

NETWORK CN INC  
Form 10-Q  
May 14, 2015

---

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: March 31, 2015

- 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 801A and 807B, 8/F, Tsim Sha Tsui Centre, 66 Mody Road, Tsim Sha Tsui, Kowloon, 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 submit and post such files). Yes  No

Edgar Filing: NETWORK CN INC - Form 10-Q

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 May 14, 2015 is as follows:

Class of Securities	Shares Outstanding
Common Stock, \$0.001 par value	120,628,217

---

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>	22
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4.</u>	<u>Controls and Procedures</u>	30

PART II  
OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	30
<u>Item 1A.</u>	<u>Risk Factors</u>	30
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	31
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	31
<u>Item 5.</u>	<u>Other Information</u>	31
<u>Item 6.</u>	<u>Exhibits</u>	31

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 March 31, 2015 and as of December 31, 2014 (Unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three Months Ended March 31, 2015 and 2014 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014 (Unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	7

Table of Contents

NETWORK CN INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	Note	As of March 31, 2015	As of December 31, 2014
<b>ASSETS</b>			
Current Assets			
Cash		\$ 7,395	\$ 22,645
Accounts receivable, net	5	11,878	11,926
Prepaid expenses and other current assets, net	6	112,574	151,571
<b>Total Current Assets</b>		<b>131,847</b>	<b>186,142</b>
Equipment, Net		33,363	38,528
<b>TOTAL ASSETS</b>		<b>\$ 165,210</b>	<b>\$ 224,670</b>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable, accrued expenses and other payables	7	\$ 4,653,340	\$ 4,524,112
Capital lease obligation	8	12,371	12,144
<b>Total Current Liabilities</b>		<b>4,665,711</b>	<b>4,536,256</b>
Non-Current Liabilities			
1% convertible promissory note due 2016, net	9	5,000,000	5,000,000
Capital lease obligation, net of current portion	8	14,426	17,604
<b>Total Non-Current Liabilities</b>		<b>5,014,426</b>	<b>5,017,604</b>
<b>TOTAL LIABILITIES</b>		<b>9,680,137</b>	<b>9,553,860</b>
<b>COMMITMENTS AND CONTINGENCIES</b>	<b>10</b>		
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: 116,628,217 and 115,784,467 as of March 31, 2015 and December 31, 2014, respectively		116,628	115,784
Additional paid-in capital		123,217,913	123,160,438
Accumulated deficit		(134,555,923 )	(134,308,106 )
Accumulated other comprehensive income		1,706,455	1,702,694
<b>TOTAL STOCKHOLDERS' DEFICIT</b>	<b>11</b>	<b>(9,514,927 )</b>	<b>(9,329,190 )</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		<b>\$ 165,210</b>	<b>\$ 224,670</b>

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 MONTHS ENDED MARCH 31, 2015 AND 2014  
(UNAUDITED)

	Note	Three Months Ended March 31,	
		2015	March 31, 2014
<b>REVENUES</b>			
Advertising services		\$-	\$ 244,002
<b>COST OF REVENUES</b>			
Cost of advertising services		-	(428,992 )
<b>GROSS LOSS</b>		-	(184,990 )
<b>OPERATING EXPENSES</b>			
Selling and marketing		-	(22,068 )
General and administrative		(138,319 )	(335,316 )
<b>Total Operating Expenses</b>		(138,319 )	(357,384 )
<b>LOSS FROM OPERATIONS</b>		(138,319 )	(542,374 )
<b>OTHER INCOME</b>			
Sundry income		-	1,731
Interest income		1	18
<b>Total Other Income</b>		1	1,749
<b>INTEREST AND OTHER DEBT-RELATED EXPENSES</b>			
Amortization of deferred charges and debt discount	9	-	(927,595 )
Interest expense	7, 8&9	(109,499 )	(82,546 )
<b>Total Interest and Other Debt-Related Expenses</b>		(109,499 )	(1,010,141 )
<b>NET LOSS BEFORE INCOME TAXES</b>		(247,817 )	(1,550,766 )
Income taxes		-	-
<b>NET LOSS</b>		\$(247,817 )	\$ (1,550,766 )
<b>OTHER COMPREHENSIVE INCOME</b>			
Foreign currency translation gain		3,761	6,999
<b>Total Other Comprehensive Income gain</b>		3,761	6,999
<b>COMPREHENSIVE LOSS</b>		\$(244,056 )	\$ (1,543,767 )
<b>NET LOSS PER COMMON SHARE – BASIC AND DILUTED</b>	13	\$(0.00 )	\$ (0.01 )
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED</b>	13	115,803,217	111,602,385

