

China Youth Media, Inc.  
Form 10-Q  
November 16, 2009

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 For the quarterly period ended: September 30, 2009

Commission File Number: 000-33067

CHINA YOUTH MEDIA, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or  
organization)

87-0398271  
(I.R.S. Employer Identification No.)

4143 Glencoe Avenue, Unit B, Marina Del Rey, CA 90292  
(Address of principal executive offices)

Registrant's telephone number, including area code: (310) 728-1450

Not Applicable  
(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

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer        Accelerated filer      
Non-accelerated filer        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

APPLICABLE ONLY TO CORPORATE ISSUERS

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 13, 2009, the issuer had 177,531,461 outstanding shares of Common Stock, \$.001 par value.

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## CHINA YOUTH MEDIA, INC.

## Consolidated Balance Sheet

|   | September 30,<br>2009<br>(Unaudited) | December 31,<br>2008<br>(Audited) |
|---|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>   |                                      |                                   |
| <b>CURRENT ASSETS</b>   |                                      |                                   |
| Cash and cash equivalents   | \$ 217,023                           | \$ 34,425                         |
| Accounts receivable, net  | 145,262                              | 161,604                           |
| Other current assets  | 121,660                              | 112,500                           |
| <b>TOTAL CURRENT ASSETS</b>   | <b>483,945</b>                       | <b>308,529</b>                    |
| Property and equipment, net   | 70,949                               | 16,778                            |
| Intangible assets, net  | 8,810,471                            | 8,537,503                         |
| Other Assets  | 25,054                               | 98,968                            |
| <b>TOTAL ASSETS</b>   | <b>\$ 9,390,419</b>                  | <b>\$ 8,961,778</b>               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>                   |                                      |                                   |
| <b>CURRENT LIABILITIES</b>  |                                      |                                   |
| Accounts payable  | \$ 267,704                           | \$ 197,582                        |
| Accrued liabilities   | 956,965                              | 848,006                           |
| Note payable - related party  | 5,000                                | 5,000                             |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>1,229,669</b>                     | <b>1,050,588</b>                  |
| <b>LONG TERM LIABILITIES</b>  |                                      |                                   |
| Convertible notes payable - related party                               | 150,000                              | 2,228,047                         |
| Convertible note payable  | 250,000                              | 250,000                           |
| Note payable  | 1,866,870                            | 100,000                           |
| Beneficial conversion feature   | (301,794)                            | (207,489)                         |
| <b>TOTAL LONG TERM LIABILITIES</b>                                      | <b>1,965,076</b>                     | <b>2,370,558</b>                  |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 3,194,745</b>                  | <b>\$ 3,421,146</b>               |
| <b>STOCKHOLDERS' EQUITY (DEFICIT)</b>                                   |                                      |                                   |
| Preferred stock, \$0.001 par value: 2,000,000 shares authorized;        |                                      |                                   |
| Series A Preferred Stock, \$0.001 par value; 500,000 shares authorized; |                                      |                                   |
| 71,020 shares issued and outstanding at September 30, 2009;             |                                      |                                   |
| 82,020 shares issued and outstanding at December 31, 2008;              |                                      |                                   |
|   | 71                                   | 83                                |

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|   |                     |                     |
|---|---------------------|---------------------|
| Common stock, \$0.001 par value: 500,000,000 shares authorized;<br>158,096,672 shares issued and outstanding at September 30, 2009; |                     |                     |
| 71,828,439 shares issued and outstanding at December 31, 2008;  | 158,097             | 71,828              |
| Paid-in capital   | 20,871,443          | 16,313,219          |
| Accumulated deficit   | (14,833,937)        | (10,844,498)        |
| <b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>   | <b>6,195,674</b>    | <b>5,540,632</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   | <b>\$ 9,390,419</b> | <b>\$ 8,961,778</b> |

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

## CHINA YOUTH MEDIA, INC.

## Consolidated Statements of Operations (Unaudited)

|  | Three Months Ended    |                       | Nine Months Ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September             | September             | September             | September             |
|  | 30,                   | 30,                   | 30,                   | 30,                   |
|  | 2009                  | 2008                  | 2009                  | 2008                  |
| <b>REVENUE</b>                                     |                       |                       |                       |                       |
| Sales  | \$ 5,000              | \$ 28,144             | 5,000                 | 106,753               |
| Total revenue                                      | 5,000                 | 28,144                | 5,000                 | 106,753               |
| <b>OPERATING EXPENSES</b>                          |                       |                       |                       |                       |
| Cost of sales                                      | —                     | 260                   | —                     | 17,106                |
| Selling, general and administrative expenses       | 1,310,292             | 1,024,632             | 3,936,267             | 1,881,514             |
| Total operating expenses                           | 1,310,292             | 1,024,892             | 3,936,267             | 1,898,620             |
| Operating loss                                     | (1,305,292)           | (996,748)             | (3,931,267)           | (1,791,867)           |
| <b>Other Income (expense)</b>                      |                       |                       |                       |                       |
| Interest income                                    | 52                    | —                     | 95                    | —                     |
| Interest expense                                   | (65,675)              | (250,004)             | (206,653)             | (330,280)             |
| Rental income                                      | 49,662                | 50,741                | 148,386               | 98,741                |
| Loss on abandonment                                | —                     | —                     | —                     | (130,317)             |
| Total other income (expense)                       | (15,961)              | (199,263)             | (58,172)              | (361,856)             |
| <b>LOSS BEFORE INCOME TAXES</b>                    | <b>(1,321,253)</b>    | <b>(1,196,011)</b>    | <b>(3,989,439)</b>    | <b>(2,153,723)</b>    |
| <b>PROVISION FOR INCOME TAXES</b>                  | <b>—</b>              | <b>—</b>              | <b>—</b>              | <b>1,600</b>          |
| <b>NET LOSS</b>                                    | <b>\$ (1,321,253)</b> | <b>\$ (1,196,011)</b> | <b>\$ (3,989,439)</b> | <b>\$ (2,155,323)</b> |
| <b>BASIC AND DILUTED NET LOSS PER COMMON SHARE</b> |                       |                       |                       |                       |
|  | \$ (0.01)             | \$ (0.02)             | \$ (0.03)             | \$ (0.05)             |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>  |                       |                       |                       |                       |
|  | 157,354,824           | 51,454,526            | 116,760,799           | 47,070,652            |

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

## CHINA YOUTH MEDIA, INC.

## Consolidated Statements of Cash Flows (Unaudited)

|  | Nine Months Ended        |                       |
|--|--------------------------|-----------------------|
|  | September<br>30,<br>2009 | September 30,<br>2008 |
| <b>Cash flows from operating activities:</b>                                       |                          |                       |
| Net loss   | \$ (3,989,439)           | \$ (2,155,323)        |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b> |                          |                       |
| Loss on Abandonment  | —                        | 130,317               |
| Depreciation   | 9,937                    | 25,382                |
| Amortization of licenses   | 595,356                  | 642,872               |
| Amortization of beneficial conversion feature                                      | 68,195                   | 234,798               |
| Stock-based compensation to employees and directors                                | 1,709,934                | 134,446               |
| <b>Changes in operating assets and liabilities:</b>                                |                          |                       |
| Accounts receivable  | 16,342                   | 23,406                |
| Inventories  | —                        | 15,436                |
| Other assets   | 64,754                   | (2,741)               |
| Accounts payable and accrued liabilities   | 269,081                  | 345,668               |
| <b>Net cash used in operating activities</b>                                       | <b>(1,255,840)</b>       | <b>(605,739)</b>      |
| <b>Cash flows from investing activities:</b>                                       |                          |                       |
| Purchases of property and equipment  | (64,109)                 | —                     |
| Purchases of intangible assets   | (268,323)                | —                     |
| <b>Net cash used in investing activities</b>                                       | <b>(332,432)</b>         | <b>—</b>              |
| <b>Cash flows from financing activities:</b>                                       |                          |                       |
| Proceeds from issuance of common stock   | 4,000                    | 347,500               |
| Proceeds from issuance of preferred stock  | —                        | 31,200                |
| Proceeds from issuance of convertible notes  | —                        | 250,000               |
| Proceeds from issuance of convertible note related party                           | —                        | 152,000               |
| Proceeds from note   | 1,766,870                | —                     |
| <b>Net cash provided by financing activities</b>                                   | <b>1,770,870</b>         | <b>780,700</b>        |
| <b>Net increase (decrease) in cash and cash equivalents</b>                        | <b>182,598</b>           | <b>174,961</b>        |
| Cash and cash equivalents at beginning of period                                   | 34,425                   | 5,600                 |
| Cash and cash equivalents at end of period   | \$ 217,023               | \$ 180,561            |
| <b>Supplemental disclosures of cash flow information:</b>                          |                          |                       |

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|  |    |         |    |           |
|--|----|---------|----|-----------|
| Cash paid for income taxes                     | \$ | —       | \$ | 1,600     |
| Non-cash investing and financing activity:     |    |         |    |           |
| Beneficial conversion feature                  |    |         |    |           |
|  |    |         | —  | 118,583   |
| Shares issued pursuant to consulting agreement | \$ | 90,000  | \$ | —         |
| Acquisition of intangible assets for stock     | \$ | 600,000 | \$ | 9,199,800 |

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



CHINA YOUTH MEDIA, INC.

