NETWORK CN INC
Form 10-Q/A
January 28, 2011

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

FORM 10–Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended: September 30, 2010

o 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	90-0370486
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 ¨

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 x

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

The number of shares outstanding of each of the issuer’s classes of common stock, as of November 8, 2010 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	422,522,071

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q (this "Amendment") amends the Quarterly Report on Form 10-Q of Network CN Inc. (the "Company") for the quarterly period ended September 30, 2010, originally filed with the U.S. Securities and Exchange Commission (the "SEC") on November 8, 2010 (the "Original Report"). This Amendment is being filed solely to amend the Company's disclosures under Part I - Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Unless otherwise indicated, this report speaks only as of the date that the Original Report was filed. No attempt has been made in this Amendment to update other disclosures presented in the Original Report. This Amendment does not reflect events occurring after the filing of the Original Report or modify or update those disclosures, including the exhibits to the Original Report affected by subsequent events, except that this Amendment includes as exhibits 31.1, 31.2, 32.1 and 32.2 new certifications by the Company's Chief Executive Officer and Chief Financial Officer as required by Rule 12b-15.

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

Cautionary Statements

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

Overview

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 LED digital video panels and light boxes in major Chinese cities. LED (known as "Light Emitting Diode") technology has evolved to become a new and popular form of advertising in China, capable of delivering crisp, super-bright images both indoors and outdoors.

Our total advertising revenues were $1,835,883 and $812,833 for the nine months ended September 30, 2010 and 2009 respectively. Our net loss attributable to NCN common stockholders was $2,396,518 and $35,224,387 for the nine months ended September 30, 2010 and 2009 respectively. The following are the key factors which led to less than expected revenues and cash inflows during the first three quarters of 2010:

- the rising costs to acquire advertising rights due to competition among bidders for those rights;
- slower than expected consumer acceptance of the digital form of advertising media;
- strong competition from other media companies; and
- many customers continued to be cost-conscious in their advertising budget although there were signs of recovery in China in late 2009. The impact of the reduction in the

pace of our advertising spending is expected to be more significant on our new digital form of media than traditional advertising platforms.

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

Since late of 2008, we have undergone a long application process for qualifying and registering Yi Gao, as a sino-foreign equity advertising joint venture in Shanghai, and on August 4, 2009 the State Administration of Industry and Commerce (SAIC) issued Yi Gao a business license which specifically includes operating an advertising business within its scope of operations. Accordingly, in early 2010, we began to restructure our organization by consolidating our PRC operations and advertising business which has been run through commercial arrangements with our PRC operating companies, namely Quo Advertising, Bona and Botong, into Yi Gao, of which we directly owned 70% of the equity interest while the remaining 30% is controlled through trust arrangement with Quo Advertising. On January 1, 2010, we consolidated all the business operations of Quo into Yi Gao, and terminated all Quo commercial arrangements. On March 31, 2010, we also terminated all commercial arrangements with Botong in order to simplify our operating structure. Before our restructuring exercise, we maintained offices in both Beijing and Shanghai and our advertising business was run through four PRC advertising entities, namely Quo Advertising, Bona, Botong and Yi Gao. After the restructuring, we now only maintain offices in Shanghai and our advertising business is only run through our two PRC advertising entities, Bona and Yi Gao. This restructuring exercise enables us to reduce our operating expenses, including Beijing rental expenses of US$42K per annum, staff costs in Beijing of US$128K per annum, as well as office expenses, travelling expenses and PRC statutory expenses. The structure of our PRC operations is now simplified which directly improves internal communication and efficiency. We expect these actions will enhance our operational efficiency and effectiveness and should reduce our operating expenses for the foreseeable future.

To strengthen our ability to generate revenues from advertising sales which depends largely upon our ability to provide large networks of advertising locations throughout major areas in China, we also started our advertising agency business in 2009. We seek the advertising airtime from third party vendors in major cities in China and sell such advertising airtime to our customers. As an advertising agent, we are not responsible for acquiring advertising operating rights, installing, operating and maintaining advertising panels. We expect that this product line will enable us to generate revenue without having capital commitment and hence could enhance our capital position and liquidity. However, since to date we have only secured limited advertising agency sales contracts, it currently does not have a material impact on our capital position and liquidity.