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 THREE MONTHS ENDED MARCH 31, 2015 AND 2014  
(UNAUDITED)

	Three Months Ended	
	March 31,	March 31, 2014
	2015	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(247,817 )	\$ (1,550,766 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment	5,124	11,081
Deferred charges and debt discount	-	927,595
Stock-based compensation for service	11,069	61,891
Loss on disposal of equipment	-	881
Changes in operating assets and liabilities:		
Accounts receivable, net	-	(91,831 )
Prepaid expenses and other current assets, net	38,997	(19,321 )
Accounts payable, accrued expenses and other payables	75,709	(3,841 )
Net cash used in operating activities	(116,918 )	(664,311 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	-	(717 )
Proceeds from sales of equipment	-	-
Net cash used in investing activities	-	(717 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from private placements	-	600,000
Proceeds from short-term loan	100,769	98,115
Repayment of short-term loan	-	(105,874 )
Repayment of director's loan	-	(35,161 )
Repayment of capital lease obligation	(2,951 )	(2,724 )
Net cash provided by financing activities	97,818	554,356
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>3,850</b>	<b>7,139</b>
<b>NET DECREASE IN CASH</b>	<b>(15,250 )</b>	<b>(103,533 )</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>22,645</b>	<b>111,889</b>
<b>CASH, END OF PERIOD</b>	<b>\$7,395</b>	<b>\$ 8,356</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Income taxes	\$-	\$ -
Interest paid	\$511	\$ 738

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 entities (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 months ended March 31, 2015 and 2014 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, 2014, previously filed with the Securities and Exchange Commission on April 15, 2015.

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 entities as of March 31, 2015 are described in Note 4 – Subsidiaries and Variable Interest Entities.

Going Concern

The Company has experienced recurring net losses of \$247,817 and \$1,550,766 for the three months ended March 31, 2015 and 2014, respectively. Additionally, the Company has net cash used in operating activities of \$116,918 and \$664,311 for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015 and December 31, 2014, the Company has stockholders’ deficit of \$9,514,927 and \$9,329,190, 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 actively explored new prominent media projects in order to provide a wider range of media and advertising services

and improve our financial performance.

The Company recently secured a new media project in China but the Company has not yet started to generate revenue from it. Co-operation agreements were signed for the media project. If the project can start to operate, the Company expects that the project will improve the Company's future financial performance. The Company expects that the new project can generate positive cashflow.

7

---

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 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 entities 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 March 31, 2015 and December 31, 2014, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

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

Table of Contents

## (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, less estimated residual values over the assets' estimated useful lives. The estimated useful lives are as follows:

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

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

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

## (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 bore interest at 1% per annum, payable semi-annually in arrears, matured on April 1, 2012, and were 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, Debt, 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, Derivatives and Hedging. Its embedded conversion option qualified for equity classification,. 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 to the note holders new 1% convertible promissory notes with a maturity date of April 1, 2014. Pursuant to ASC Topic 470, 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. 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 recorded a gain on extinguishment of debt. The 1% Convertible Promissory Notes were scheduled to mature on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years. 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 to the note holders new 1% convertible promissory notes which will mature on April 1, 2016. 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 recorded no gain or loss on extinguishment of debt.

The Company determined the modified new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815. Its embedded conversion option qualified for equity classification. 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 complies with ASC Topic 718, Compensation – Stock Compensation, 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. It 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. In accordance with ASC Topic 505, Equity, 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 per share is the same as the basic net loss per share for the three months ended March 31, 2015 and 2014, 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 March 31, 2015 and December 31, 2014, one customer accounted for approximately 88% and 97% of its accounts receivable balances respectively. 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.

(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.

Table of Contents

## (U) Recent Accounting Pronouncements

In May 2014, the FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract(s) with a customer. (2) Identify the performance obligations in the contract. (3) Determine the transaction price. (4) Allocate the transaction price to the performance obligations in the contract. (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In June 2014, the FASB has issued ASU 2014-12, Compensation – Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In August 2014, the FASB has issued ASU 2014-13, Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The amendments in ASU 2014-13 provide an alternative to Topic 820, Fair Value Measurement, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate the difference in the fair value of the financial assets of a collateralized financing entity, as determined under GAAP, when they differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. When the measurement alternative is elected, both the financial assets and the financial liabilities of the collateralized financing entity should be measured using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The amendments clarify that when the measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interests in the collateralized financing entity, including: (1) changes in the fair value of the beneficial interests retained by the reporting entity, and (2) beneficial interests that represent compensation for services. The Company has determined that there was no impact from the adoption of the standard.