Notes to Consolidated Interim Financial Statements - Unaudited  
September 30, 2009

1. Description of Business

China Youth Media, Inc. ("the Company") was organized under the laws of the State of Utah on July 19, 1983 under the name of Digicorp. Pursuant to shareholder approval, on October 6, 2006, the Board of Directors of the Company approved and authorized the Company to enter into an Agreement and Plan of Merger by and between the Company and Digicorp, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company that was incorporated under the Delaware General Corporation Law for the purpose of effecting a change of domicile. Effective February 22, 2007, the Company changed its domicile from Utah to Delaware with the name of the surviving corporation being Digicorp, Inc.

Pursuant to a Certificate of Amendment to our Certificate of Incorporation filed with the State of Delaware which took effect as of October 16, 2008, the Company's name changed from "Digicorp, Inc." to "China Youth Media, Inc." (the "Corporate Name Change"). As a result of the Corporate Name Change, our stock symbol changed to "CHYU" with the opening of trading on October 16, 2008 on the OTCBB.

China Youth Media, Inc.

China Youth Media, Inc. is a China focused youth marketing and media company whose business is to provide advertisers and corporations with direct and centralized access to China's massive but difficult to reach student population.

Youth Media (BVI) Limited

On May 8, 2008, under the laws of the British Virgin Islands, the Company formed Youth Media (BVI) Limited ("YM BVI"). YM BVI is a wholly-owned subsidiary of the Company and was established for the purpose of incorporating the Company's wholly-owned subsidiary in Hong Kong.

Youth Media (Hong Kong) Limited and Youth Media (Beijing) Limited

Youth Media (Hong Kong) Limited ("YMHK"), a company organized under the laws of Hong Kong on May 19, 2008, and Youth Media (Beijing) Limited ("YMBJ"), a company organized under the laws of the People's Republic of China on December 10, 2008, are wholly-owned subsidiaries of YM BVI and were formed by the Company to take advantage of its shift in business to aggregation and distribution of international content and advertising for Internet or online consumption in China.

Rebel Crew Films, Inc.

Rebel Crew Films is a wholly-owned subsidiary of the Company and was organized under the laws of the State of California on August 7, 2002. In January 2008, the Company entered into a license and distribution agreement with Westlake Entertainment, Inc. which effectively shifted all day-to-day operations related to our home video library.

PerreoRadio.com

PerreoRadio.com is our wholly-owned and operated website targeted to the young, urban Latino demographic offers online radio shows, podcasts, music, and music videos.

The Company is organized in a single operating segment with no long-lived assets outside of the United States of America. All of our revenues to date have been generated in the United States, but with the development of our China ITVN media portal, we expect that a portion of our future revenues will be from other countries.

## 2. Basis of Presentation and Significant Accounting Policies.

### Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in the United States of America ("GAAP").

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. At September 30, 2009, the Company had an accumulated deficit of \$14.8 million and a working capital deficit of \$746,000. During the nine months ended September 30, 2009, the Company incurred a loss of approximately \$4 million. During the nine months ended September 30, 2009, the Company primarily relied upon financing activities to fund its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management is currently seeking additional financing and believes that these avenues will continue to be available to the Company to fund its operations, however no assurances can be made. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on knowledge of current events and anticipated future events and accordingly, actual results may differ from those estimates.

### Foreign Currency Transactions

The Company's functional currency is the United States Dollar (the "US Dollar"). From time to time, and with the contemplation of expanding the Company's operations in China, the Company enters into transactions denominated in the currency of the People's Republic of China, whose principal unit is the Yuan ("Renminbi" or "RMB") and in the Hong Kong Dollar ("HK Dollar"). The transactions denominated in currencies other than the functional currency are translated into US Dollars at the exchange rates quoted by the Federal Reserve Bank of New York which represents the noon buying rate in the City of New York and are certified for customs purposes. These exchange rates are not intended to imply that the foreign exchange rates quoted could have been, or could be, converted, realized or settled into U.S. dollars or any other currency at the quoted rate on the date of the transaction.

### Cash and Cash equivalents

The Company considers only highly liquid investments such as money market funds and commercial paper with maturities of 90 days or less at the date of their acquisition as cash and cash equivalents.

The Company maintains cash in bank and deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company believes it is not exposed to any significant credit risk on cash and cash equivalents.

### Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate fair value as of September 30, 2009 because of their generally short term nature.

### Goodwill

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), goodwill is defined as the excess of the purchase price over the fair value assigned to individual

assets acquired and liabilities assumed and is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis in the Company's fourth fiscal quarter or more frequently if indicators of impairment exist. The performance of the test involves a two-step process. The first step of the impairment test involves comparing the fair value of the Company's reporting units with each respective reporting unit's carrying amount, including goodwill. The fair value of reporting units is generally determined using the income approach. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the goodwill impairment test is performed to determine the amount of any impairment loss. The second step of the goodwill impairment test involves comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. In accordance with SFAS No. 142, no amortization is recorded for goodwill with indefinite useful life. No goodwill impairment was recognized during the nine months ended September 30, 2009 and 2008.

#### Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), intangible assets that are determined not to have an indefinite useful life are subject to amortization. The Company amortizes intangible assets using the straight-line method over their estimated useful lives.

### Impairment of Long-Lived and Intangible Assets

In accordance with Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS No. 144"), the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses the recoverability of the long-lived and intangible assets by comparing the carrying amount to the estimated future undiscounted cash flow associated with the related assets. No impairment was recognized during the nine months ended September 30, 2009 and 2008.

### Stock-Based Compensation

The Company accounts for stock-based compensation awards in accordance with the provisions of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment ("SFAS No. 123R"), which addresses the accounting for employee stock options. SFAS No. 123R revises the disclosure provisions of Statement of Financial Accounting Standards No. 123, Accounting-Based Compensation ("SFAS No. 123"), and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"). SFAS No. 123R requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. During the nine months ended September 30, 2009 and September 30, 2008, the Company had stock-based compensation expense related to issuances of stock options and warrants to the Company's employees, directors and consultants of \$1.7 million and \$134,000, respectively.

### Revenue Recognition

Advertising Supported Intranet Television Network Media Website - Koobee is a large scale, advertising supported Intranet Television Network (ITVN) media portal that is initially targeting China's campus based college students, estimated to total more than 30 million young people. Koobee is a venue for marketers to deliver traditional TV spots and new media advertising campaigns to a vast, upwardly mobile, targeted demographic. Advertisers and channel owners will have available to them multiple touch points ranging from interstitial interactive ads to banners within social networking clubs and sponsored competitions, all with accurate ad tracking that ensures clients realize value from unique and fully licensed content. Koobee provides advertisers the impact of TV with the ROI of the Internet. We expect this combination to be competitive and sufficiently appealing to capture market share in China's fast growth online advertising industry. We believe that significant opportunities exist in the China Internet advertising space, and we will actively pursue this potential source of revenue during the year ending December 31, 2010.

### Accounts Receivable

Accounts receivable are recorded at the invoice amount and do not bear interest. Accounts receivable at September 30, 2009 and December 31, 2008 are presented net of an allowance for doubtful accounts of \$15,000 and \$15,000, respectfully.

### Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Company's estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and potential for recovery is considered remote. The Company does not have any

off-balance-sheet exposure related to its customers.

#### Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the useful lives of the assets, generally from three to seven years. Property and equipment at September 30, 2009 and December 31, 2008 are presented net of accumulated depreciation of \$34,000 and \$22,000, respectfully. Depreciation expense for the nine months ended September 30, 2009 and 2008 was \$10,000 and \$25,000, respectively.

