-sale securities amounting to \$17,965 and net rental income generated from subleasing our office to third parties.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the nine months ended September 30, 2011 and 2010 as the Company and all of its subsidiaries and its variable interest entities operated at a taxable loss during the respective periods.

Net Loss – The Company incurred a net loss of \$1,697,723 for the nine months ended September 30, 2011, a decrease of 29%, as compared to \$2,396,518 for the corresponding prior year period. The decrease in net loss was driven by the decrease in general and administrative expenses offset by decrease in gross profit and increase in both selling and marketing expenses and other expenses, net, all as more particularly described above.

## Liquidity and Capital Resources

As of September 30, 2011, we had cash of \$135,285, as compared to \$170,621 as of December 31, 2010, a decrease of \$35,336. The decrease was mainly attributable to the cash used in operating activities, offset by the cash provided by directors' loans and the proceeds from sales of available-for-sale securities.

The following table sets forth a summary of our cash flows for the periods indicated:

	Nine Months Ended	
	September 30, 2011	September 30, 2010
Net cash used in operating activities	\$(143,505 )	\$ (1,248,796 )
Net cash provided by (used in) investing activities	22,949	(303,950 )
Net cash provided by financing activities	96,154	-
Effect of exchange rate changes on cash	(10,934 )	43,211
Net decrease in cash	(35,336 )	(1,509,535 )
Cash, beginning of period	170,621	1,969,549
Cash, end of period	\$135,285	\$ 460,014

## Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2011 was \$143,505, as compared with \$1,248,796 for the corresponding prior year period. The decrease in net cash used in operating activities was mainly attributable to better management of our working capital and the decrease in net loss as a result of our continuous cost-cutting measures.

## Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2011 was \$22,949, as compared with net cash used in investing activities of \$303,950 for the corresponding prior year period. This was mainly attributable to our reduction on net cash used in investment in equity securities during the nine months ended September 30, 2011.

Financing Activities

Net cash provided by financing activities was \$96,154 for the nine months ended September 30, 2011, as compared with \$nil for the corresponding prior year period. The increase was mainly due to a receipt of directors' loans of \$96,154 during the nine months ended September 30, 2011.

Table of Contents

## Advertising Operating Rights Fees

Advertising operating rights fees are the major cost of our advertising revenue. To maintain the advertising operating rights, we are required to pay advertising operating rights fees in accordance with payment terms set forth in contracts we entered into with various parties. These parties generally require us to prepay advertising operating rights fees for a period of time. The details of our advertising operating rights fees as of and for the three and nine months ended on September 30, 2011 and 2010 were as follows:

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2011	2010	2011	2010
Payment for prepayments for advertising operating rights	\$242,747	\$319,156	\$460,723	\$796,509
Settlement of accrued advertising operating rights	-	-	-	157,263
Total payment	\$242,747	\$319,156	\$460,723	\$953,772
Amortization of prepayments for advertising operating rights	\$180,136	\$286,538	\$533,040	\$864,697
Accrued advertising operating rights fee recognized	-	-	-	52,579
Total advertising operating rights fee recognized	\$180,136	\$286,538	\$533,040	\$917,276
			As of	As of
			September	December
			30,	31,
			2011	2010
Prepayments for advertising operating rights, net			\$141,507	\$209,186

As we currently only have the right to operate 52 advertising panels along the Nanjing Road in Shanghai, China, our future advertising operating rights fee commitments have been significantly reduced. For future advertising operating rights commitments under non-cancellable advertising operating right contracts, please refer to the table under the following sub-section – “Contractual Obligations and Commercial Commitments.”

We financed the above payments through the issuance of our equity and debt securities. As we currently only generate limited revenue from our media operation, we intend to continue to raise funds through the issuance of equity and debt securities to satisfy future payment requirements. There can be no assurance that we will be able to enter into such agreements.

In the event that advertising operating rights fees cannot be paid in accordance with the payment terms set forth in our contracts, we may not be able to continue to operate our advertising panels and our ability to generate revenue will be adversely affected. As such, failure to raise additional funds would have significant negative impact on our financial condition.

## Capital Expenditures

During the nine months ended September 30, 2011 and 2010, we acquired assets of \$25,402 and \$42,466, respectively, which were financed through the cash flow generated from our operations.

## Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of September 30, 2011:

	Total	Payments due by period			
		Due in 2011	Due in 2012- 2013	Due in 2014- 2015	Thereafter
Long-term debt obligations (a)	\$5,000,000	\$-	\$5,000,000	\$-	\$-
Operating lease obligations (b)	116,199	23,240	92,959	-	-
Annual advertising operating rights fee obligations (c)	1,495,736	222,324	1,273,412	-	-
Purchase obligations (d)	19,000	19,000	-	-	-
	\$6,630,935	\$264,564	\$6,366,371	\$-	\$-

## Table of Contents

(a) Long-term Debt Obligations. We issued an aggregate of \$5,000,000 in 1% Convertible Promissory Notes in April 2009 to our investors. Such 1% Convertible Promissory Notes mature on April 1, 2012. For details, please refer to the Note 9 of the unaudited condensed consolidated financial statements.

(b) Operating Lease Obligations. We have entered into various non-cancelable operating lease agreements for our offices and staff quarter. Such operating leases do not contain significant restrictive provisions.

(c) Annual Advertising Operating Rights Fee Obligations. The Company, through its PRC operating companies, has acquired rights from third parties to operate roadside advertising panels whose lease terms expiring in 2013.

(d) Purchase Obligations. We are obligated to make payments under non-cancellable contractual arrangements with our vendors, principally for constructing our advertising panels.

## Going Concern

Our cash flow projections indicate that our current assets and projected revenues from our existing project will not be sufficient to fund operations over the next twelve months. This raises substantial doubt about our ability to continue as a going concern. We intend to rely on Keywin's exercise of its outstanding option to purchase \$2 million in shares of our common stock or on the issuance of additional equity and debt securities as well as on our note holders' exercise of their conversion option to convert our notes to our common stock, in order to fund our operations. We are also actively exploring promissory media projects in the PRC to improve the Company's future financial performance. However, it may be difficult for us to raise funds in the current economic environment. If adequate capital is not available to us, we may need to sell assets, seek to undertake a restructuring of our obligations with our creditors, or even cease our operations. We cannot give assurance that we will be able to generate sufficient revenue or raise new funds, or that Keywin will exercise its option before their expiration and our note holders will exercise their conversion option before the note is due. In any such case, we may not be able to continue as a going concern.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial conditions and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. There have been no material changes to the critical accounting policies previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

## Recent Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring, which amends guidance for evaluating whether the restructuring of a receivable by a creditor is a troubled debt restructuring ("TDR"). This update responds to concerns that creditors are inconsistently applying existing guidance for identifying TDRs. This update is effective for a public entity for interim and annual periods beginning on or after June 15, 2011. Retrospective application is required for restructurings occurring on or



after the beginning of the fiscal year of adoption for purposes of identifying and disclosing TDRs. However, an entity should apply prospectively changes in the method used to calculate impairment on receivables. At the same time it adopts ASU No. 2011-02, a public entity will be required to disclose the activity-based information about TDRs that was previously deferred by ASU No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU No. 2010-20. Early adoption is permitted. The adoption of ASU No. 2011-02 did not have a material impact on our financial statements.

Table of Contents

In April 2011, FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This update amends FASB ASC Topic 860, specifically the criteria required to determine whether a repurchase agreement and similar agreements should be accounted for as sales of financial assets or secured borrowings with commitments. This update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. Management is currently evaluating the potential impact of ASU No. 2011-03 on our financial statements.

In May 2011, FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in GAAP and IFRSs. This update clarifies the board's intent of current guidance, modifies and changes certain guidance and principles, and adds additional disclosure requirements concerning the three levels of fair value measurements. Specific amendments are applied to FASB ASC 820-10-35, Subsequent Measurement and FASB ASC 820-10-50, Disclosures. The amendments in this update are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. Management is currently evaluating the potential impact of ASU No. 2011-04 on our financial statements.

In May 2011, FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. This update amends the FASB ASC Topic 220 to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. These amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. This update should be applied retrospectively. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. Management is currently evaluating the potential impact of ASU No. 2011-05 on our financial statements.

In September 2011, FASB issued ASU No. 2011-08, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This update is to simplify how entities, both public and nonpublic, test goodwill for impairment. This update permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. Management is currently evaluating the potential impact of ASU No. 2011-08 on our financial statements.

Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our investors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

31

---

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) that are designed to ensure that information that would be required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including to our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, our management evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2011, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, our disclosure controls and procedures were effective to satisfy the objectives for which they are intended.

Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There has been no change to our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II  
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these, or other matters, may arise from time to time that may harm our business.

