

NETWORK CN INC
Form 10-Q
November 14, 2013

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, 2013

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.)

Room 2120 and 2122, Leighton Centre,
77 Leighton Road, 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, 2013 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	106,419,467

TABLE OF CONTENTS

PART I
FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	3
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	31

PART II
OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	<u>Risk Factors</u>	32
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	32
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	32
<u>Item 5.</u>	<u>Other Information</u>	32
<u>Item 6.</u>	<u>Exhibits</u>	33

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, 2013 and as of December 31, 2012 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012 (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7

Table of Contents

NETWORK CN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS	Note	As of September 30, 2013	As of December 31, 2012
Current Assets			
Cash		\$ 25,359	\$ 21,008
Accounts receivable, net	5	592,926	719,041
Prepayments for advertising operating rights, net	6	-	581,990
Prepaid expenses and other current assets, net	7	339,690	161,391
Total Current Assets		957,975	1,483,430
 Equipment, Net		 92,233	 256,121
TOTAL ASSETS		\$ 1,050,208	\$ 1,739,551
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable, accrued expenses and other payables	8	\$ 4,024,702	\$ 3,518,732
Capital lease obligation	9	11,009	10,328
1% convertible promissory notes due 2014, net	10	3,485,319	-
Total Current Liabilities		7,521,030	3,529,060
Non-Current Liabilities			
1% convertible promissory notes due 2014, net	10	-	2,201,797
Capital lease obligation, net of current portion	9	32,642	40,983
Total Non-Current Liabilities		32,642	2,242,780
TOTAL LIABILITIES		7,553,672	5,771,840
COMMITMENTS AND CONTINGENCIES	11		
STOCKHOLDERS' DEFICIT			
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			
Shares issued and outstanding: 105,419,467 and 103,604,467 as			
of			
September 30, 2013 and December 31, 2012 respectively			
		105,419	103,604
Additional paid-in capital		122,284,099	122,074,273
Deferred stock-based compensation		(3,000)	-
Accumulated deficit		(130,600,456)	(127,929,681)
Accumulated other comprehensive income		1,710,474	1,719,515
TOTAL STOCKHOLDERS' DEFICIT	12	(6,503,464)	(4,032,289)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		\$ 1,050,208	\$ 1,739,551

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

Table of Contents

NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(UNAUDITED)

	Note	Three Months Ended		Nine Months Ended	
		September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
REVENUES					
Advertising services		\$ 151,119	\$ 356,480	\$ 708,074	\$ 1,299,463
COST OF REVENUES					
Cost of advertising services		(216,000)	(347,241)	(833,052)	(978,563)
GROSS (LOSS) PROFIT		(64,881)	9,239	(124,978)	320,900
OPERATING EXPENSES					
Selling and marketing		(5,363)	(44,600)	(61,842)	(229,906)
General and administrative		(275,107)	(334,952)	(1,060,906)	(1,314,773)
Total Operating Expenses		(280,470)	(379,552)	(1,122,748)	(1,544,679)
LOSS FROM OPERATIONS		(345,351)	(370,313)	(1,247,726)	(1,223,779)
OTHER INCOME, NET					
Interest income		11	38	24	140
Gain on extinguishment of debt	10	-	-	-	1,877,594
Other income, net		9,617	6,273	28,922	10,740
Total Other Income, Net		9,628	6,311	28,946	1,888,474
INTEREST AND OTHER DEBT-RELATED EXPENSES					
Amortization of deferred charges and debt discount	10	(496,859)	(265,730)	(1,283,522)	(711,089)
Interest expense	8, 9&10	(65,574)	(35,027)	(168,473)	(83,418)
Total Interest and Other Debt-Related Expenses		(562,433)	(300,757)	(1,451,995)	(794,507)
NET LOSS BEFORE INCOME TAXES		(898,156)	(664,759)	(2,670,775)	(129,812)
Income taxes		-	-	-	-
NET LOSS		\$ (898,156)	\$ (664,759)	\$ (2,670,775)	\$ (129,812)
OTHER COMPREHENSIVE LOSS					
Foreign currency translation loss		(3,445)	(4,912)	(9,041)	(9,309)
Total other comprehensive loss		(3,445)	(4,912)	(9,041)	(9,309)

COMPREHENSIVE LOSS		\$	(901,601)	\$	(669,671)	\$	(2,679,816)	\$	(139,121)
NET LOSS PER COMMON SHARE – BASIC AND DILUTED	14	\$	(0.009)	\$	(0.007)	\$	(0.025)	\$	(0.001)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED	14		105,419,467		97,020,771		104,970,840		96,768,572

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

Table of Contents

NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(UNAUDITED)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,670,775)	\$ (129,812)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment	95,584	192,956
Deferred charges and debt discount	1,283,522	711,089
Gain on extinguishment of debt	-	(1,877,594)
Stock-based compensation for service	208,641	69,540
Loss on disposal of equipment	68,900	14,258
Changes in operating assets and liabilities:		
Accounts receivable, net	126,115	89,938
Prepayments for advertising operating rights, net	576,541	134,217
Prepaid expenses and other current assets, net	(178,299)	33,074
Accounts payable, accrued expenses and other payables	(69,430)	431,024
Net cash used in operating activities	(559,201)	(331,310)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(170,141)
Proceeds from sales of equipment	412	3,194
Net cash provided by (used in) investing activities	412	(166,947)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from directors' loans	-	128,205
Proceeds from short-term loans	616,194	819,487
Proceeds from capital lease financing	-	57,692
Repayment of directors' loans	(40,793)	(168,910)
Repayment of short-term loans	-	(345,128)
Repayment of capital lease obligation	(7,660)	(3,941)
Net cash provided by financing activities	567,741	487,405
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,601)	(5,028)
NET INCREASE (DECREASE) IN CASH	4,351	(15,880)
CASH, BEGINNING OF PERIOD	21,008	65,623
CASH, END OF PERIOD	\$ 25,359	\$ 49,743
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		

Edgar Filing: NETWORK CN INC - Form 10-Q

Income taxes	\$	-	\$	-
Interest paid	\$	2,865	\$	32,313

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

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” “we”, “our” or “us”) 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 unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2013 and 2012 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, 2012, previously filed with the Securities and Exchange Commission on May 10, 2013.