#### Beneficial Conversion Feature of Convertible Notes Payable

The Company accounts for convertible notes payable in accordance with the guidelines established by APB Opinion No. 14, Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants ("APB No. 14"), Emerging Issues Task Force ("EITF") 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF 00-27, Application of Issue No 98-5 To Certain Convertible Instruments. The Beneficial Conversion Feature ("BCF") of a convertible note, is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company records a BCF related to the issuance of a convertible note when issued and also records the estimated fair value of the warrants issued with those convertible notes.

The BCF of a convertible note is measured by allocating a portion of the note's proceeds to the warrants and as a reduction of the carrying amount of the convertible note equal to the intrinsic value of the conversion feature, both of which are credited to additional paid-in-capital. The Company calculates the fair value of warrants issued with the convertible note using the Black-Scholes valuation model and uses the same assumptions for valuing employee options in accordance with SFAS No. 123R. The only difference is that the contractual life of the warrants is used.

The value of the proceeds received from a convertible note is then allocated between the conversion feature and warrants on a relative fair value basis. The allocated fair value is recorded in the consolidated financial statements as a debt discount (premium) from the face amount of the note and such discount is amortized over the expected term of the convertible note (or to the conversion date of the note, if sooner) and is credited to interest expense.

#### Income Taxes

The Company has implemented the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"). SFAS 109 requires that income tax accounts be computed using the liability method. Deferred taxes are determined based upon the estimated future tax effects of differences between the financial reporting and tax reporting bases of assets and liabilities given the provisions of currently enacted tax laws.

#### Advertising Costs

The Company expenses advertising costs when incurred. Advertising expense for the nine months ended September 30, 2009 and 2008 was \$7,000 and zero, respectively.

#### Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, The "FASB Accounting Standards Codification" and the Hierarchy of Generally Accepted Accounting Principles. This standard replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes only two levels of U.S. generally accepted accounting principles ("GAAP"), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") became the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission ("SEC"), which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. We have begun to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of fiscal 2010. As the Codification was not intended to change or alter existing GAAP, it will not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This standard responds to concerns about the application of certain key provisions of FASB Interpretation (FIN) 46(R), including those regarding the transparency of the involvement with variable interest entities. Specifically, SFAS No. 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ("VIE") and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. We plan to adopt SFAS No. 167 and are evaluating the impact, if any, it will have on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140. The new standard eliminates the concept of a “qualifying special-purpose entity,” changes the requirements for derecognizing financial assets, and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009. We plan to adopt SFAS No. 166 and are evaluating the impact, if any, it will have on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events”. This statement requires management to evaluate subsequent events through the date the financial statements are either issued, or available to be issued. Companies are required to disclose the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company evaluated its September 30, 2009 financial statements for subsequent events through November 13, 2009, the date the financial statements were available to be issued. Other than the agreements and events in Note 17, the Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.



In April 2009, the FASB issued FSP SFAS 107-1/APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP 107-1”). FSP FAS 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP applies to all financial instruments within the scope of Statement 107 held by publicly traded companies, as defined by APB 28, and requires that a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. FSP 107-1 shall be effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We do not expect the adoption of SFAS No. 107-1 to have a material impact on the Company’s income statement, financial position or cash flows.

In April 2009, the FASB issued FSP FAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” (FSP FAS 157-4). FSP FAS 157-4 amends SFAS 157 and provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased and also includes guidance on identifying circumstances that indicate a transaction is not orderly for fair value measurements. This FSP is effective for interim and annual periods ending after June 15, 2009. We do not expect the adoption of FAS No. 157-4 to have a material impact on the Company’s income statement, financial position or cash flows.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles”, which is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). We do not expect the adoption of SFAS No. 162 to have a material impact on the Company’s income statement, financial position or cash flows.

In May 2008, the FASB issued FSP Accounting Principles Board Opinion (“APB”) No. 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (“FSP APB 14-1”), which requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer’s nonconvertible debt borrowing rate. FSP APB 14-1 became effective for the Company on January 1, 2009 and requires retroactive application. The adoption of FSP APB 14-1 is not expected to have a material impact on the Company’s consolidated financial position, cash flows, or results of operations.

In April 2008, the FASB issued FSP FAS No. 142-3, “Determination of the Useful Life of Intangible Assets”, which is effective for fiscal years beginning after November 15, 2008. This statement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142. FAS No. 142-3 is effective for the Company beginning January 1, 2009. We do not expect the adoption of FAS No. 142-3 to have a material impact on the Company’s income statement, financial position or cash flows.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133”, which is effective for fiscal years beginning after November 15, 2008. This statement amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: a) How and why an entity uses derivative instruments; b)

How derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and c) How derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company beginning in the first quarter of fiscal 2009. We do not expect the adoption of SFAS No. 161 to have a material effect on the Company's consolidated results of operations and financial condition.

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, Effective Date of FASB Statement No. 157 ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157, Fair Value Measurements ("SFAS 157") for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB 51 ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also established reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owner. SFAS No. 160 is effective for the Company beginning January 1, 2009. We do not expect the adoption of this standard to have a material impact on the Company's income statement, financial position or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations ("SFAS 141(R)"). This statement requires the acquiring entity in a business combination to record all assets acquired and liabilities assumed at their respective acquisition-date fair values, changes the recognition of assets acquired and liabilities assumed arising from contingencies, changes the recognition and measurement of contingent consideration, and requires the expensing of acquisition-related costs as incurred. SFAS 141(R) also requires additional disclosure of information surrounding a business combination, such that users of the entity's financial statements can fully understand the nature and financial impact of the business combination. SFAS 141(R) is effective for the Company beginning January 1, 2009 and we will apply it prospectively to business combinations completed on or after that date.

### 3. Other Current Assets

On September 1, 2008 the Company entered into a Consulting Agreement ("Consulting Agreement") with American Capital Ventures, Inc. ("ACV, Inc."). Pursuant to the terms of the Consulting Agreement, ACV, Inc. will provide the Company with investor relations consulting services for a period of two years and in consideration, ACV, Inc. will receive 2.5 million shares of the Company's Common Stock of which 1.5 million shares will be issued during the initial twelve-month term and the remainder will be issued on the thirteenth month of the agreement term. See Note 15 Equity Transactions for information on the issuance of certain shares in advance of the thirteenth month. The Consulting Agreement was valued at \$225,000 based on the fair value of the underlying shares of the Company's common stock on the effective date of the Agreement and will be amortized on a straight-line basis over the agreement term of two years. The balance remaining in other current assets at September 30, 2009 corresponding to the Consulting Agreement with ACV, Inc. was \$103,100.

On September 1, 2009, the Company recorded \$15,000 prepaid expense pursuant to a Technical Services Agreement entered into by YMBJ with Tsing Hua University pursuant to terms of which the Company will receive technical services and bandwidth for a period of eleven months. At September 30, 2009, the balance remaining in the other current assets related to the Technical Services Agreement was \$12,000.

On August 11, 2009, the Company recorded \$8,800 prepaid expense pursuant to a Video and Technical Services Agreement entered into by YMBJ with LETV pursuant to terms of which the Company will receive video and technical services for a period of nine months. At September 30, 2009, the balance remaining in the other current assets related to the Video and Technical Services Agreement was \$6,600.

### 4. Property and Equipment

Property and equipment at September 30, 2009 and December 31, 2008 consist of the following:

|                                       | September 30,<br>2009 | December 31,<br>2008 |
|---------------------------------------|-----------------------|----------------------|
| Property and Equipment                |                       |                      |
| Computer Software and Equipment       | \$ 100,495            | \$ 33,846            |
| Office Furniture and Equipment        | 4,088                 | 6,628                |
| <b>Total Property and Equipment</b>   | <b>\$ 104,583</b>     | <b>\$ 40,474</b>     |
| <b>Less: Accumulated Depreciation</b> | <b>(33,634)</b>       | <b>(23,696)</b>      |
| Property and Equipment, net           | \$ 70,949             | \$ 16,778            |

### 5. Intangible Assets

Intangible assets consist of capitalized Content License & Distribution Agreements, China IPTV & Mobile Licenses, license fees for licensed content the Company acquired from owners including producers, studios and distributors, as well as the Company's Koobee.com and PerreoRadio.com suite of websites and internet properties.

In August 2009, the Company entered into an agreement (the "EPL Agreement") with WinTV, a subscription channel in China run by state-owned Guangdong Provincial Television pursuant to which the Company secured the online rights to distribute the 2009-2010 season of the English Premier League ("EPL"). The EPL Agreement is part of a licensing agreement between YMHK and WinTV and has a term of six months. During the nine months ended September 30, 2009, amortization expense related to the EPL Agreement was \$87,500.