We also completed a debt restructuring exercise in April 2009 as aforementioned, which has directly lessened our cash constraints. For details, please refer to Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations, "Liquidity and Capital Resources - Restructuring of Convertible Debt" in our Annual Report on Form 10-K for the fiscal year ending December 31, 2009. In July 2009, our board appointed Dr. Earnest Leung, the nominee of our controlling shareholder, Keywin, as our chief executive officer. Dr. Leung, a Keywin director, has over 20 years experience in the investment banking industry and is actively formulating a series of business development strategies and exploring more prominent advertising related projects, aiming to expand the Company and improve its financial performance. Management has identified and is currently studying the feasibility of several potential projects, however, we have not yet committed to any of them.

For more information relating to our business, please see the section entitled "Business" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

Results of Operations

Comparison of Three Months Ended September 30, 2010 and September 30, 2009

Revenues – Revenues from overall advertising services for the three months ended September 30, 2010 were $733,440 as compared to $293,706 for the corresponding prior year period, an increase of 150%. The increase was mainly attributed to the increase in the advertising sales orders as a result of the economic recovery in China. Revenues from advertising agency business for the three months ended September 30, 2010 were $108,364 as compared to $126,279

for the corresponding prior year period, a decrease of 14% as a result of increase in competition on securing advertising agency business in China.

Cost of Advertising Services – Cost of advertising services for the three months ended September 30, 2010 was $380,259, a decrease of 32% compared to $559,906 for the corresponding prior year period primarily due to decrease in amortization of advertising operating rights fees. The decrease in the amortization of advertising operating rights fees resulted from the termination of commercially non-viable concession right contracts during 2009 and 2010. The cost of advertising agency business for the three months ended September 30, 2010 was $91,391, a decrease of 3% compared to $94,132 for the corresponding prior year period due to decrease in the revenue from advertising agency business and keen competition which deteriorated its gross profit margin. .

Selling and Marketing Expenses – Selling and marketing expenses for the three months ended September 30, 2010 decreased by 43% to $102,165, compared to $180,230 for the corresponding prior year period. The decrease was mainly attributed to the restructuring of our sales team by consolidating our sales teams from different locations so as to enhance our operational effectiveness and efficiency.

General and Administrative Expenses – General and administrative expenses for the three months ended September 30, 2010 decreased by 4% to $508,285, compared to $527,829 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to a one-time gain on write-off of long aged payables amounted to $224,347 as well as the factors including reduction of the Company's workforce, rental, and other general and administrative expenses during the three months ended September 30, 2010 offset by a one-time write-back of non-cash stock-based compensation amounted to $518,000 during the three months ended September 30, 2009.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the three months ended September 30, 2010 increased to $146,473, or by 10%, compared to $132,834 for the corresponding prior year period. The increase was primari1y due to the increase in amortization of debt discount.

Other Income (Expense), Net – Other income (expense), net for the three months ended September 30, 2010 was a debit balance of $12,747, compared to a credit balance of $6,724 for the corresponding prior year period. The change was mainly attributed to a loss from sales of available-for-sale securities amounting to $13,098 as well as the decrease in the interest income earned as a result of a decline in our bank balance.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the three months ended September 30, 2010 and 2009 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net Loss – The Company incurred a net loss of $416,489 for the three months ended September 30, 2010, a decrease of 62% compared to a net loss of $1,099,364 for the corresponding prior year period. The decrease in net loss was mainly due to the factors including the increase in revenue, decrease in cost of advertising services and operating expenses as a result of our cost-cutting measures, all as more particularly described above.

Comparison of Nine Months Ended September 30, 2010 and September 30, 2009

Revenues – Revenues from overall advertising services for the nine months ended September 30, 2010 were $1,835,883 as compared to $812,833 for the corresponding prior year period, an increase of 126%. Revenues from advertising agency business for the nine months ended September 30, 2010 were $360,479 as compared to $197,072 for the corresponding prior year period, an increase of 83%. The increase was mainly attributed to the increase in the advertising sales orders as a result of the economic recovery in China.