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, the Company 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, 2013 are described in Note 4 Subsidiaries and Variable Interest Entity.

Going Concern

The Company has experienced recurring net losses of \$2,670,775 and of \$129,812 for the nine months ended September 30, 2013 and 2012, respectively. Additionally, the Company has net cash used in operating activities of \$559,201 and \$331,310 for the nine months ended September 30, 2013 and 2012, respectively. As of September 30, 2013 and December 31, 2012, the Company has a stockholders’ deficit of \$6,503,464 and \$4,032,289, respectively. 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. The Company has also continued to strengthen its sales force in order to increase its sales volume. In addition, since the latter half of

2011, the Company has expanded our focus from LED media and has actively explored new prominent media projects in order to provide a wider range of media and advertising services and improve our financial performance.

In September 2013, the Company secured a new media advertising project in Shanghai and the project will generate positive cashflow to the Company in the coming quarter. In addition, the Company recently identified two 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. Co-operation framework agreements were signed for the two identified media projects. If the Company is successful in its bid, the Company expects that these projects will improve the Company's future financial performance. Accordingly, the Company engaged an independent consultant to provide consulting services in connection with the Company's bid for the media project. The Company expects that the new projects can generate positive cashflow to the Company.

Table of Contents

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 the 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.

(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 for which it is the primary beneficiary. A variable interest entity is an entity in which the Company, through contractual arrangements, bears the risks and enjoys the rewards normally associated with ownership of the entity. Upon making this determination, the Company is deemed to be the primary beneficiary of the entity, which is then required to be consolidated for financial reporting purposes. 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 unaudited condensed 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 statements of cash flows, 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,

2013 and December 31, 2012, the Company had no cash equivalents.

8

Table of Contents

(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. 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 right'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.

(G) Equipment, Net

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided on a straight-line basis 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 shorter of lease terms or useful life of the assets

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.

(H) 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.

(I) Convertible Promissory Notes

1) Debt Restructuring and Issuance of 1% Convertible Promissory Note

On April 2, 2009, the Company issued 1% unsecured senior convertible promissory notes to the previous 3% convertible promissory note 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 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 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 the 1% convertible notes were with substantially different terms and hence the exchange was recorded as an extinguishment of original notes and issuance of new notes.

Table of Contents

The Company determined the 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.

2) Extension of 1% Convertible Promissory Note

The 1% convertible promissory notes matured on April 1, 2012 and on the same date, the Company and the note holders agreed to the following: 1) extension of the maturity date of the 1% convertible promissory notes for a period of two years and 2) modification of the 1% convertible promissory notes to be convertible at any time into shares of the Company's common stock at a conversion price of \$0.09304 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% convertible promissory notes remain the same and are fully enforceable in accordance with their terms. Subsequently, the Company issued new 1% convertible promissory notes maturing on April 1, 2014 to the note holders. Pursuant to ASC Topic 470-50-40-10, the Company determined that the modification is substantially different and hence the modification was recorded as an extinguishment of notes and issuance of new notes. Pursuant to ASC Topic 470-20-40-3, the Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount would be allocated to the convertible security. Thus, the Company recorded a gain on extinguishment of debt.

The Company determined the modified 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 new 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

(J) Revenue Recognition

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

(K) Stock-based Compensation

The Company follows 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.

Table of Contents

(L) 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.

(M) 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.

Accumulated other comprehensive income as presented on the condensed consolidated balance sheets consisted of the accumulative foreign currency translation adjustment at period end.

(N) 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)/income per share is the same as the basic net (loss)/income per share for the three and nine months ended September 30, 2013 and 2012, 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.

(O) 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.

(P) Capital Leases

Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. Assets held under capital leases are initially recognized as assets at their fair value or, if lower, the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest elements of the finance cost is charged to the unaudited condensed consolidated statements of operations over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Table of Contents

(Q) 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.

(R) 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.

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, and convertible promissory notes approximates fair value due to the short-term maturities.

(S) 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 mainly 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.

The Company engaged in the provision of out-of-home advertising in China. As of September 30, 2013 and December 31, 2012, one customer accounted for approximately 95% and 86% of its accounts receivable balances. Due to the longstanding nature of its relationships with these customers and contractual obligations, the Company is confident that it will recover these amounts. The Company establishes an allowance for doubtful debts accounts 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.

Table of Contents

(T) 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.

(U) Recent Accounting Pronouncements

In December 2011, FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU No. 2011-11 did not have a material impact on our financial statements.

In July 2012, FASB issued ASU No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the amendments in this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management is currently evaluating the potential impact of ASU No. 2012-02 on our financial statements.

In October 2012, FASB issued ASU No. 2012-04, Technical Corrections and Improvements: The amendments in this Update cover a wide range of Topics in the Codification. These amendments are presented in two sections—Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurements (Section B). For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management is currently evaluating the potential impact of ASU No. 2012-04 on our financial statements.

In January 2013, FASB has issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This amendment clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification™ (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11. The adoption of ASU No. 2013-01 did not have a material impact on our financial statements.

In February 2013, FASB has issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The adoption of ASU No. 2013-02 did not have a material impact on our financial statements.

Table of Contents

In March 2013, FASB has issued ASU No. 2013-05, Foreign Currency Matters (Topic 830). ASU No. 2013-05 is intended to clarify the parent's accounting for the cumulative translation adjustment upon the sale or transfer of a group of assets within a consolidated foreign entity. When a parent ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent is required to release any related cumulative translation adjustment into Net income. ASU No. 2013-05 further clarifies the cumulative translation adjustment should be released into Net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU No. 2013-05 also clarifies application of this guidance to step acquisitions. ASU No. 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013, with early adoption permitted. Management is currently evaluating the potential impact of ASU No. 2013-05 on our financial statements.

In July 2013, the FASB has issued changes to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Previously, there was diversity in practice as no explicit guidance existed. These changes become effective for the Company on January 1, 2014. Management has determined that the adoption of these changes will not have a significant impact on our financial statements.