In August 2014, the FASB has issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about

an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

Table of Contents

In November 2014, the FASB has issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in ASU 2014-16 do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In December 2014, the FASB has issued ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination. The amendments in ASU 2014-18 allow a private company that elects this accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill: (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and (2) noncompetition agreements. An entity that elects the accounting alternative in ASU 2014-18 must adopt the private company alternative to amortize goodwill as described in ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. However, an entity that elects the accounting alternative in Update 2014-02 is not required to adopt the amendments in this ASU. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In January 2015, the FASB has issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In February 2015, the FASB has issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification™ and improves current GAAP by (1) placing more emphasis on risk of loss when determining a controlling financial interest, (2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE) and (3) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.



Table of Contents

In April 2015, the FASB has issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In April 2015, the FASB has issued ASU 2015-06, Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions. The amendments in ASU 2015-06 specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method also are required. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2015, the FASB has issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

## NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal subsidiaries and variable interest entities as of March 31, 2015 were as follows:

Name	Place of Incorporation	Ownership/Control interest attributable to the Company	Principal activities
NCN Group Limited	BVI	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
Business Boom Investments 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 Investment Limited	Hong Kong	100%	Dormant
Crown Winner International Limited	Hong Kong	100%	Investment holding
NCN Group (HK) Limited	Hong Kong	100%	Provision of advertising services
	PRC	100%	Dormant

NCN Huamin Management Consultancy  
(Beijing) Company Limited

Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Dormant
Beijing Huizhong Bona Media Advertising Co., Ltd.	PRC	100% (1)	Dormant
Xingpin Shanghai Advertising Limited	PRC	100% (1)	Provision of advertising services
Yi Gao Shanghai Advertising Limited	PRC	100%	Provision of advertising services
Chuanghua Shanghai Advertising Limited	PRC	100%	Provision of advertising services
Jiahe Shanghai Advertising Limited	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 March 31, 2015 and December 31, 2014 were as follows:

	As of March 31, 2015	As of December 31, 2014
Accounts receivable	\$ 16,151	\$ 25,514
Less: allowance for doubtful debts	(4,273 )	(13,588 )
Total	\$ 11,878	\$ 11,926

The Company recorded no allowance for doubtful debts for accounts receivables for the three months ended March 31, 2015 and 2014.

## NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of March 31, 2015 and December 31, 2014 were as follows:

	As of March 31, 2015	As of December 31, 2014
Payments from customers withheld by a third party	\$ 1,561,842	\$ 1,568,151
Prepaid expenses	103,849	103,748
Rental and other deposits	8,725	45,449
Other receivables	-	4,525
Sub-total	1,674,416	1,721,873
Less: allowance for doubtful debts	(1,561,842 )	(1,570,302 )
Total	\$ 112,574	\$ 151,571

The Company recorded no allowance for doubtful debts for prepaid expenses and other current assets for the three months ended March 31, 2015 and 2014.

## NOTE 7. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of March 31, 2015 and December 31, 2014 were as follows:

	As of March 31, 2015	As of December 31, 2014
Accrued advertising operating rights	\$ 523,675	\$ 525,790
Accrued staff benefit and related fees	1,205,571	1,237,128
Accrued professional fees	124,696	139,276
Accrued interest expenses	517,462	408,474
Other accrued expenses	46,930	79,077
Short-term loans 1)	2,194,722	2,093,953
Receipts in advance	10,791	10,834
Other payables	29,493	29,580
Total	\$ 4,653,340	\$ 4,524,112

1) As of March 31, 2015, the Company recorded an aggregated amount of \$2,194,722 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. As of 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 March 31, 2015 and 2014 were \$96,659 and \$69,479, respectively.

Table of Contents

## NOTE CAPITAL LEASE OBLIGATION

8.

As of March 31, 2015, the gross amount of the motor vehicle under capital leases was \$57,692. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payment as of March 31, 2015.