Cost of Advertising Services – Cost of overall advertising services for the nine months ended September 30, 2010 was $1,310,275, a decrease of 13% compared to $1,513,223 for the corresponding prior year period primarily due to decrease in amortization of advertising operating rights fees. The decrease in the amortization of advertising operating

rights fees resulted from the termination of commercially non-viable concession right contracts during 2009 and 2010. The cost of advertising agency business for the nine months ended September 30, 2010 was $304,686, an increase of 108% compared to $146,830 for the corresponding prior year period due to increase in the revenues from advertising agency business while the gross profit margin of the advertising agency business has decreased from 25% for the nine months ended September 30, 2009 to 16% for the nine months ended September 30, 2010 as a result of keen competition.

Selling and Marketing Expenses – Selling and marketing expenses for the nine months ended September 30, 2010 decreased by 43% to $287,103, compared to $505,637 for the corresponding prior period. The decrease was mainly attributed to the restructuring of our sales team by consolidating our sales teams from different locations so as to enhance our operational effectiveness and efficiency.

General and Administrative Expenses – General and administrative expenses for the nine months ended September 30, 2010 decreased by 25% to $2,264,206, compared to $3,005,495 for the corresponding prior year period. The decrease in general and administrative expenses was mainly due to a one-time gain on write-off of long aged payables amounted to $424,347 as well as the factors including reduction of the Company's workforce, rental, and other general and administrative expenses offset by (1) a one-time loss on disposal of equipment amounting to $579,946 during the nine months ended September 30, 2010; (2) a one-time write-back of non-cash stock-based compensation amounted to $518,000 during the nine months ended September 30, 2009 and (3) a one-time write-back of allowance for doubtful debt amounted to $241,227 during the nine months ended September 30, 2009.

Interest and Other Debt-Related Expenses – Interest expense and other debt-related expenses for the nine months ended September 30, 2010 decreased to $428,967, or by 99%, compared to $31,060,270 for the corresponding prior year period. The significant decrease was primarily due to the debt restructuring completed in April 2009, from which the Company recorded a one-time non-cash debt conversion charge, a one-time loss on early extinguishment of debt and a one-time write-off on unamortized deferred charges and debt discount of $10,204,627, $1,696,684 and $16,935,828, respectively during the nine months ended September 30, 2009.

Other Income (Expense), Net – Other income (expense), net for the nine months ended September 30, 2010 increased by 150% to $58,150, compared to $23,232 for the corresponding prior year period. The increase was mainly attributed to a gain from sales of available-for-sale securities amounting to $17,965 and net rental income generated from subleasing our office to third parties, offset by the decrease in the interest income earned as a result of a decline in our bank balance.

Income Taxes – The Company derives all of its income in the PRC and is subject to income tax in the PRC. No income tax was recorded during the nine months ended September 30, 2010 and 2009 as the Company and all of its subsidiaries and variable interest entities operated at a taxable loss during the respective periods.

Net Loss – The Company incurred a net loss of $2,396,518 for the nine months ended September 30, 2010, a decrease of 93% compared to a net loss of $35,224,387 for the corresponding prior year period. The decrease in net loss was mainly due to a one-time effect of debt restructuring completed in April 2009 amounting to $28,837,139 as well as the factors including the increase in revenue, decrease in cost of advertising services and operating expenses as a result of our cost-cutting measures, all as more particularly described above.

Liquidity and Capital Resources

As of September 30, 2010, we had cash of $460,014, compared to $1,969,549 as of December 31, 2009, a decrease of $1,509,535. The decrease was mainly attributable to the cash utilized by operating activities.

Our existing cash and cash equivalents together with our liquid current assets are not sufficient to fund our cash outflow in the coming twelve months. As such we are relying on cash generated from our revenue and from Keywin's exercise of its outstanding option to purchase US$2 million in shares of our common stock in order to maintain our operation. However, there can be no assurance that we will be able to generate sufficient revenue or that Keywin will exercise its option before its expiration.

Operating Activities

Net cash utilized by operating activities for the nine months ended September 30, 2010 was $1,248,796, as compared with $4,594,624 for the corresponding prior year period. The decrease in net cash used in operating activities was mainly attributable to the decrease in net loss as a result of our drastic cost-cutting measures.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2010 was $303,950, compared with $51,199 for the corresponding prior year period. The increase was mainly attributable to our investment in equity securities during the nine months ended September 30, 2010.

Financing Activities

Net cash used in financing activities was $nil for the nine months ended September 30, 2010, compared with $250,000 for the corresponding prior year period. For the nine months ended September 30, 2009, the cash used in financing activities consisted primarily of issuance costs related to the 1% Convertible Promissory Notes issued in April 2009.