(V) Reclassifications

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

NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITY

Details of the Company's principal subsidiaries and variable interest entity as of September 30, 2013 were as follows:

Name	Place of Incorporation	Ownership/Control interest attributable to the Company	Principal activities
NCN Group Limited	British Virgin Islands ("BVI")	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
Business Boom Investment Limited	BVI	100%	Investment holding
Linkrich Enterprise Advertising and Investment Limited	Hong Kong	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative and management services
Crown Eagle Investments Limited	Hong Kong	100%	Dormant
Crown Winner International Limited	Hong Kong	100%	Dormant
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Dormant

Edgar Filing: NETWORK CN INC - Form 10-Q

Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Provision of high-tech services
Beijing Huizhong Bona Media Advertising Co., Ltd.	PRC	100%(1)	Provision of advertising services
Yi Gao Shanghai Advertising Limited (“Yi Gao”)	PRC	100%	Provision of advertising services

Remarks:

- 1) 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, 2013 and December 31, 2012 were as follows:

	As of September 30, 2013	As of December 31, 2012
Accounts receivable	\$ 606,446	\$ 732,261
Less: allowance for doubtful debts	(13,520)	(13,220)
Total	\$ 592,926	\$ 719,041

The Company recorded no allowance for doubtful debts for accounts receivables for the three and nine months ended September 30, 2013 and 2012.

NOTE 6. PREPAYMENTS FOR ADVERTISING OPERATING RIGHTS, NET

Prepayments for advertising operating rights, net as of September 30, 2013 and December 31, 2012 were as follows:

	As of September 30, 2013	As of December 31, 2012
Gross carrying amount	\$ 639,675	\$ 2,416,066
Less: accumulated amortization	(639,675)	(1,834,076)
Total	\$ -	\$ 581,990

Total amortization expense of prepayments for advertising operating rights of the Company for the three months ended September 30, 2013 and 2012 were \$160,489 and \$279,722, respectively, while for the nine months ended September 30, 2013 and 2012 were \$726,015 and \$776,236, 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 recorded no impairment loss for the three and nine months ended September 30, 2013 and 2012.

NOTE 7. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of September 30, 2013 and December 31, 2012 were as follows:

	As of September 30, 2013	As of December 31, 2012
Payments from customers withheld by a third party	\$ 1,560,234	\$ 1,524,481
Prepaid expenses	108,252	108,102
Rental deposits	39,537	55,049
Deposit paid for media project	194,031	-
Other receivables	-	333
Sub-total	1,902,054	1,687,965

Less: allowance for doubtful debts	(1,562,364)	(1,526,574)
Total	\$ 339,690	\$ 161,391

The Company recorded no allowance for doubtful debts for prepaid expenses and other current assets for the three and nine months ended September 30, 2013 and 2012.

Table of Contents

NOTE 8. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of September 30, 2013 and December 31, 2012 were as follows:

	As of September 30, 2013	As of December 31, 2012
Accrued advertising operating rights	\$ 756,252	\$ 744,365
Accrued staff benefit and related fees	985,034	804,290
Accrued professional fees	113,299	102,186
Director's loan (Note 13)	103,125	143,918
Accrued interest expenses	267,379	101,790
Other accrued expenses	384,465	385,306
Short-term loans (1)	1,357,951	741,757
Receipts in advance	41,547	479,920
Other payables	15,650	15,200
Total	\$ 4,024,702	\$ 3,518,732

1) As of September 30, 2013 and December 31, 2012, the Company recorded an aggregated amount of \$1,357,951 and \$741,757 short-term loans, respectively. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and shall be repayable in one month. However, according to the agreement, the Company shall have the option to shorten or extend the life of those short-term loans if the need arises and the Company has agreed with the lender to extend the short-term loans on due date. Up to the date of this report, those loans have not yet been repaid.

The interest expenses of the short-term loans for the three months ended September 30, 2013 and 2012 was \$52,106 and \$21,346 respectively, while for the nine months ended September 30, 2013 and 2012 amounted to \$128,192 and \$44,192, respectively.

NOTE 9. CAPITAL LEASE OBLIGATION

As of September 30, 2013, the gross amount of the motor vehicle under capital leases was \$57,692. The following is a schedule by years of future minimum lease payment under capital leases together with the present value of the net minimum lease payment as of September 30, 2013.

Fiscal years ending December 31,	
2013	\$ 3,462
2014	13,846
2015	13,846
2016	13,846
2017	4,616
Total minimum lease payments	49,616
Less: Amount representing interest	(5,965)
Present value of net minimum lease payment	43,651
Less: Current portion	(11,009)
Non-current portion	\$ 32,642

NOTE 10. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

(1) Debt Restructuring and Issuance of 1% Convertible Promissory Notes

On November 19, 2007, the Company entered into a Note and Warrant Purchase Agreement, as amended (the "Purchase Agreement") with Shanghai Quo Advertising Co. Ltd and affiliated investment funds of Och-Ziff Capital Management Group (the "Investors") pursuant to which it agreed to issue in three tranches, 3% Senior Secured Convertible Promissory Notes due June 30, 2011, in the aggregate principal amount of up to \$50,000,000 (the "3% Convertible Promissory Notes") and warrants to acquire an aggregate amount of 6,857,143 shares of the Company's Common Stock (the "Warrants"). Between November 19 - 28, 2007, the Company issued 3% Convertible Promissory Notes in the aggregate principal amount of \$15,000,000, Warrants to purchase shares of the Company's common stock at \$12.50 per share and Warrants to purchase shares of the Company's common stock at \$17.50 per share. On January 31, 2008, the Company amended and restated the previously issued 3% Convertible Promissory Notes and issued to the Investors 3% Convertible Promissory Notes in the aggregate principal amount of \$50,000,000 (the "Amended and Restated Notes"), Warrants to purchase shares of the Company's common stock at \$12.50 per share and Warrants to purchase shares of the Company's common stock at \$17.50 per share. In connection with the Amended and Restated Notes, the Company entered into a Security Agreement, dated as of January 31, 2008 (the "Security Agreement"), pursuant to which the Company granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of the Company's assets, and 66% of the equity interest in the Company.

Table of Contents

On April 2, 2009, the Company entered into a new financing arrangement with the previous holders of the Amended and Restated Notes (the “Note Holders”), 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 its Amended and Restated Note 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 (the “Keywin Option”). The Keywin Option was originally exercisable for a three-month period which commenced on April 2, 2009, but pursuant to several subsequent amendments, the exercise period has been extended to a fifty-seven-month period ending on January 1, 2014, subject to the Company’s right to unilaterally terminate the exercise period upon 30 days’ written notice. As of September 30, 2013, the Keywin Option has not been exercised.