On June 2, 2008, the Company entered into a Content License Agreement (the "Content License Agreement") with New China Media, LLC ("New China Media"), YGP, LLC ("YGP") and TWK Holdings, LLC ("TWK") (collectively referred to as "Content Providers"). In consideration for the license to certain content by the Content Providers, the Content License Agreement provided for the issuance of 31,200 shares of the Company's Series A Convertible Preferred Stock, that are convertible to 31,200,000 shares of the Company's common stock. The Content License was valued at \$2,808,000 based on the fair value of the associated underlying shares of the Company's common stock. The Content License Agreement has a term of 2 years with an automatic renewal term of an additional 2 years and, as such, has an estimated useful life of 4 years. The Content License Agreement will be amortized over the respective estimated useful life and will be reviewed periodically for impairment in accordance with FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. On January 8, 2009, the Content License Agreement was further extended by an additional eight (8) years for a total of ten (10) years. In consideration for the increase in the term of the agreement, New China Media received four million (4,000,000) shares of the Company's common stock. The Content License Agreement extension was valued at \$604,000 based on the fair value of the associated underlying shares of the Company's common stock on the date of the extension agreement. During the nine months ended September 30, 2009 and 2008, amortization expense related to the Content License Agreements and China IPTV Licenses was \$495,200 and \$556,100, respectively.

Koobee.com has been determined to have an indefinite useful life based primarily on the renewability of the domain name. Intangible assets with an indefinite life are not subject to amortization, but will be subject to periodic evaluation for impairment.

Licensed content acquired is capitalized at the time of purchase. The term of the licensed content agreements usually vary between one to five years (the "Title Term"). At the end of the Title Term, the Company generally has the option of discontinuing distribution of the title or extending the Title Term. The Company amortizes the capitalized license fees, on a straight line basis over the Title Term. During the nine months ended September 30, 2009 and 2008, amortization expense related to the licensed content was \$12,600 and \$77,400, respectively.

The PerreoRadio suite of websites consists of the following Internet domain names and all materials, intellectual property, goodwill and records in connection therewith (the "PerreoRadio Assets" or "PerreoRadio"): Perreoradio.com, Radioperreo.com, Perreomobile.com, Perreotv.com, Puroperreo.com, Puroreggaeton.com, Purosandungueo.com, Sandungueoradio.com, Machetemusic.net, Machetemusic.org, Machetemusica.com and Musicamachete.com.

Intangible assets and accumulated amortization at September 30, 2009 and December 31, 2008 are comprised of the following:

|                                | September 30,<br>2009 | December 31,<br>2008 |
|--------------------------------|-----------------------|----------------------|
| Intangible Assets              |                       |                      |
| China IPTV & Mobile Licenses   | \$ 6,391,800          | \$ 6,391,800         |
| Content Licenses               | 3,670,500             | 2,808,000            |
| Domain Assets                  | 7,833                 | 2,010                |
| PerreoRadio Assets             | 27,800                | 27,800               |
| Licensed and Developed Content | 283,104               | 283,104              |
| Total Intangible Assets        | 10,381,037            | 9,512,714            |
| Less: Accumulated Amortization | (1,570,556)           | (975,211)            |
| Intangible Assets, net         | \$ 8,810,471          | \$ 8,537,503         |

## 6. Other Assets

The balance recorded in other current assets at September 30, 2009 correspond to security deposits of \$18,400 related to our lease holdings, \$1,500 related to Water and Power Utility deposit requirements, and \$5,200 of deferred rental income.

#### 7. Loss Per Common Share

Income (loss) per common share is based on the weighted average number of common shares outstanding. The Company complies with SFAS No. 128, Earnings Per Share, which requires dual presentation of basic and diluted earnings per share on the face of the statements of operations. Basic per share earnings or loss excludes dilution and is computed by dividing income (loss) available to common stockholders by the weighted-average common shares outstanding for the period. Diluted per share earnings or loss reflect the potential dilution that could occur if convertible preferred stock or debentures, options and warrants were to be exercised or converted or otherwise result in the issuance of common stock that is then shared in the earnings of the entity. Since the effects of outstanding options, warrants and the conversion of convertible preferred stock and convertible debt are anti-dilutive in all periods presented, shares of common stock underlying these instruments have been excluded from the computation of Loss per Common Share.

As of September 30, 2009, there were outstanding (i) 40,900,000 options and 58,333 warrants issued pursuant to the Company's Stock Option Plan, (ii) 3,200,000 shares issuable upon conversion of outstanding warrants that were issued outside the Company's Stock Option Plan, (iii) 71,020,000 shares reserved for issuance upon conversion of Series A Convertible Preferred Stock, and (iv) 4,879,234 shares reserved for issuance upon conversion of outstanding convertible promissory notes.

## 8. Accrued Liabilities

Accrued liabilities at September 30, 2009 and December 31, 2008 are comprised of the following:

| Accrued Liabilities                | September 30,<br>2009 | December 31,<br>2008 |
|------------------------------------|-----------------------|----------------------|
| Obligations on license agreements  | \$ 110,095            | \$ 47,595            |
| Accrued salaries                   | 330,000               | 330,000              |
| Accrued professional fees          | —                     | 90,000               |
| Interest                           | 215,474               | 77,016               |
| Deferred Rent Expense              | 23,900                | 25,899               |
| Sublease Security Deposits         | 32,000                | 32,000               |
| Accrued Liabilities due to vendors | 200,082               | 200,082              |
| Other                              | 45,414                | 45,414               |
|                                    | \$ 956,965            | \$ 848,006           |

## 9. Note Payable - Related Party

On July 13, 2006, William Horne, the Company's former Chief Financial Officer and Director, loaned the Company \$5,000. As consideration for the loan, the Company issued Mr. Horne a demand promissory note (the "July 06 Note") at a rate equal to the prime rate published in The Wall Street Journal from time to time, and currently 8.25%, to the date of payment in full. Pursuant to the terms of a Conversion and Note Termination Agreement dated July 1, 2008, by and between Mr. Horne and the Company (the "Conversion Note"), the entire principal amount outstanding and all interest accrued from inception of the July 06 Note through the date of the Conversion Note, totaling approximately \$813, and other various amounts owed to Mr. Horne totaling approximately \$1,231, will be converted into 234,789 shares of Common Stock (the "Conversion Shares"). The conversion of the note was based upon a common stock value of \$0.03 per share, which represented the offering price of the Company's Common Stock in its most recently completed equity financing transaction on the date of the Conversion Note. See Note 17 Subsequent Events.

## 10. Convertible Note Payable - Related Party

## Rebel Holdings Convertible Note

On September 10, 2008, the Company, on the one hand, and Jay Rifkin, the Company's President and Chief Executive Officer, and Rebel Holdings, LLC ("Rebel Holdings"), of which Mr. Rifkin is the sole managing member, on the other hand, entered into a Loan Consolidation and Amendment to Security Agreement (the "Loan Consolidation Agreement"), effective as of July 1, 2008. Pursuant to the Loan Consolidation Agreement, the parties agreed to consolidate various outstanding loans made to the Company by Jay Rifkin and Rebel Holdings and other amounts incurred by or due to Mr. Rifkin, in each case through June 30, 2008, into one convertible promissory note payable to Rebel Holdings in the principal amount of \$2,078,047, with a maturity date of July 1, 2010 and interest at the prime rate (the "Consolidated Note"). The Consolidated Note provided that the principal amount thereof shall, at the option of Rebel Holdings, be convertible at a conversion price equal to the lesser of, or more favorable to Rebel Holdings, of the following (i) \$0.03 per share of Common Stock (which represents the offering price of the Company's Common Stock in its most recently completed equity financing transaction) provided a notice of conversion is submitted no later than 45 days after September 10, 2008, or (ii) the then current offering terms for any bona fide pending offering of the Company, provided a notice of conversion pursuant thereto is submitted no later than 30 days following the completion of the offering, and contains such other terms and conditions as set forth therein. On May 14, 2009 the Company issued Rebel Holdings 69,268,233 shares of common stock, pursuant to a notice of conversion provided within the allowable time period, in which Rebel Holdings elected to convert the entire principal amount outstanding under the

Consolidated Note into 69,268,233 shares of common stock at \$0.03 per share. The securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

#### Mojo Music Convertible Note

Other convertible notes payable - related party — On September 30, 2008, the Company entered into a subscription agreement with Mojo Music, Inc. (“Mojo Music”). Jay Rifkin, the Company’s President and Chief Executive Officer, is the sole managing member of Mojo Music. The Company sold 1.5 Units, with each Unit consisting of a \$100,000 Convertible Promissory Note bearing interest at 12% per annum, due three years from the date of issuance and warrants to purchase an aggregate of up to 350,000 shares of its Common Stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$0.09 per share subject to the Company’s filing of a certificate of amendment to its certificate of incorporation increasing the number of its available shares for issuance. The subscription agreement with Mojo Music provided the Company with \$150,000 in gross proceeds. Pursuant to the subscription agreement with Mojo Music, the Company issued 525,000 Purchase Warrants. See Note 16 Warrants.