Fiscal years ending December 31,	
2015	10,385
2016	13,846
2017	4,615
Total minimum lease payments	28,846
Less: Amount representing interest	(2,049)
Present value of net minimum lease payment	26,797
Less: Current portion	(12,371)
Non-current portion	\$ 14,426

## NOTE 9. 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.

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 sixty-nine-month period ending on January 1, 2015, subject to the Company's right to unilaterally terminate the exercise period upon 30 days' written notice. As of March 31, 2014, the Keywin Option has not been

exercised.

17

---

Table of Contents

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, 2016, 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 statements of operations for the year ended December 31, 2012.

3) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes in 2014

The 1% Convertible Promissory Notes matured on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years until April 1, 2016. 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.

Pursuant to ASC Topic 470-50 and ASC Topic 470-50-40, the Company determined that the original convertible notes and the modified convertible notes had substantially different terms and hence the fair value of the embedded beneficial conversion feature of the modified convertible notes, which would be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital and any debt discount will be amortized over the term of the modified convertible notes from the effective date of the new agreement using the effective interest method. As of April 1, 2014, the Company determined the fair value of the embedded beneficial conversion feature of the modified convertible notes is \$nil.

No gain or loss 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 no gain or loss on extinguishment of debt at the date of extinguishment for the year ended December 31, 2014.

Table of Contents

Convertible promissory notes, net as of March 31, 2015 and December 31, 2014 were as follows:

	As of March 31, 2015	As of December 31, 2014
Gross carrying value	\$ 5,000,000	\$ 5,000,000
Less: Allocated intrinsic value of beneficial conversion feature	-	-
Add: Accumulated amortization of debt discount	-	-
	5,000,000	5,000,000
Less: Current portion	-	-
Non-current portion	\$ 5,000,000	\$ 5,000,000

The amortization of deferred charges and debt discount for the three months ended March 31, 2015 and 2014 were as follows:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Conversion Features	\$ -	\$ 927,595
Deferred Charges	-	-
Total	\$ -	\$ 927,595

## Interest Expense

The interest expenses of the 1% Convertible Promissory Notes for the three months ended March 31, 2015 and 2014 were \$12,329 and \$12,329, respectively.

## NOTE 10. 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 March 31, 2015:

Nine months ending December 31, 2015	\$25,568
Fiscal years ending December 31,	
2015	25,568
2016	11,364
Total	\$36,932

Rental expenses for the three months ended March 31, 2015 and 2014 were \$8,734 and \$42,322, respectively.

## 3. Capital commitments

As of March 31, 2015, 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 March 31, 2015 and management's opinion as to the likelihood of loss in respect of loss contingency.

On July 5, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Shanghai Shenpu advertising Co. Ltd ("Shenpu"), 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. On November 13, 2013, Yi Gao withdrew the appeal. As a result, Yi Gao is liable to pay an aggregate of RMB765,463 (equivalent to approximately US\$124,870 at the then-prevailing exchange rate) to Shenpu. On February 19, 2014, Yi Gao paid RMB45,221 to Shenpu.

Table of Contents

NOTE 11. 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 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 months ended March 31, 2015 and 2014 were \$nil. As of March 31, 2015, none of the warrant was exercised.

2. 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. In November 2014, the shares were cancelled.

3. In December 2012, the Company entered into two consultancy agreements with two consultants. Pursuant to the agreements, these two consultants were granted 6,000,000 shares and 2,500,000 shares respectively for their services rendered. In December 2012, the Company issued 4,000,000 and 2,500,000 shares of par value of \$0.001 each to these two consultants respectively. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$390,000 of non-cash stock-based compensation included in general and administrative expenses on the consolidated statements of operations for the year ended December 31, 2012. In January 2014, the Company issued the remaining 2,000,000 shares of par value of \$0.001 to one of the consultant. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$53,600 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 March 31, 2014.

4. In August 2013, the Board of Directors 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 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 March 31, 2014.

5. On February 24, 2014, the Company completed three private placements of 7,500,000 shares of restricted common stock at \$0.1 per share. The transaction took place with three investors and received gross proceeds of \$750,000 during the year ended December 31, 2014.

6. In February 2015, the Company agreed to issue an aggregate of 843,750 shares of common stock to the independent director, Charles Liu as director's fee from November 16, 2011 to June 30, 2014.