Pursuant to a note exchange agreement, dated April 2, 2009, among the Company and the Note Holders, the parties agreed to cancel their Amended and Restated 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 the 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, are 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 Purchase Agreement and the Amended and Restated Notes.

2) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes

The 1% Convertible Promissory Notes matured on April 1, 2012 and on the same date, the Company and the Note Holders agreed to the following: (1) extension of the maturity date of the 1% Convertible Promissory Notes for a period of two years and (2) modification of the 1% Convertible Promissory Notes to be convertible at any time into shares of the Company’s common stock at a conversion price of \$0.09304 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued new 1% convertible promissory notes (the “New 1% Convertible Promissory Notes”) to the Note Holders. The New 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, mature on April 1, 2014, and are convertible at any time by the Note Holders into shares of the Company’s common stock at an initial conversion price of \$0.09304 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the Note Holders will have the right to redeem the New 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest.

Gain on extinguishment of debt

Pursuant to ASC Topic 470-20-40-3, the Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recognized a gain on extinguishment of debt of \$1,877,594 at the date of extinguishment and included in the condensed consolidated statements of operations for the nine months ended September 30, 2012.

Table of Contents

Convertible promissory notes, net as of September 30, 2013 and December 31, 2012 were as follows:

	As of September 30, 2013	As of December 31, 2012
Gross carrying value	\$ 5,000,000	\$ 5,000,000
Less: Allocated intrinsic value of beneficial conversion feature	(3,598,452)	(3,598,452)
Add: Accumulated amortization of debt discount	2,083,771	800,249
	3,485,319	2,201,797
Less: Current portion	3,485,319	-
Non-current portion	\$ -	\$ 2,201,797

The amortization of deferred charges and debt discount for the three and nine months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Conversion Features	\$ 496,859	\$ 265,730	\$ 1,283,522	\$ 679,397
Deferred Charges	-	-	-	31,692
Total	\$ 496,859	\$ 265,730	\$ 1,283,522	\$ 711,089

Interest Expense

The interest expenses of the 1% Convertible Promissory Notes for the three months ended September 30, 2013 and 2012 were \$12,603 and \$12,603, respectively, while for the nine months ended September 30, 2013 and 2012 amounted to \$37,403 and \$37,397, respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

(A) Commitments

1. Rental Lease Commitment

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, 2013:

Three months ending December 31, 2013	\$32,688
Fiscal years ending December 31,	
2013	32,688
2014	131,476
Thereafter	-
Total	\$164,164

Rental expenses for the three months ended September 30, 2013 and 2012 was \$47,737 and \$48,142, respectively, while for the nine months ended September 30, 2013 and 2012 amounted to \$14,453 and \$157,439 respectively.

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, 2013:

Three months ending December 31, 2013	\$966,015
Fiscal years ending December 31,	
2013	\$966,015
2014	1,845,233
Thereafter	2,250,757
Total	\$5,062,005

Table of Contents

3. Capital commitments

As of September 30, 2013, the Company had commitments for capital expenditures in connection with construction of roadside advertising panels and mega-size advertising panels as well as the leasehold improvement of approximately \$29,000.

(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, 2013 and management's opinion as to the likelihood of loss in respect of loss contingency.

The Company derived all its revenues mainly from its operation of the 52 roadside advertising panels along Nanjing Road in Shanghai, China (the "Shanghai Road Project") for the year ended December 31, 2012. On March 19, 2013, Yi Gao received a legal letter dated March 18, 2013 from the legal counsel of Shanghai Chuangtian Advertising Company Limited ("Chuangtian"), the authorizing party of the Shanghai Road Project. The letter alleged Yi Gao had not paid the right fees of RMB1,157,000 (equivalent to approximately US\$184,400 at the then-prevailing exchange rate) on February 15, 2013 for the period from April 1, 2013 to June 30, 2013 pursuant to the concession right contract, such that Yi Gao breached the concession right contract and Chuangtian can exercise its rights to terminate this contract on March 18, 2013. The legal letter also demanding the payment of right fees totaling RMB52,000 (equivalent to approximately US\$8,290 at the then-prevailing exchange rate) together with late payment surcharges of RMB94,900 (equivalent to approximately US\$15,100 at the then-prevailing exchange rate) and electricity charges of RMB34,345 (equivalent to approximately US\$5,470 at the then-prevailing exchange rate) before March 28, 2013.

On March 28, 2013, Yi Gao transferred the assets rights of the LED panels to Chuangtian. On April 12, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Chuangtian, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB216,900 (equivalent to approximately US\$34,500 at the then-prevailing exchange rate) for unpaid right fees, penalty and electricity charges.

The Company had not operated the respective advertising panels pursuant to the concession right contract started on April 1, 2013. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe that the outcome of this litigation may have a material impact on our cash flow.

On March 27, 2013, Yi Gao received a legal letter dated March 27, 2013 from the legal counsel of Chuangtian, customer of the Shanghai Road Project, alleged to terminate the advertising contract on March 18, 2013 and demanding the refund of advertising fee for the period from April 1, 2013 to June 30, 2013 totaling RMB202,500 (equivalent to approximately US\$32,300 at the then-prevailing exchange rate) before March 30, 2013. On April 12, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Chuangtian, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB202,500 (equivalent to approximately US\$32,300 at the then-prevailing exchange rate) for refund of advertising fee. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe that the outcome of this litigation may have a material impact on our cash flow.

On July 5, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Shanghai Shenpu advertising Co. Ltd, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB1,807,215 (equivalent to approximately US\$291,000 at the then-prevailing exchange rate) for unpaid rights fee, penalty and production cost. On August 7, 2013, Yi Gao received a court verdict from the People's Court of Huangpu District, Shanghai that Yi Gao is liable to repay the unpaid fee of RMB650,000, penalty and production cost. On August 26, 2013, Yi Gao submitted an appeal to People's Court of Huangpu District, Shanghai that the penalty

calculated is not reasonable. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe the outcome of this litigation may have a material impact on our cash flow.

Table of Contents

NOTE 12. STOCKHOLDERS' DEFICIT

(A) 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 SFAS 123R 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, 2013 and 2012 were \$nil. As of September 30, 2013, none of the warrant was exercised.