On March 20, 2008, our wholly-owned subsidiary, NCN Huamin, entered into a rental agreement with Beijing Chengtian Zhihong TV & Film Production Co., Ltd., or Chengtian, pursuant to which a certain office premises located in Beijing was leased from Chengtian to NCN Huamin for a term of three years, commencing April 1, 2008. On December 30, 2008, NCN Huamin issued a notice to Chengtian to terminate the rental agreement effective on December 31, 2008 due to the fact that Chengtian had breached several provisions of the rental agreement and refused to take any remedial actions. On January 14, 2009, NCN Huamin received a notice from Beijing Arbitration Commission that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin seeking an aggregate of RMB3,475,482 (equivalent to approximately US\$505,000 at the then-prevailing exchange rate) for unpaid rental-related expenses, plus accrued interest, as well as compensation for unilateral termination of the rental contract. On February 25, 2009, NCN Huamin counter-claimed for breach of rental contract against Chengtian, seeking an aggregate of RMB1,069,094 (equivalent to approximately US\$155,000 at the then-prevailing exchange rate) from Chengtian for overpayment of rental expenses and compensation for Chengtian's breach of contract. In July 2009, the Beijing Arbitration Commission made a judgment that Huamin is liable to pay Chengtian of RMB1,930,243 (equivalent to approximately US\$280,000 at the then-prevailing exchange rate).

In October, 2009, NCN Huamin appealed to Beijing Second Intermediate People's Court against the arbitration decision. On January 6, 2010, Beijing Second Intermediate People's Court made a final judgment to rescind the original judgment made by the Beijing Arbitration Commission.

Table of Contents

In June, 2010, NCN Huamin received a notice from Beijing Chaoyang People's Court dated May 24, 2010 that Chengtian, as plaintiff, had initiated a lawsuit against NCN Huamin again, seeking an aggregate of RMB3,537,880 (equivalent to approximately US\$520,000 at the then-prevailing exchange rate) for unpaid rental-related expenses, plus fines and penalties for delayed payment as well as compensation for unilateral termination of the rental contract. On December 1, 2010, the Beijing Chaoyang People's Court made a judgment that Chengtian is liable to refund the rental deposit back to NCN Huamin of RMB1,455,197 (equivalent to approximately US\$219,000 at the then-prevailing exchange rate) and NCN Huamin is liable to pay Chengtian for the unpaid rent and rental-related expenses of RMB641,651 (equivalent to approximately US\$97,000 at the then-prevailing exchange rate), as a result, Chengtian is liable to refund a net balance of RMB813,546 (equivalent to approximately US\$122,000 at the then-prevailing exchange rate) back to NCN Huamin.

On December 12, 2010, Chengtian appealed to Beijing Second Intermediate People's Court against the Chaoyang People's Court's decision. On May 18, 2011, the Beijing Second Intermediate People's Court made a judgment to affirm the original judgment. Accordingly, Chengtian is liable to refund a net balance of RMB 813,546 (equivalent to approximately US\$125,000 at the then-prevailing exchange rate) to NCN Huamin.

Based on the outcome of this lawsuit, the Company reversed all the accrued rental-related expenses associated with this lawsuit amounting to RMB1,405,868 (equivalent to approximately \$216,000 at the then-prevailing exchange rate) in June 2011. In July, 2011, Chengtian refunded a net balance of RMB 813,546 (equivalent to approximately US\$126,000 at the then-prevailing exchange rate) to NCN Huamin.

Other than as described above, we are not aware of any material, active or pending legal proceedings against the Company or its subsidiaries or variable interest entity, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no material proceedings to which any of our directors, officers or affiliates of the Company, any owner of record or beneficiary of more than 5% of any class of voting securities of the Company, or any associate of any such director, officer, affiliate of the Company, or security holder is a party adverse to the Company or any of its subsidiaries and variable interest entity or has a material interest adverse to the Company or any of its subsidiaries and variable interest entity.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

We have not sold any equity securities during the quarter ended September 30, 2011, the sale of which was not previously disclosed in a current report on Form 8-K filed during that period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The following exhibits are filed as part of this report or incorporated by reference:

Exhibit

No.	Description
31.1	Certifications of Principal Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Principal Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certifications of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

Exhibit No.	Description
32.2	Certifications of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.



Table of Contents

SIGNATURES

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

Date: November 14, 2011

NETWORK CN INC.

By: /s/ Earnest Leung  
Earnest Leung, Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jennifer Fu  
Jennifer Fu, Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)