As the effective conversion price of the Mojo Music Convertible Promissory Note on the date of issuance was below the fair market value of the underlying common stock, the Company recorded debt discount in the amount of \$28,300 based on the intrinsic value of the beneficial conversion feature of the Mojo Music Convertible Promissory Note. The warrant issued to Mojo Music in conjunction with the convertible note will expire after September 30, 2013. The Company recorded debt discount in the amount of \$28,300 based on the estimated fair value of the warrants. In accordance with EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, the debt discount as a result of the beneficial conversion feature of the Mojo Music Convertible Promissory Note and the estimated fair value of the warrants was amortized as non-cash interest expense over the term of the debt using the effective interest method. During the nine months ended September 30, 2009, interest expense of \$14,100 has been recorded from the debt discount amortization.

#### 11. Convertible Note Payable

Convertible note payable — On August 29, 2008, the Company entered into a subscription agreement with Year of the Golden Pig, LLC (“YGP, LLC”). The Company sold 2.5 Units, with each Unit consisting of a \$100,000 Convertible Promissory Note bearing interest at 12% per annum, due three years from the date of issuance and warrants to purchase an aggregate of up to 350,000 shares of its Common Stock. The warrants are exercisable for a period of five years and have an exercise price equal to \$0.09 per share subject to the Company’s filing of a certificate of amendment to its certificate of incorporation increasing the number of its available shares for issuance. The subscription agreement with YPG, LLC provided the Company with \$250,000 in gross proceeds. Pursuant to the subscription agreement with YGP, LLC, the Company issued 875,000 Purchase Warrants. See Note 16 Warrants.

As the effective conversion price of the YPG, LLC Convertible Promissory Note on the date of issuance was below the fair market value of the underlying common stock, the Company recorded debt discount in the amount of \$112,700 based on the intrinsic value of the beneficial conversion feature of the YPG, LLC Convertible Promissory Note. The warrant issued to YPG, LLC in conjunction with the convertible note will expire after August 29, 2013. The Company recorded debt discount in the amount of \$57,100 based on the estimated fair value of the warrants. In accordance with EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, the debt discount as a result of the beneficial conversion feature of the YGP, LLC Convertible Promissory Note and the estimated fair value of the warrants was amortized as non-cash interest expense over the term of the debt using the effective interest method. During the nine months ended September 30, 2009, interest expense of \$42,500 has been recorded from the debt discount amortization.

#### 12. Note Payable

On December 26, 2008, the subsidiaries of the Company, YMHK and YMBJ, entered into a Joint Venture Agreement (the “Joint Venture Agreement”) with China Youth Interactive Media (Beijing) Company Limited (“CYI”) and Xinhua Finance Media Limited (“XFM”) to develop business opportunities contemplated by the Campus Network Agreements (the “Joint Venture”) (YMHK, YMBJ and CYI henceforth the “JV Companies”). Pursuant to the Joint Venture agreement, XFM will provide working capital to YMHK in monthly increments for the twelve month period ending December 31, 2009 for the operations of the Joint Venture and, to the extent covered by the budget as set forth in the business plans, for the general overhead of the JV Companies. Each of the JV Companies shall be obligated on a joint and several basis, following written notice from XFM, to return, repay or reimburse, as the case may be, all of the working capital provided by XFM, upon demand by XFM in the sole discretion of XFM with twelve months notice following the conclusion of the twelve month period ending December 31, 2009, together with interest accrued at an annual rate of 7 percent. The earliest date that any twelve-month written notice can be given is January 1, 2010 in which event the working capital will be due January 1, 2011. At September 30, 2009, the Joint Venture Agreement with XFM provided the Company with \$1.87 million in gross proceeds and the Company recognized the amount as a \$1.87 million principal amount of a 7% Promissory Note (the “Xinhua Note”) due January 1, 2011. See Note 17

Subsequent Events for additional principal amounts from XFM related to the Joint Venture Agreement.

### 13. Beneficial Conversion Feature

As noted in Note 10 Convertible Note Payable - Related Party, the Company recorded debt discount in the amount of \$28,300 based on the intrinsic value of the beneficial conversion feature of the Mojo Music Convertible Promissory Note and debt discount in the amount of \$28,300 based on the estimated fair value of the warrants that were issued in conjunction with the Mojo Music Convertible Promissory Note.

As noted in Note 11 Convertible Note Payable, the Company recorded debt discount in the amount of \$112,700 based on the intrinsic value of the beneficial conversion feature of the YPG, LLC Convertible Promissory Note and debt discount in the amount of \$57,100 based on the estimated fair value of the warrants that were issued in conjunction with the YPG, LLC Convertible Promissory Note.

On May 11, 2009, the Company granted a consultant, as consideration for services on behalf of the Company, a vested warrant with a term of 7 seven years to purchase 1,250,000 shares of common stock with an exercise price of \$0.03 per share. The Company recorded debt discount in the amount of \$162,500 based on the estimated fair value of the warrant. In accordance with EITF No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments, the debt discount as a result of the beneficial conversion feature of the estimated fair value of the warrant was amortized as non-cash interest expense over the term of the warrant. During the nine months ended September 30, 2009, interest expense of \$11,600 has been recorded from the debt discount amortization.

## 14. Stock Based Compensation

Effective July 20, 2005, the Board of Directors of the Company approved the 2005 Stock Option and Restricted Stock Plan (the "2005 Plan"). The 2005 Plan reserves 15,000,000 shares of common stock for grants of incentive stock options, nonqualified stock options, warrants and restricted stock awards to employees, non-employee directors and consultants performing services for the Company. Options and warrants granted under the 2005 Plan have an exercise price equal to or greater than the fair market value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire 10 years from the date of grant whereas warrants generally expire 5 years from the date of grant. Restricted stock awards granted under the 2005 Plan are subject to a vesting period determined at the date of grant.

On May 6, 2009, the Board of Directors adopted, subject to stockholder approval which was obtained at the annual stockholders meeting held on June 19, 2009, an amendment to the 2005 Plan that increased the number of shares subject to the Stock Plan from 15,000,000 shares to 50,000,000 shares.

The Company accounts for stock-based compensation awards in accordance with the provisions of SFAS No. 123(R), Share-Based Payment, which addresses the accounting for employee stock options. SFAS 123(R) requires that the cost of all employee stock options, as well as other equity-based compensation arrangements, be reflected in the financial statements over the vesting period based on the estimated fair value of the awards. The Company adopted SFAS 123(R) as of January 1, 2005. Prior to the adoption date, there were no stock options or other equity-based compensation awards outstanding.

A summary of stock option and warrant activity under the amended 2005 Plan for the year ended September 30, 2009 is presented below:

|                         | Outstanding Options        |                  |                                 |   |                           |
|-------------------------|----------------------------|------------------|---------------------------------|---|---------------------------|
|                         | Shares Available for Grant | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (years) | Aggregate Intrinsic Value |
| December 31, 2008       | 8,016,667                  | 6,983,333        | 0.74                            | 6.91  |                           |
| Stock Plan Amendment    | 35,000,000                 |                  |                                 |   |                           |
| Grants                  | (39,950,000)               | 39,950,000       | 0.13                            | 9.61  |                           |
| Cancellations           | 5,975,000                  | (5,975,000)      | 0.85                            | 6.51  |                           |
| September 30, 2009      | 9,041,667                  | 40,958,333       | 0.13                            | 9.55  |                           |
| Options exercisable at: |                            |                  |                                 |   |                           |
| December 31, 2008       |                            | 6,383,333        | 0.80                            | 6.80  | -                         |
| September 30, 2009      |                            | 6,025,000        | 0.13                            | 9.43  | -                         |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on September 30, 2009 and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options on September 30, 2009. There have not been any options exercised during the nine months ended September 30, 2009 or 2008.

During the nine months ended September 30, 2009, the Company granted 39,950,000 stock-based compensation awards. All outstanding stock-based compensation awards that the Company granted in 2009 were granted at the per

share fair market value on the grant date. Vesting of options differs based on the terms of each option. The Company utilized the Black-Scholes options pricing model.