2. 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 \$nil of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended September 30, 2013 and 2012, respectively, while during the nine months ended September 30, 2013 and 2012 such amounts were \$nil and \$13,890, respectively.

3. In April 2012, the Company entered into a service agreement with a financial advisory company. Pursuant to the agreement, the financial advisory company was granted 540,541 shares for services rendered. Such shares with par value of \$0.001 were issued to the financial advisory company in May 2012. In connection with these stock grants and cancellations, the Company reversed \$100,000 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, 2012, while during the nine months ended September 30, 2012 such amount was \$nil.

4. In July 2012, 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, 2012 to June 30, 2013. 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 Charles Liu, 120,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$16,650 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended September 30, 2013 and 2012, respectively, while during the nine months ended September 30, 2013 and 2012 such amounts were \$11,100 and \$16,650, respectively. Ronald Lee resigned from his position as a director of the Company effective on February 1, 2013 and the Company reversed \$12,950 of the non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the nine months ended September 30, 2013.

5. In September 2012, the Company entered into a financial public relations agreement with a consultant. Pursuant to the agreement, the consultant was granted 700,000 shares of common stock for the service rendered. In September 2012, the Company issued 300,000 shares of par value of \$0.001 each to the Consultant. During 2013, the Company issued 100,000 shares of par value of \$0.001 to the consultant. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil and \$39,000 of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended September 30, 2013 and 2012, respectively, while during the nine months ended September 30, 2013 and 2012 such amounts were \$12,000 and \$39,000, respectively. In February 2013, the Company entered

into a supplementary agreement to financial public relations agreement with the consultant. Pursuant to the agreement, the consultant was granted 2,500,000 shares of common stock for the service rendered. The Company issued 1,500,000 shares of par value of \$0.001 to the consultant. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$nil of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended September 30, 2013, while during the nine months ended September 30, 2013 such amounts were \$150,000.

Table of Contents

6. In March 2013, the Company agreed to issue an aggregate of 135,000 shares of common stock to the independent director, Charles Liu as director's fee from November 16, 2011 to December 31, 2012.

7. In March 2013, the Company agreed to issue an aggregate of 80,000 shares of common stock to the legal counsel, for their services rendered during the period from January 1, 2013 to December 31, 2013. Such shares with par value of \$0.001 each were issued to the legal counsel on March 27, 2013. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$12,000 of deferred stock compensation amortized over requisite service period. The amortization of deferred stock compensation of \$3,000 were recorded as non-cash stock-based compensation and included in general and administrative expenses on the unaudited condensed consolidated statements of operations and comprehensive loss for the three months ended September 30, 2013, while during the nine months ended September 30, 2013 and 2012 such amounts were \$9,000 and \$nil, respectively.

8. In August 2013, the Board of Director granted an aggregate of 360,000 shares of common stock to the directors of the Company for their services rendered during the year from July 1, 2013 to June 30, 2014. Each director was granted shares of the Company's common stock subject to a vesting period of twelve months in the following amounts: Earnest Leung, 120,000 shares; Gerald Godfrey, 120,000 shares; and Charles Liu, 120,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$6,291 and \$nil of non-cash stock-based compensation included in general and administrative expenses on the unaudited condensed consolidated statements of operation for the three months ended September 30, 2013 and 2012, respectively, while during the nine months ended September 30, 2013 and 2012 such amounts were \$6,291 and \$nil, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

Except as set forth below, during the nine months ended September 30, 2013 and 2012, 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.

In April 2009, in connection with debt restructuring, Statezone Ltd. of which Dr. Earnest Leung, the Company's Chief Executive Officer and a Director (being appointed on July 15, 2009 and May 11, 2009 respectively) is the sole director, provided agency and financial advisory services to the Company. Accordingly, the Company paid an aggregate service fee of \$350,000 of which \$250,000 has been recorded as issuance costs for 1% Convertible Promissory Notes and \$100,000 has been recorded as prepaid expenses and other current assets, net since April 2009. Such \$100,000 is refundable unless Keywin Option is exercised and completed.

On January 1, 2010, the Company and Keywin, of which Dr. Earnest Leung 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 ended on October 1, 2010, and provide the Company with the right to unilaterally terminate the exercise period upon 30 days' written notice. On September 30, 2010 and June 1, 2011, the exercise period for the Keywin Option was extended to a twenty-seven-month period ended on June 30, 2011 and a thirty-three-month period ended on January 1, 2012 respectively. On December 30, 2011, the exercise period for the Keywin Option was further extended to a thirty-nine-month period ending on July 1, 2012. On June 28, 2012, the exercise period for the Keywin Option was further extended to a forty-five-month period ending on January 1, 2013. On December 28, 2012, the exercise period for the Keywin Option was further extended to a fifty-seven-month period ending on January 1, 2014.

During the nine months ended September 30, 2013 and 2012, the Company received loans of \$nil and \$128,205 from its director and repaid loans of \$40,793 and \$168,910 to its director, respectively. As of September 30, 2013 and

December 31, 2012, the Company recorded an amount of \$103,125 and \$143,918 payable to director. 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 is repayable on demand.

Table of Contents

During the nine months ended September 30, 2012, the Company purchased a motor vehicle from its director for HK\$450,000 (equivalent to \$57,692).

NOTE 14. NET LOSS PER COMMON SHARE

Net loss per common share information for the three and nine months ended September 30, 2013 and 2012 was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Numerator:				
Net loss attributable to NCN common stockholders	\$ (898,156)	\$ (664,759)	\$ (2,670,775)	\$ (129,812)
Denominator :				
Weighted average number of shares outstanding, basic	105,419,467	97,020,771	104,970,840	96,768,572
Effect of dilutive securities	-	-	-	-
Options and warrants	-	-	-	-
Weighted average number of shares outstanding, diluted	105,419,467	97,020,771	104,970,840	96,768,572
Net loss per common share – basic and diluted	\$ (0.009)	\$ (0.007)	\$ (0.025)	\$ (0.001)

The diluted net (loss) income per common share is the same as the basic net (loss) income per common share for the three and nine months ended September 30, 2013 and 2012 as all potential common shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net (loss) income per common share. The securities that could potentially dilute basic net (loss) income per common share in the future that were not included in the computation of diluted net (loss) income per common share because of anti-dilutive effect as of September 30, 2013 and 2012 were summarized as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Potential common equivalent shares:				
Stock warrants for services*	-	-	-	-
Conversion feature associated with convertible promissory notes to common stock	53,740,327	53,740,327	53,740,327	53,740,327
Common stock to be granted to consultants for services (including non-vested shares)*	20,000	20,000	20,000	20,000
Stock options granted to Keywin	11,539,581	12,129,946	10,807,349	12,517,332
Total	65,299,908	65,890,273	64,567,676	66,277,659

Remarks: * As of September 30, 2013, 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.