Capital Expenditures

During the nine months ended September 30, 2010 and 2009, we acquired assets of $42,466 and $121,356 respectively, which were financed through proceeds from the issuance of the Convertible Promissory Notes.

We do not expect to incur significant capital expenditure or have any debt repayment except 1% interest on US$5 million convertible notes in the coming twelve months. In general, we expect that our cash outflow in the coming twelve months will be mainly related to general operating expenses and advertising right fees for the Nanjing Road Project. Such general operating expenses have been significantly reduced through our cost-cutting measures in 2009.

Advertising Operating Rights Fees

Advertising operating rights fees are the major cost of our advertising revenue. To maintain the advertising operating rights, we are required to pay advertising operating rights fees in accordance with payment terms set forth in contracts we entered into with various parties. These parties generally require us to prepay advertising operating rights fees for a period of time.

The details of our advertising operating rights fees as of September 30, 2010 and 2009 were as follows:

	For the three months ended September 30, 2010 (Unaudited)	For the three months ended September 30, 2009 (Unaudited)	For the nine months ended September 30, 2010 (Unaudited)	For the nine months ended September 30, 2009 (Unaudited)
Payment for prepayments for advertising operating rights	$ 319,156	$ 250,055	$ 796,509	$ 583,013
Settlement of accrued advertising operating rights	-	126,139	157,263	973,831
Total payment	$ 319,156	$ 376,194	$ 953,772	$ 1,556,844
Amortization of prepayments for advertising operating rights	$ 286,538	$ 244,635	$ 864,697	$ 713,664
Accrued advertising operating rights fee recognized	-	150,108	52,579	359,815
Total advertising operating rights fee recognized	$ 286,538	$ 394,743	$ 917,276	$ 1,073,479

As of As of

	September 30, 2010 (Unaudited)	December 31, 2009 (Audited)
Prepayments for advertising operating rights, net	$ 152,931	$ 348,239
Accrued advertising operating rights fees	$ -	$ 104,684

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 generate limited revenue from our media operation, in addition to the proceeds from the issuance of convertible promissory notes, 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 2010, we terminated all our commercially non-viable advertising operating right contracts and only the Nanjing Road Project remains. As such, our future advertising operating right fee commitments have been significantly reduced. In the event that we cannot pay our remaining advertising operating rights fees 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.

Contractual Obligations and Commercial Commitments

The following table presents certain payments due under contractual obligations with minimum firm commitments as of September 30, 2010:

	Payments due by period				
	Total	Due in 2010	Due in 2011-2013	Due in 2013-2015	Thereafter
Long-term Debt Obligations	$ 5,000,000	$ -	$ 5,000,000	$ -	$ -
Operating Lease Obligations	142,866	35,964	106,902	-	-
Annual Advertising Operating Rights Fee Obligations	2,105,391	250,115	1,855,276	-	-
Purchase Obligations	$ 18,000	$ 18,000	$ -	$ -	$ -

Long-term Debt Obligations. We issued an aggregate of $5,000,000 in 1% Convertible Promissory Notes in April 2009 to our investors. Such 1% Convertible Promissory Notes mature on April 1, 2012. For details, please refer to the notes to financial statements.

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

Annual Advertising Operating Rights Fee Obligations. The Company through its PRC operating companies has acquired rights from third parties to operate roadside advertising panels and mega-size advertising panels whose lease terms expire during 2010.

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

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, 2009.

Recent Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, "Multiple-Deliverable Revenue Arrangements, (amendments to ASC Topic 605, Revenue Recognition)" ("ASU 2009-13"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU 2009-13 on our financial statements.

In October 2009, the FASB issued ASU 2009-14, "Certain Arrangements That Include Software Elements, (amendments to ASC Topic 985, Software)" ("ASU 2009-14"). ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. Management is currently evaluating the potential impact of ASU 2009-14 on our financial statements.

In March 2010, FASB issued ASU 2010-11 Derivatives and Hedging (Topic 815) Scope Exception Related to Embedded Credit Derivatives ("ASU 2010-11"). ASU 2010-11 clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only one form of embedded credit derivative qualifies for the exemption—one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this Update are effective for each reporting entity at the beginning of its