7. In February 2015, the Board of Director granted an aggregate of 600,000 shares of common stock to the directors of the Company for their services rendered during the year from July 1, 2014 to June 30, 2015. 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, 200,000 shares; Wong Wing Kong, 200,000 shares; and Shirley Cheng, 200,000 shares. In connection with these stock grants and in accordance with ASC Topic 718, the Company recognized \$11,069 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 March 31, 2015.



Table of Contents

## NOTE 12. RELATED PARTY TRANSACTIONS

Except as set forth below, during the three months ended March 31, 2015 and 2014, 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) was 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 July 1, 2009, the Company and Keywin, of which the Company's chief executive officer and director is the director and his spouse is the sole shareholder, entered into an Amendment, pursuant to which the Company agreed to 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, from a three-month period ended on July 1, 2009, to a six-month period ended October 1, 2009. The exercise period for the Keywin option was subsequently further extended to a nine-month period ended January 1, 2010, pursuant to the Second Amendment. On January 1, 2010, the Company and Keywin entered into the third Amendment, pursuant to which the Company agreed to further extend the exercise period 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, the exercise price was extended at various times from September 1, 2010 to December 31, 2014, the latest exercise period for the Keywin Option was further extended to a eighty-one-month period ending on January 1, 2016 and the exercise price changed to \$0.066.

During the three months ended March 31, 2014, the Company repaid loans of \$35,161 to its director. As of March 31, 2015 and December 31, 2014, the Company recorded an amount of \$nil payable to director.

## NOTE 13. NET LOSS PER COMMON SHARE

Net loss per common share information for the three months ended March 31, 2015 and 2014 was as follows:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Numerator:		
Net loss attributable to NCN common stockholders	\$(247,817 )	\$(1,550,766 )
Denominator:		
Weighted average number of shares outstanding, basic	115,803,217	111,602,385
Effect of dilutive securities	-	-
Options and warrants	-	-
Weighted average number of shares outstanding, diluted	115,803,217	111,602,385
Net loss per common share – basic and diluted	\$(0.00 )	\$(0.01 )

The diluted net loss per common share is the same as the basic net loss per common share for the three months ended March 31, 2015 and 2014 as all potential common shares including stock options and warrants are anti-dilutive and

are therefore excluded from the computation of diluted net loss per common share. The securities that could potentially dilute basic net loss per common share in the future that were not included in the computation of diluted net loss per common share because of anti-dilutive effect as of March 31, 2015 and 2014 were summarized as follows:

Table of Contents

	Three Months Ended	
	March 31, 2015	March 31, 2014
Potential common equivalent shares:		
Stock warrants for services*	-	-
Conversion feature associated with convertible promissory notes to common stock	-	-
Common stock to be granted to consultants for services (including non-vested shares)	20,000	20,000
Stock options granted to Keywin	-	470,917
<b>Total</b>	<b>20,000</b>	<b>490,917</b>

Remarks: \* As of March 31, 2015, 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 14. BUSINESS SEGMENTS

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

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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, 2014 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:

1 “BVI” are references to the British Virgin Islands;  
1 “Botong” are references to Huizhi Botong Media Advertising Beijing Co., Ltd., a PRC limited company;  
1 “China” and “PRC” are to the People’s Republic of China;  
1 “Cityhorizon BVI” are references to Cityhorizon Limited, a BVI limited company;  
1 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, and its subsidiary, Business Boom Investments Limited, a BVI Limited company and its variable  
interest entity, Xingpin Shanghai Advertising Limited; Crown Eagle Investments Limited, a Hong Kong  
limited company; NCN Group (HK) 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 subsidiaries, Yi Gao Shanghai  
Advertising Limited, or Yi Gao, a PRC limited company and Chuanghua Shanghai advertising Limited, 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;

## Table of Contents

- 1 “NCN Management Services” are references to NCN Management Services Limited, a BVI limited company;
- 1 “Quo Advertising ” are references to Shanghai Quo Advertising Co. Ltd, a PRC limited company;
- 1 “RMB” are to the Renminbi, the legal currency of China;
- 1 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;
- 1 “U.S. dollar”, “\$” and “US\$” are to the legal currency of the United States; and

## 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. During 2013, we extended our business direction to not just selling air-time for its media panels but also started working closely with property developers in media planning for the property at the very early stage. As a media planner we share the advertising profits with the property developers without paying significant rights fees, so we expect to achieve a positive return from these projects.