NOTE 15. BUSINESS SEGMENTS

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

Table of Contents

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

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, 2012 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 Investments 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.

Overview of Our Business

Our mission is to become a nationwide leader in providing out-of-home advertising in China, primarily serving the needs of branded corporate customers. We seek to acquire rights to install and operate roadside advertising panels and mega-size advertising panels in the major cities in China. In most cases, we are 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. In 2013, we have extended our business direction to not just selling air-time for media panels but started working closely with property developers in media planning for the property at the very early stage.

Table of Contents

Total advertising revenues were \$708,074 and \$1,299,463 for the nine months ended September 30, 2013 and 2012, respectively and we have net loss of \$2,670,775 and \$129,812 for the nine months ended September 30, 2013 and 2012, respectively. Our results of operations were negatively affected by a variety of factors, which led to less than expected revenues and cash inflows during the fiscal year 2013, including the following:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- 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.

To address these unfavorable market conditions, we continue to implement cost-cutting measures, including reductions in our workforce, office rentals, selling and marketing related expenses and other general and administrative expenses. We have also re-assessed the commercial viability of each of our concession rights contracts and have terminated those of our concession rights that we determined were no longer commercially viable due to high annual fees. Management has also successfully negotiated some reductions in advertising operating rights fees under remaining contracts. Since the latter half of 2011, we have expanded our focus from LED media and have actively explored new prominent media projects in order to provide a wider range of media and advertising services and improve our financial performance.

In October 2012, we secured a new media advertising project in Zhuhai, China. Pursuant to the agreement, we were granted the right to operate the 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone for a period of a 34-month ending July 31, 2015.

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, 2012.

Recent Developments

In September 2013, we secured a new media advertising project in Shanghai, China. We entered into an agreement with Shanghai Railway Culture & Advertising Development Co., Ltd ("SRMG") to operate the 91 advertising lightboxes in arrival hall of Shanghai Hongqiao Railway Station. Under the agreement, NWCN obtained the exclusive rights to operate the 91 advertising lightboxes in arrival hall of Shanghai Hongqiao Railway Station from September 10, 2013 to December 9, 2016. Shanghai Railway Culture & Advertising Development Co., Ltd is the only authorized party by Shanghai Railway Bureau to advertise in the station.

We have extended our business direction to not just selling air-time for media panels but also working closely with property developers in media planning for the property at the very early stage. By doing so, we are able to attract several property developers to grant us media right within the whole property. These will include exhibition and conference centers, shopping malls, etc. This new business model will create a closer work relationship between the property owners and the Company as the property owners welcome a more thorough and well-planned media layout in their property at an early stage. Under this approach, the property owners are more eager to work with us and even more ready to invest in the installation of media panels.

The Company will continually explore new media projects in order to provide a wider range of media and advertising services, rather than focusing primarily on LED media. The Company has identified several such potential projects which it intends to aggressively pursue in the coming year.

Table of Contents

Results of Operations

The following 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 Statement.” All amounts are expressed in U.S. dollars.

Comparison of Three Months Ended September 30, 2013 and September 30, 2012

Revenues – Our revenues consist primarily of income from out-of-home advertising panels. We recognize revenue in the period when advertisements are displayed. Revenues from advertising services for the three months ended September 30, 2013 were \$151,119, as compared to \$356,480 for the corresponding prior year period. During the three months ended September 30, 2013, the revenue was only generated from a new media advertising project in Zhuhai. During the three months ended September 30, 2012, the revenue was generated from two other media advertising projects in Shanghai.

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, 2013 was \$216,000, a decrease of 38% as compared to \$347,241 for the three months ended September 30, 2012. The decrease was mainly attributable to decrease in the amortization of advertising operating rights fee. During the three months ended September 30, 2013, there were two advertising projects in Shanghai with new advertising project was started in mid-September, while there were two advertising projects in Shanghai during the three months ended September 30, 2012.

Gross (Loss)/Profit – Our gross loss for the three months ended September 30, 2013 was \$64,881, as compared to gross profit of \$9,239 for the corresponding prior year period. The gross loss was primarily driven by the percentage of decrease in revenue is greater than the percentage of decrease in cost of revenues during the three months ended September 30, 2013.

Selling and Marketing Expenses – Selling and marketing expenses primarily consist 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, 2013 decreased by 87% to \$5,363, as compared to \$44,600 for the corresponding prior period. The decrease was mainly due to (1) a restructuring of our sales team so as to enhance our operational effectiveness and efficiency and (2) our continuous cost cutting measures.

General and Administrative Expenses – General and administrative expenses primarily consist 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, 2013 decreased by 18% to \$275,107, as compared to \$334,952 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to our continuously cost cutting measures including decrease of headcount, decrease of rent payment and offset by the reverse of consultancy fee of \$100,000 during the 2012 period.

Other income – Other income for the three months ended September 30, 2013 was \$9,628, compared to other income of \$6,331 for the corresponding prior year period. The increase in other income was mainly attributed by the consultancy service provided during the three months ended September 30, 2013.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended September 30, 2013 increased to \$562,433, or by 87%, as compared to \$300,757 for the corresponding prior year period. The increase was mainly due to the 1) increase in amortization of deferred charges and debt discount, such increase was a result of extension of convertible promissory notes in April 2012, and 2) increase in short-term loan interest.

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, 2013 and 2012, because, the Company and all of its subsidiaries and variable interest entity operated at a taxable loss during the respective periods.

Table of Contents

Net (Loss) Income – The Company incurred a net loss of \$898,156 for the three months ended September 30, 2013, a increase of 35%, as compared to a net loss of \$664,759 for the corresponding prior year period. The increase in net loss was mainly driven by increase in gross loss and increase in interest and other debt-related expenses offset by decrease in operating expenses.