Recent Grants of Stock-based Compensation Awards.

On May 11, 2009, with the consent of Jay Rifkin, the Company's President and Chief Executive Officer, the Company canceled options held by him to purchase 4,400,000 shares of common stock, exercisable at \$0.85 per share. Further, on May 11, 2009, the Company granted Mr. Rifkin options to purchase 3,750,000 shares of common stock with an exercise price of \$0.13 per share, which equals the closing price of the Company's common stock on the date of grant, which stock options vest fully on the date of grant. In addition, on May 11, 2009, the Company granted Mr. Rifkin options to purchase 20,000,000 shares of the Company's common stock with an exercise price of \$0.13 per share, which stock options shall vest annually over a period of four years from the date of grant.

On May 11, 2009, with the consent of each of the Company's four non-employee directors, the Company cancelled options held by such directors to purchase an aggregate of 1,450,000 shares of common stock, exercisable at prices ranging from \$0.25 to \$1.50 per share. On the same date, the Company granted options to such four directors to purchase an aggregate of 1,200,000 shares of common stock, with an exercise price of \$0.13 per share, which stock options vest fully on the date of grant. In addition, on May 11, 2009, the Company granted each of the four directors options to purchase 2,000,000 shares each with an exercise price of \$0.13 per share, which stock options shall vest annually over a period of four years from the date of grant.

On May 11, 2009, the Company granted to three employees options to purchase an aggregate of 7,000,000 shares of common stock with an exercise price of \$0.13 per share. These stock options vest annually over four years from the date of grant.

During the nine months ended September 30, 2009 and 2008, stock-based compensation totaling \$1.7 million and \$135,000, respectively, was recorded by the Company. During the nine months ended September 30, 2009 and 2008, total unrecognized compensation cost related to unvested stock options was \$3 million and \$69,000. The cost is expected to be recognized over a weighted average period of 9.4 years.

## 15. Equity Transactions

### Recent Sales of Unregistered Securities

We issued the following equity securities during the Nine Months ended September 30, 2009 and 2008 that were not registered under the Securities Act of 1933, as amended (the "Securities Act").

On March 26, 2008, the Company entered into a subscription agreement with an accredited investor in a private placement exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The Company issued and sold to the accredited investor an aggregate of 10,000,000 shares of its common stock. These issuances resulted in aggregate gross proceeds to the Company of \$300,000.

On January 8, 2009, the Content License Agreement was further extended by an additional eight (8) years for a total of ten (10) years. In consideration for the increase in the term of the agreement, New China Media received four million (4,000,000) shares of the Company's common stock. The Content License Agreement extension was valued at \$604,000 based on the fair value of the associated underlying shares of the Company's common stock on the date of the extension agreement. See Note 5 Intangible Assets.

See Note 3 Other Current Assets for information on the Consulting Agreement between the Company and American Capital Ventures, Inc. ("ACV") and the issuance of shares thereunder. On February 6, 2009, pursuant to a letter of agreement with ACV, notwithstanding anything to the contrary to the Consulting Agreement between ACV and the Company, the Company agreed to issue in advance of the thirteenth month of the Consulting Agreement 250,000 shares of the Company's common stock that will be deducted from the 1,000,000 (one million) shares of the Company's common stock that were scheduled to be issued on the thirteenth month of the Consulting Agreement so that the remaining shares of the Company's common stock to be issued to ACV on such date are 750,000, unless the Consulting Agreement is earlier terminated pursuant to the terms thereof. On September 29, 2009, pursuant to the Consulting Agreement between the Company and ACV, the remaining 750,000 shares of the Company's common stock were issued. The securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On June 2, 2008, the Company entered into a Content License Agreement with New China Media, LLC ("New China Media"), YGP, LLC ("YGP") and TWK Holdings, LLC ("TWK") (New China Media, YGP and TWK collectively referred

to as “Content Providers”) providing for (i) the assignment by Content Providers and the assumption by the Company of certain rights of Content Providers for the territory of the People’s Republic of China to use, transmit and publicly display via the Internet certain content; and (ii) the purchase by YGP, New China Media and TWK of 16,200 shares, 3,000 shares and 12,000 shares of Series A Convertible Preferred Stock of the Company for \$16,200, \$3,000 and \$12,000, respectively. On May 14, 2009 the Company issued 12,000,000 shares of common stock to TWK, pursuant to a notice of conversion, in which TWK agreed to convert the entire amount of their shares of Series A Convertible Preferred Stock of the Company into 12,000,000 shares of common stock. The securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On June 10, 2008, the Company’s subsidiary, Youth Media (Hong Kong) Limited (“YMHK”), entered into a Cooperation Agreement with China Youth Net Technology (Beijing) Co., Ltd. (“CYN”), China Youth Interactive Cultural Media (Beijing) Co., Ltd. (“CYI”) and China Youth Net Advertising Co. Ltd. (“CYN Ads”). In conjunction with the Cooperation Agreement, on June 10, 2008, the Company agreed to issue an aggregate of 71,020 shares of its Series A Convertible Preferred Stock to designees of CYN. See Note 17 Subsequent Events for information regarding a new Cooperation Agreement entered into by the Company which replaced the Cooperation Agreement entered into on June 10, 2008.

During June 2008, the Company sold a total of 1,583,335 shares of its common stock at \$0.03 per share to six investors for an aggregate purchase price of \$47,500 in cash.

See Note 10 Convertible Note Payable – Related Party for information on the conversion of the Rebel Holdings Convertible Note into shares of the Company's common stock.

#### 16. Warrants

During 2005, the Company issued a total of 550,000 warrants, outside of its 2005 Plan, to purchase shares of common stock at prices ranging from \$0.145 to \$0.65 per share to consultants.

During September 2008, the Company entered into subscription agreements with Year of the Golden Pig, LLC ("YGP, LLC") and with Mojo Music, Inc. ("Mojo Music"), in which the Company issued an aggregate of 4 Units, with each Unit consisting of a \$100,000 principal amount of a 12% Convertible Promissory Note due three years from its issuance and 350,000 Common Stock Purchase Warrants outside of its 2005 Plan, with each Warrant entitling the holder thereof to purchase at any time beginning from the date of issuance through five years thereafter one share of Common Stock at a price of \$0.09 per share.

On May 11, 2009, the Company granted a consultant, as consideration for services on behalf of the Company, a vested warrant with a term of 7 seven years to purchase 1,250,000 shares of common stock with an exercise price of \$0.03 per share. The issuance of this warrant was exempt from registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The following table summarizes information about common stock warrants outstanding at September 30, 2009:

| Exercise Price   | Outstanding        |   |                                 | Exercisable        |                                 |  |
|------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|--|
|                  | Number Outstanding | Weighted Average Contractual Life (years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |  |
| \$ 0.15          | 250,000            | 0.10                                      | \$ 0.01                         | 250,000            | \$ 0.01                         |  |
| \$ 0.65          | 300,000            | 0.09                                      | \$ 0.06                         | 300,000            | \$ 0.06                         |  |
| \$ 0.09          | 875,000            | 1.07                                      | \$ 0.02                         | 875,000            | \$ 0.02                         |  |
| \$ 0.09          | 525,000            | 0.66                                      | \$ 0.01                         | 525,000            | \$ 0.01                         |  |
| \$ 0.03          | 1,250,000          | 2.58                                      | \$ 0.01                         | 1,250,000          | \$ 0.01                         |  |
| \$ 0.03 - \$0.65 | 3,200,000          | 4.50                                      | \$ 0.12                         | 3,200,000          | \$ 0.12                         |  |

#### 17. Subsequent Events

On October 23, 2009, pursuant to the Joint Venture agreement (see Note 12 Note Payable), XFM advanced the Company \$160,000. The total funds advanced were consistent with the monthly scheduled working capital needs of the Company, as provided for in the budget as set forth in the business plans. The Company recognized the aggregate amount of \$160,000 as additional principal on the 7% Promissory Note due January 1, 2011.

On October 22, 2009, the Company issued 234,789 shares of the Company's common stock pursuant to a Conversion and Note Termination Agreement dated July 1, 2008 pursuant to which the entire principal amount outstanding and all interest accrued from inception of a certain promissory note through the date of the Conversion Note would be converted into 234,789 shares of the Company's common stock. See Note 9 Note Payable - Related Party.

On October 22, 2009, the Company issued 200,000 shares of the Company's common stock pursuant to a Reimbursement Termination Agreement pursuant to which amounts owed to a director of the Company, as fees for services as the Audit Committee Chairwoman, totaling \$6,000, with a conversion price of \$0.03 per share, would be converted into 200,000 shares of the Company's common stock.