Total advertising revenues were \$nil and \$244,002 for the three months ended March 31, 2015 and 2014, respectively and we have net loss of \$247,817 and \$1,550,766 for the three months ended March 31, 2015 and 2014, 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 2014, including the following:

- 1 slower economic growth in PRC
- 1 the rising costs to acquire advertising rights due to competition among bidders for those rights;
- 1 slower than expected consumer acceptance of the digital form of advertising media;
- 1 strong competition from other media companies; and
- 1 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.

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, 2014.

## Recent Development

## Identification of Potential Projects



## Table of Contents

We have extended our business direction to not just selling air-time for its media panels but started 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 rights within the whole property. These will include exhibition and conference centres, shopping malls, etc. This new business model will create a closer working 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, we believe 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.

### 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 March 31, 2015 and March 31, 2014

**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 March 31, 2015 were \$nil, as compared to \$244,002 for the corresponding prior year period. The decrease was attributed to the termination of two media advertising projects in Shanghai and Zuhai in June 2014 and September 2014, respectively.

**Cost of Revenues** – Cost of revenues primarily consists of fees to obtain rights to operate advertising panels and other miscellaneous expenses. Cost of revenues for the three months ended March 31, 2015 was \$nil, a decrease of 100% as compared to \$428,992 for the three months ended March 31, 2014. The decrease was mainly due to the termination of two media advertising projects.

**Gross Loss** – Our gross loss for the three months ended March 31, 2015 was \$nil, as compared to gross loss of \$184,990 for the corresponding prior year period. The decrease was mainly due to the termination of two media advertising projects.

**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 March 31, 2015 decreased by 100% to \$nil, as compared to \$22,068 for the corresponding prior period. The decrease was mainly due to the termination of two media advertising projects.

**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 March 31, 2015 decreased by 59% to \$138,319, as compared to \$335,316 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to a decrease in consultancy fee and decrease in rent, rate and management fee.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended March 31, 2015 increased to \$109,499, or by 90%, as compared to \$1,010,141 for the corresponding prior year period. The decrease was mainly due to the decrease in amortization of deferred charges and debt discount, such increase was as a result of extension of convertible promissory notes in April 2014.

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 March 31, 2015 and 2014, because the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Table of Contents

Net Loss – The Company incurred a net loss of \$247,817 for the three months ended March 31, 2015, a decrease of 84%, as compared to a net loss of \$1,550,766 for the corresponding prior year period. The decrease in net loss was driven by several factors, including the decrease in revenues and general and administrative expenses and interest expense and other debt-related expenses as more particularly described above.

## Liquidity and Capital Resources

As of March 31, 2015, we had cash of \$7,395, as compared to \$22,645 as of December 31, 2014, a decrease of \$15,250. The decrease was mainly attributable to the cash used in operating activities as a result of delay of collection of accounts receivable and decreased receipts in advance from customers during the current quarter offset by the cash provided by short-term loans.

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

	Three Months Ended	
	March 31,	
	2015	March 31, 2014
Net cash used in operating activities	\$(116,918 )	\$ (664,311 )
Net cash used in investing activities	-	(717 )
Net cash provided by financing activities	97,818	554,356
Effect of exchange rate changes on cash	3,850	7,139
Net decrease in cash	(15,250 )	(103,533 )
Cash, beginning of period	22,645	111,889
Cash, end of period	\$7,395	\$ 8,356

## Operating Activities

Net cash used in operating activities for the three months ended March 31, 2015 was \$116,918, as compared to net cash used in operating activities amounting to \$664,311 for the corresponding prior year period. This was mainly attributable to decrease in fees for advertising operating rights prepaid to suppliers, payment of short term loan interest and decreased receipts in advance from customers during the three months ended March 31, 2015.

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 used in investing activities for the three months ended March 31, 2015 was \$nil, as compared to net cash provided by investing activities \$nil for the corresponding prior year period with no significant changes.

## Financing Activities

Net cash provided by financing activities was \$97,818 for the three months ended March 31, 2015, as compared to \$554,356 for the corresponding prior year period. The decrease was mainly due to receipts from private placement for financing our operations during the three months ended March 31, 2014.

## Short-term Loan

As of March 31, 2015, the Company recorded an aggregated amount of \$2,194,722 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 the due date. Up to the date of this 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 March 31, 2015 and 2014 were as follows:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Payment for prepayments for advertising operating rights	\$-	\$ 323,334
Amortization of prepayments for advertising operating rights	\$-	\$ 406,492
	As of March 31, 2015	As of December 31, 2014
Prepayments for advertising operating rights, net	\$ -	\$ -

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 three months ended March 31, 2015 and 2014, we acquired equipment of \$nil and \$717 which were primarily financed by directors’ loans and short term loans, and the cash flows generated from our operations.

## Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of March 31, 2015:

	Total	Payments due by period			
		Due in 2015	Due in 2016 – 2017	Due in 2018-2019	Thereafter
Debt Obligations (a)	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -	\$ -
Operating Lease Obligations (b)	36,932	25,568	11,364	-	-
Short Term Loan (c)	2,194,722	2,194,722	-	-	-
Capital Lease Obligation (d)	26,797	12,371	14,426	-	-



## Table of Contents

(a) Debt Obligations. We issued an aggregate of \$5,000,000 in 1% Convertible Promissory Notes in April 2009 to our investors and such 1% Convertible Promissory Notes matured on April 1, 2014. On March 12, 2014, the Company and the Note Holders tentatively agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years. For details, please refer to the Note 10 of the consolidated financial statements.

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

(c) Short Term Loan. We have entered into short-term loan agreement with an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and repayable on demand or have due date in a 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 the due date. Up to the date of this report, those loans have not yet been repaid.

(d) Capital Lease Obligation. We have purchased a motor vehicle under capital leases.

## 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, 2014.

## Recent Accounting Pronouncements

In May 2014, the FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract(s) with a customer. (2) Identify the performance obligations in the contract. (3) Determine the transaction price. (4) Allocate the transaction price to the performance obligations in the contract. (5) Recognize revenue when (or as) the entity satisfies a performance obligation. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In June 2014, the FASB has issued ASU 2014-12, Compensation – Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the

Requisite Service Period. The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

Table of Contents

In August 2014, the FASB has issued ASU 2014-13, Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The amendments in ASU 2014-13 provide an alternative to Topic 820, Fair Value Measurement, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate the difference in the fair value of the financial assets of a collateralized financing entity, as determined under GAAP, when they differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. When the measurement alternative is elected, both the financial assets and the financial liabilities of the collateralized financing entity should be measured using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The amendments clarify that when the measurement alternative is elected, a reporting entity's consolidated net income (loss) should reflect the reporting entity's own economic interests in the collateralized financing entity, including: (1) changes in the fair value of the beneficial interests retained by the reporting entity, and (2) beneficial interests that represent compensation for services. The Company has determined that there was no impact from the adoption of the standard.

In August 2014, the FASB has issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In November 2014, the FASB has issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in ASU 2014-16 do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In December 2014, the FASB has issued ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination. The amendments in ASU 2014-18 allow a private company that elects this accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions should no longer recognize separately from goodwill: (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and (2) noncompetition agreements. An entity that elects the accounting alternative in ASU 2014-18 must adopt the private

company alternative to amortize goodwill as described in ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. However, an entity that elects the accounting alternative in Update 2014-02 is not required to adopt the amendments in this ASU. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

Table of Contents

In January 2015, the FASB has issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In February 2015, the FASB has issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in ASU 2015-02 are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification™ and improves current GAAP by (1) placing more emphasis on risk of loss when determining a controlling financial interest, (2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE) and (3) changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In April 2015, the FASB has issued ASU 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in ASU 2015-03 are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In April 2015, the FASB has issued ASU 2015-06, Earnings per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions. The amendments in ASU 2015-06 specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method also are required. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2015, the FASB has issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.



Table of Contents

Off Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

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 March 31, 2015. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2015, 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 July 5, 2013, Yi Gao received a notice from the People's Court of Huangpu District, Shanghai that Shanghai Shenpu advertising Co. Ltd ("Shenpu"), 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. On November 13, 2013, Yi Gao withdrew the appeal. As a result, Yi Gao is liable to pay an aggregate of RMB765,463 (equivalent to approximately US\$124,870 at the then-prevailing exchange rate) to Shenpu. On February 19, 2014, Yi Gao paid RMB45,221 to Shenpu.

ITEM 1A.

RISK FACTORS.

Not applicable.

30

---

Table of Contents

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

We have not sold any equity securities during the quarter ended March 31, 2015 which sale was not previously disclosed in a current report on Form 8-K filed during that period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. 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.

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 *	Financial statements and footnotes of Network CN Inc. for the fiscal quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T (furnished 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: May 14, 2015

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)