Comparison of Nine Months Ended September 30, 2013 and September 30, 2012

Revenues – Revenues from advertising services for the nine months ended September 30, 2013 were \$708,074, as compared to \$1,299,463 for the corresponding prior year period, a decrease of 46%. The decrease was mainly attributed to the termination of Nanjing Road Project on March 31, 2013 and expiry of other media advertising project in Shanghai in February 2013.

Cost of Revenues – Cost of revenues for the nine months ended September 30, 2013 were \$833,052, a decrease of 15% as compared to \$978,563 for the nine months ended September 30, 2012. The decrease was mainly attributed to the decrease of depreciation of panels due to the termination of Nanjing Road Project.

Gross (Loss)/Profit – Our gross loss for the nine months ended September 30, 2013 was \$124,978, as compared to gross profit of \$320,900 for the corresponding prior year period. The increase in gross loss was primarily driven by the decrease in revenues during the nine months ended September 30, 2013.

Selling and Marketing Expenses – Selling and marketing expenses for the nine months ended September 30, 2013 decreased by 73% to \$61,842, compared to \$229,906 for the corresponding prior period. The decrease was mainly due to the restructuring of our sales team so as to enhance our operational effectiveness and efficiency and our continuous cost cutting measures.

General and Administrative Expenses – General and administrative expenses for the nine months ended September 30, 2013 decreased by 19% to \$1,060,906, compared to \$1,314,773 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to continuous cost cutting measures. The decrease was offset by an increase in consultancy fee amounting to \$169,610, compared to \$50,277 for the corresponding prior year period.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the nine months ended September 30, 2013 increased to \$1,451,995, or by 83%, compared to \$794,507 for the corresponding prior year period. Approximately 87% of the increase was mainly due to the increase in amortization of debt discount as a result of our extension of convertible promissory notes in April 2012 and the remaining 10% was attributable to the increase in interest paid for the short term loans, offset by decrease in amortization of deferred charges.

Other income – Other income for the nine months ended September 30, 2013 was \$28,946, compared to other income of \$1,888,474 for the corresponding prior year period. The decrease in other income was mainly attributed to the extension of convertible promissory notes in April 2012, from which the Company recorded a one-time gain on extinguishment of debt amounting to \$1,877,594 during the nine months ended September 30, 2012.

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, 2013 and 2012 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 \$2,670,775 for the nine months ended September 30, 2013, compared to a net loss of \$129,812 for the corresponding prior year period. The increase in net loss was primarily due to a one-time gain on extinguishment of debt amounting to \$1,877,594 recorded during the nine months ended September

30, 2012 and declining revenue from advertising services.

Liquidity and Capital Resources

As of September 30, 2013, we had cash of \$25,359, as compared to \$21,008 as of December 31, 2012, an increase of \$4,351.

Table of Contents

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

	Nine Months Ended	
	September 30, 2013	September 30, 2012
Net cash used in operating activities	\$ (559,201)	\$ (331,310)
Net cash provided by (used in) investing activities	412	(166,947)
Net cash provided by financing activities	567,741	487,405
Effect of exchange rate changes on cash	(4,601)	(5,028)
Net increase (decrease) in cash	4,351	(15,880)
Cash, beginning of period	21,008	65,623
Cash, end of period	\$ 25,359	\$ 49,743

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2013 was \$559,201 as compared to \$331,310 for the corresponding prior year period. This was mainly attributable to less fees for advertising operating rights prepaid to suppliers.

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. However, it may be difficult for us to raise funds in the current economic environment. 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 its 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.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2013 was \$412, as compared to the net cash used in investing activities \$165,420 for the corresponding prior year period. The increase was mainly attributable to leasehold improvements paid for the relocation of our Hong Kong and Shanghai offices as well as a motor vehicle purchased during the nine months ended September 30, 2012.

Financing Activities

Net cash provided by financing activities was \$567,741 for the nine months ended September 30, 2013, as compared to \$487,405 for the corresponding prior year period. The increase was mainly due to the less repayment of short term loans and directors' loan and also less directors' loan/other short-term loans for financing our operations during the nine months ended September 30, 2013.

Short-term Loans

As of September 30, 2013, the Company recorded an aggregated amount of \$1,357,951 short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and shall be repayable in one month. However, according to the agreement, the Company shall have the option to shorten or

extend the life of those short-term loans if the need arises and the Company has agreed with the lender to extend the short-term loans on due date. Up to the date of this annual report, those loans have not yet been repaid.

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 September 30, 2013 and December 31, 2012 were as follows:

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2013	2012	2013	2012
Payment for prepayments for advertising operating rights	\$ -	\$ 47,031	\$ 143,529	\$ 609,359
Amortization of prepayments for advertising operating rights	\$ 160,489	\$ 279,722	\$ 726,015	\$ 776,236
	As of	As of		
	September	December		
	30, 2013	31, 2012		
Prepayments for advertising operating rights, net	\$ -	\$ 581,990		

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, 2013 and 2012, we acquired equipment of \$nil and \$168,614 which were primarily financed by directors’ loans, short-term loans and capital lease financing, and the cash flows generated from our operations, respectively.

Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of September 30, 2013:

Payments due by period

Edgar Filing: NETWORK CN INC - Form 10-Q

	Total	Due in 2013	Due in 2014- 2015	Due in 2016- 2017	Thereafter
Debt Obligations (a)	\$5,000,000	\$ -	\$ 5,000,000	\$ -	\$-
Operating Lease Obligations (b)	\$164,164	\$ 32,688	\$ 131,476	\$ -	\$-
Advertising Operating Rights					
Fee Obligations (c)	\$5,062,005	\$ 966,015	\$ 3,220,426	\$ 875,564	\$-
Purchase Obligations (d)	\$29,000	\$ 29,000	\$ -	\$ -	\$-

28

(a) 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, 2014. For details, please refer to the Note 10 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) Advertising Operating Rights Fee Obligations. The Company, through its PRC operating company, has acquired two rights from third parties. One is to operate 276 square meter advertising area located on the first floor of the Union Building at the entrance of Zhuhai sub-zone of Zhuhai-Macau Cross Border Industrial Zone, whose lease terms expire in 2015. Another one is to operate the 91 advertising lightboxes in arrival hall of Shanghai Hongqiao Railway Station from September 10, 2013 to December 9, 2016.