On November 3, 2009, the Company agreed to issue an aggregate of 19,000,000 shares of its common stock, in conjunction with, a new Cooperation Agreement (the "2009 Cooperation Agreement") entered into by YMHK, on July 3, 2009, with China Youth Interactive Cultural Media (Beijing) Co., Ltd. ("CYI") and China Youth Net Advertising Co. Ltd. ("CYN Ads") which replaced a Cooperation Agreement entered into on June 10, 2008 among YMHK, China Youth Net Technology (Beijing) Co., Ltd. ("CYN"), CYI and CYN Ads pursuant to which the parties agreed to cooperate with each other to develop, build and operate a fully managed video and audio distribution network based on, including but not limited to, the China Education and Research Network, the broadband network infrastructure built in schools, universities and other education institutions in China (the "Campus Network"). In consideration of the rights granted to YMHK under the 2009 Cooperation Agreement, YMHK has agreed to pay CYI an amount equal to 20% of YMBJ's annual after-tax profits and dividends, if any, as audited by YMBJ's independent auditor and which YMHK will obtain from YMBJ for each financial year of YMBJ during the term of the 2009 Cooperation Agreement. The 19,000,000 shares of common stock agreed to be issued under the 2009 Cooperation Agreement replace and are in lieu of 71,020 shares of the Company's Series A Convertible Preferred Stock (convertible into 71,020,000 shares of common stock) which were agreed to be issued to designees of CYN under the Cooperation Agreement entered into on June 10, 2008.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes thereto contained elsewhere in this Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. All statements regarding future events, our future financial performance and operating results, our business strategy and our financing plans are forward-looking statements. In many cases, you can identify forward-looking statements by terminology, such as "may," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable terminology. These statements are only predictions. Known and unknown risks, uncertainties and other factors could cause our actual results to differ materially from those projected in any forward-looking statements. In evaluating these statements, you should specifically consider various factors, including, but not limited to, those set forth under "Risk Factors" previously disclosed in Item 1A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed with the SEC on April 13, 2008.

The following "Overview" section is a brief summary of the significant issues addressed in this MD&A. Investors should read the relevant sections of the MD&A for a complete discussion of the issues summarized below. The entire MD&A should be read in conjunction with Item 1. Financial Statements.

#### Overview

##### China Youth Media, Inc.

China Youth Media, Inc. is a China focused youth marketing and media company whose business is to provide advertisers and corporations with direct and centralized access to China's massive but difficult to reach student population. The cornerstone of the Company's China youth marketing strategy is Koobee, a large scale, advertising supported Intranet Television Network (ITVN) media portal that is initially targeting China's campus-based college students, estimated to total more than 30 million young people.

##### Koobee

Koobee is a venue designed for marketers to deliver traditional TV spots and new media advertising campaigns to a highly targeted demographic in the world's fastest growing broadband market. Koobee will deliver TV-style entertainment primarily on a dedicated fiber network directly to the computers of these students, offering a compelling solution for advertisers and corporations to reach the most active online community in China and a key segment of the world's largest youth market.

Koobee will initially be offering a 24 hour sports channel featuring All Sports Network (ASN) content from the NFL, NHL, and Pac 10 and Big Ten games; a 24 hour music channel by BTTV, a popular youth lifestyle and music entertainment TV channel in China; a travel and leisure channel by Quest USA; and a fashion channel featuring "China's Next Top Model," part of the international Top Model franchise and based on the hit U.S. TV show "America's Next Top Model."

While we plan to offer a range of premium international content, we also anticipate that Koobee will be the first live network to be populated directly by students for students, making it a powerful tool set to promote events, ideas and interests to students all over China.

To our advertisers, we plan to offer multiple touch points ranging from interstitial interactive ads to banners within social networking clubs and sponsored competitions, all with accurate ad tracking that will help ensure that clients realize value from unique and fully licensed content. With Koobee, we intend to provide advertisers the impact of TV

with the ROI of the Internet. We expect this combination to be competitive and sufficiently appealing to capture market share in China's fast growth online advertising industry.

#### Online

Whether through Koobee.com, Koobee.com.cn or Koobee.tv, we have strategically positioned Koobee, the advertising supported ITVN media portal, to be the engine that drives multiple revenue streams, including brand sponsorships, interactive advertising and eCommerce. Koobee is a venue designed for marketers to deliver traditional TV spots and new media advertising campaigns to a highly targeted demographic in the world's fastest growing broadband market.

#### On Campus

Our access to China's college students includes event staging and advertising rights on campuses throughout China. China Youth Media will offer marketers an opportunity to sponsor live events and showcase their brands with international touring acts. We will carefully place each event at the most appropriate campuses and venues to generate the largest turnout and highest ROI. We will also offer coordinated Internet and campus event campaigns that will bring international touring acts and sponsors directly to China's college students with live ITVN broadcast straight into their dorm rooms. We have a strategic partnership with Xinhua Sports & Entertainment Ltd., a leading media group in China with assets that include an extensive event planning group with international brands as clients.

## On Mobile

Our partner China Youth Net is in the final stages of securing our mobile video and advertising license. Our plan is to deploy an advanced mobile media and advertising delivery system catering specifically to China's youth market. We will offer opt-in surveys and data collection, as well as coordinated Internet, campus event and mobile campaigns.

## Advertising Services

China Youth Media seeks to enable brands to achieve their media objective by providing tailor-made advertising services and niche-targeted media campaigns. Our brand-tailored advertising services will include:

- 1) Targeted niche marketing into campuses
- 2) Standard digital media buys on our Koobee portal
- 3) In-show ad inventory
- 4) Creative ad placements and overlays
- 5) Channel sponsorship and branded content
- 6) Competitive CPMs and building priceless lifetime loyalty
- 7) Event sponsorship
- 8) Mobile media and text campaigns

Our secure and fully tracked network will help ensure that advertisers see real returns and value. Our accurate ad tracking will detail precisely how many times an ad has been consumed, where it has been viewed and for how long, providing comprehensive student viewer profiles throughout.

## Youth Media (BVI) Limited

On May 8, 2008, under the laws of the British Virgin Islands, the Company formed Youth Media (BVI) Limited ("YM BVI"). YM BVI is a wholly-owned subsidiary of the Company and was established for the purpose of incorporating the Company's wholly-owned subsidiary in Hong Kong.

## Youth Media (Hong Kong) Limited and Youth Media (Beijing) Limited

Youth Media (Hong Kong) Limited ("YMHK"), a company organized under the laws of Hong Kong on May 19, 2008, and Youth Media (Beijing) Limited ("YMBJ"), a company organized under the laws of the People's Republic of China on December 10, 2008, are wholly-owned subsidiaries of YM BVI and were formed by the Company to take advantage of its shift in business to aggregation and distribution of international content and advertising for Internet or online consumption in China.

## Other Business

Rebel Crew Films, Inc.

Rebel Crew Films is a wholly-owned subsidiary of the Company and was organized under the laws of the State of California on August 7, 2002. In January 2008, the Company entered into a license and distribution agreement with Westlake Entertainment, Inc. which effectively shifted all day-to-day operations related to our home video library to Westlake Entertainment. Rebel Crew Films, Inc. is currently inactive.

PerreoRadio.com

PerreoRadio.com is our wholly-owned and operated website targeted to the young, urban Latino demographic offers online radio shows, podcasts, music, and music videos.

## Company History

China Youth Media, Inc. (referred to herein as the "Company," "we," "us," and "our") was organized under the laws of the State of Utah on July 19, 1983 under the name of Digicorp. On February 22, 2007, we changed the Company's domicile from the State of Utah to the State of Delaware effected by the merger of the Company, a Utah corporation, with and into, Digicorp, Inc., a newly formed wholly owned subsidiary of the Company that was incorporated under the Delaware General Corporation Law for the purpose of effecting the change of domicile.

The Company changed its name from "Digicorp, Inc." to "China Youth Media, Inc." (the "Corporate Name Change") pursuant to a Certificate of Amendment to our Certificate of Incorporation filed with the State of Delaware which took effect as of October 16, 2008. The Corporate Name Change was approved and authorized by the Board of Directors of the Company and by the holders of shares representing a majority of our voting securities which holders have given their written consent. As a result of the Corporate Name Change, our stock symbol changed to "CHYU" with the opening of trading on October 16, 2008 on the OTCBB.

The Company is organized in a single operating segment with no long-lived assets outside of the United States of America. All of our revenues to date have been generated in the United States, but with the development of our China ITVN media portal, we expect that a portion of our future revenues will be from other countries.