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

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, 2012.

Recent Accounting Pronouncements

In December 2011, FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The amendments in this update require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU No. 2011-11 did not have a material impact on our financial statements.

In July 2012, FASB issued ASU No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the amendments in this update is to reduce the cost and complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management is currently evaluating the potential impact of ASU No. 2012-02 on our financial statements.

In October 2012, FASB issued ASU No. 2012-04, Technical Corrections and Improvements: The amendments in this Update cover a wide range of Topics in the Codification. These amendments are presented in two sections—Technical Corrections and Improvements (Section A) and Conforming Amendments Related to Fair Value Measurements (Section B). For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013. Management is currently evaluating the potential impact of ASU No. 2012-04 on our financial statements.

Table of Contents

In January 2013, FASB has issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This amendment clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification™ (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11. The adoption of ASU No. 2013-01 did not have a material impact on our financial statements.

In February 2013, FASB has issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This amendment improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The adoption of ASU No. 2013-02 did not have a material impact on our financial statements.

In March 2013, FASB has issued ASU No. 2013-05, Foreign Currency Matters (Topic 830). ASU No. 2013-05 is intended to clarify the parent's accounting for the cumulative translation adjustment upon the sale or transfer of a group of assets within a consolidated foreign entity. When a parent ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the parent is required to release any related cumulative translation adjustment into Net income. ASU No. 2013-05 further clarifies the cumulative translation adjustment should be released into Net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU No. 2013-05 also clarifies application of this guidance to step acquisitions. ASU No. 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013, with early adoption permitted. Management is currently evaluating the potential impact of ASU No. 2013-05 on our financial statements.

In July 2013, the FASB has issued changes to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. These changes require an entity to present an unrecognized tax benefit as a liability in the financial statements if (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset to settle any additional income taxes that would result from the disallowance of a tax position. Otherwise, an unrecognized tax benefit is required to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. Previously, there was diversity in practice as no explicit guidance existed. These changes become effective for the Company on January 1, 2014. Management has determined that the adoption of these changes will not have a significant impact on our financial statements.

Off Balance Sheet Arrangements

As of September 30, 2013, 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.

We do not hold any derivative instruments and do not engage in any hedging activities.

30

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 Interim 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, 2013. Based on that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that as of September 30, 2013, 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 19, 2013, Yi Gao received a legal letter dated March 18, 2013 from the legal counsel of Shanghai Chuangtian Advertising Company Limited ("Chuangtian"), the authorizing party of the Shanghai Road Project. The letter alleged Yi Gao had not paid the right fees of RMB1,157,000 (equivalent to approximately US\$184,400 at the then-prevailing exchange rate) on February 15, 2013 for the period from April 1, 2013 to June 30, 2013 pursuant to the concession right contract, such that Yi Gao breached the concession right contract and Chuangtian can exercise its rights to terminate this contract on March 18, 2013. The legal letter also demanding the payment of right fees totaling RMB52,000 (equivalent to approximately US\$8,290 at the then-prevailing exchange rate) together with late payment surcharges of RMB94,900 (equivalent to approximately US\$15,100 at the then-prevailing exchange rate) and electricity charges of RMB34,345 (equivalent to approximately US\$5,470 at the then-prevailing exchange rate) before March 28, 2013.

On March 28, 2013, Yi Gao transferred the assets rights of the LED panels to Chuangtian. On April 12, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Chuangtian, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB216,900 (equivalent to approximately US\$34,500 at the

then-prevailing exchange rate) for unpaid right fees, penalty and electricity charges.

The Company had not operated the respective advertising panels pursuant to the concession right contract started on April 1, 2013. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe that the outcome of this litigation may have a material impact on our cash flow.

Table of Contents

On March 27, 2013, Yi Gao received a legal letter dated March 27, 2013 from the legal counsel of Chuangtian, customer of the Shanghai Road Project, alleged to terminate the advertising contract on March 18, 2013 and demanding the refund of advertising fee for the period from April 1, 2013 to June 30, 2013 totaling RMB202,500 (equivalent to approximately US\$32,300 at the then-prevailing exchange rate) before March 30, 2013. On April 12, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Chuangtian, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB202,500 (equivalent to approximately US\$32,300 at the then-prevailing exchange rate) for refund of advertising fee. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe that the outcome of this litigation may have a material impact on our cash flow.

On July 5, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Shanghai Shenpu advertising Co. Ltd, as plaintiff, had initiated a contract dispute against Yi Gao seeking an aggregate of RMB1,807,215 (equivalent to approximately US\$291,000 at the then-prevailing exchange rate) for unpaid rights fee, penalty and production cost. On August 7, 2013, Yi Gao received a court verdict from the People's Court of Huangpu District, Shanghai that Yi Gao is liable to repay the unpaid fee of RMB650,000, penalty and production cost. On August 26, 2013, Yi Gao submitted an appeal to People's Court of Huangpu District, Shanghai that the penalty calculated is not reasonable. At present, the outcome of this lawsuit cannot be reasonably predicted. In light of our current liquidity position, we believe that the outcome of this litigation may have a material impact on our cash flow.

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 entities, 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 entities or has a material interest adverse to the Company or any of its subsidiaries and variable interest entities.

ITEM 1A. RISK FACTORS.

We believe there are no changes that constitute material changes from the risk factors previously disclosed in our Annual Report on Form 10-K/A, filed with the SEC on May 13, 2013.

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

There were no unregistered sales of the Company's equity securities during the quarter ended September 30, 2013, other than those previously reported in a Current Report on Form 8-K.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

There has been no default in the payment of principal, interest, sinking or purchase fund installment, or any other material default, with respect to any indebtedness of the Company.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

We have no information to include that was required to be but was not disclosed in a report on Form 8-K during the period covered by this Form 10-Q. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

Table of Contents

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.*
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.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.INS**	XBRL Instance Document

* Filed herewith

** Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto 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, as amended, or Section 18 of the Securities Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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, 2013

NETWORK CN INC.

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

By: /s/ Shirley Cheng
Shirley Cheng, Interim Chief Financial
Officer
(Principal Financial Officer and Principal
Accounting Officer)