## Revenue Sources

Advertising Supported Intranet Television Network Media Website - Koobee is a large scale, advertising supported Intranet Television Network (ITVN) media portal that is initially targeting China's campus based college students, estimated to total more than 30 million young people. Koobee is a venue for marketers to deliver traditional TV spots and new media advertising campaigns to a vast, upwardly mobile, targeted demographic. Advertisers and channel owners will have available to them multiple touch points ranging from interstitial interactive ads to banners within social networking clubs and sponsored competitions, all with accurate ad tracking that ensures clients realize value from unique and fully licensed content. We expect this combination to be competitive and sufficiently appealing to capture market share in China's fast growth online advertising industry.

## Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operation are based upon the accompanying financial statements which have been prepared in accordance with the generally accepted accounting principles in the United States of America. The preparation of the financial statements requires that we make estimates and assumptions that affect the amounts reported in assets, liabilities, revenues and expenses. Management evaluates on an on-going basis our estimates with respect to the valuation allowances for accounts receivable, income taxes, accrued expenses and equity instrument valuation, for example. We base these estimates on various assumptions and experience that we believe to be reasonable. The following critical accounting policies are those that are important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain.

The following critical accounting policies affect our more significant estimates used in the preparation of our financial statements and, in particular, our most critical accounting policy relates to the valuation of our intangible assets and stock based compensation.

Allowance for Doubtful Account - Our allowance for doubtful accounts relates to accounts receivable. The allowance for doubtful accounts is an estimate prepared by management that identifies a certain portion of receivables that may go uncollected. In determining adequacy of the allowance for doubtful account, we consider customer balances in

receivables, historical bad debts, customer concentrations, current economic trends and changes in customer payment patterns. Changes in the financial condition of our customer may change, which would require additional allowances. The allowance for doubtful account is reviewed quarterly, and adjustments are made as deemed necessary.

**Beneficial Conversion Feature of Convertible Notes Payable** - The Beneficial Conversion Feature ("BCF") of a convertible note, is normally characterized as the convertible portion or feature of certain notes payable that provide a rate of conversion that is below market value or in-the-money when issued. The Company accounts for BCF in accordance with the guidelines established by Emerging Issues Task Force ("EITF") 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios. The Company records a BCF related to the issuance of a convertible note when issued and also records the estimated fair value of the warrants issued with those convertible notes. The BCF of a convertible note is measured by allocating a portion of the note's proceeds to the warrants and as a reduction of the carrying amount of the convertible note equal to the intrinsic value of the conversion feature, both of which are credited to additional paid-in-capital. The Company calculates the fair value of warrants issued with the convertible note using the Black-Scholes valuation model and uses the same assumptions for valuing employee options in accordance with SFAS No. 123R. The only difference is that the contractual life of the warrants is used. The value of the proceeds received from a convertible note is then allocated between the conversion feature and warrants on a relative fair value basis. The allocated fair value is recorded in the consolidated financial statements as a debt discount (premium) from the face amount of the note and such discount is amortized over the expected term of the convertible note (or to the conversion date of the note, if sooner) and is credited to interest expense.

Goodwill and Other Intangible Assets - Goodwill and Intangible Assets correspond to the excess cost over fair value of certain assets during acquisition. In accordance with the provisions of FASB Statement No. 142, Goodwill and Other Intangible Assets, goodwill and intangible assets acquired that are determined to have an indefinite useful life are not subject to amortization, but instead are tested for impairment at periodic intervals. Intangible assets with a useful life that can be estimated are amortized over their respective estimated useful lives to their estimated residual values and are reviewed periodically for impairment in accordance with FASB Statement No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. Certain events or changes in circumstances may occur that indicate that goodwill or assets are impaired and consequently require testing on a periodic basis. Determining the fair value of goodwill or assets is subjective in nature and involves using estimates and assumptions. We base our fair value estimates on assumptions we believe to be reasonable but that are inherently uncertain. To date we have not recognized impairments on any of our goodwill and other intangible assets.

Stock-Based Compensation - We have adopted the provisions of SFAS No. 123(R), Share-Based Payment, which requires that share-based payments be reflected as an expense based upon the grant-date fair value of those grants. Accordingly, the fair value of each option grant, non-vested stock award and shares issued under our employee stock purchase plan, were estimated on the date of grant. We estimate the fair value of these grants using the Black-Scholes model which requires us to make certain estimates in the assumptions used in this model, including the expected term the award will be held, the volatility of the underlying common stock, the discount rate, dividends and the forfeiture rate. The expected term represents the period of time that grants and awards are expected to be outstanding. Expected volatilities were based on historical volatility of our stock. The risk-free interest rate approximates the U.S. treasury rate corresponding to the expected term of the option. Dividends were assumed to be zero. Forfeiture estimates are based on historical data. These inputs are based on our assumptions, which we believe to be reasonable but that include complex and subjective variables. Other reasonable assumptions could result in different fair values for our stock-based awards. Stock-based compensation expense, as determined using the Black-Scholes option pricing model, is recognized on a straight line basis over the service period, net of estimated forfeitures. To the extent that actual results or revised estimates differ from the estimates used, those amounts will be recorded as a cumulative adjustment in the period that estimates are revised.

## Results of Operations

### Revenues

Revenue for the Nine Months ended September 30, 2009 was \$5,000 as compared to the nine months ended September 30, 2008 in which we generated revenues of \$107,000. Revenue for the three months ended September 30, 2009 was \$5,000 as compared to the three months ended September 30, 2008 in which we generated revenues of \$28,000. The decrease in sales revenue during both the three months ended and nine months ended September 30, 2009 is principally attributed to the change in the Company strategy to building and launching a large scale, advertising supported Internet media portal in China.

### Operating Expenses

Operating expenses were \$3,936,000 and \$1,898,000 during the nine months ended September 30, 2009 and 2008, respectively. Operating expenses were \$1,310,300 and \$1,025,000 during the three months ended September 30, 2009 and 2008, respectively. The significant component in the increase in operating expenses during both the three months ended and nine months ended September 30, 2009 were the non-cash expenses related to the amortization of our content and license agreements and stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors.

Stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors increased to \$1.7 million during nine months ended September 30, 2009 from \$134,000 during the nine months ended September 30, 2008. The increase in stock based compensation expense from grants of nonqualified stock options resulted from grants of nonqualified stock options to select employees and non-employee directors of the Company. See Note 14. Stock Based Compensation. During the three months ended September 30, 2009 and 2008 stock based compensation expense was \$531,000 and \$38,000, respectively.

Salaries and employee benefits, excluding stock based compensation expense, reflected an increase of approximately \$45,000 for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. During the nine months ended September 30, 2009 and 2008, salaries and employee benefits, excluding stock based compensation expense was \$396,000 and \$351,000, respectively. During the three months ended September 30, 2009 and 2008, salaries and employee benefits, excluding stock based compensation expense was \$160,000 and \$110,000, respectively.

The remaining operating expenses consisted of professional fees, rent expense, amortization expense and general and administrative expenses. Professional fees were approximately \$74,000 more during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. During the nine months ended September 30, 2009 and 2008, professional fees were approximately \$387,000 and \$313,000, respectively. The increase in professional fees is due to increases in amounts paid in consulting and legal fees related to our wholly-owned subsidiaries in Hong Kong and China and the deployment of our Internet media portal in China. During the three months ended September 30, 2009 and 2008, professional fees were approximately \$93,000 and \$101,000, respectively.



Accounting Fees for the nine months ended September 30, 2009 and 2008 were \$40,000 and \$53,000, respectively. The fees paid for Accounting services are related to Auditing and SEC filing requirements. During the three months ended September 30, 2009 and 2008, accounting expense was \$13,000 and \$7,000, respectively.

Legal expense increased by approximately \$22,500 during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. During the nine months ended September 30, 2009 and 2008 legal fees were \$140,500 and \$118,000, respectively. The increase in legal fees paid is attributed primarily to the further expansion of our Internet media portal in China, the development of contracts and review of major company transactions in China. During the three months ended September 30, 2009 and 2008, legal fees were \$24,000 and \$36,000, respectively.

Consulting fees increased by \$64,500 during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008. For the nine months ended September 30, 2009 consulting fees were \$207,000 of which the majority of the expense was related to the expansion of our Internet media portal in China. During the nine months ended September 30, 2009 and 2008 consulting fees were \$207,000 and \$142,000, respectively. During the three months ended September 30, 2009 and 2008, consulting fees were \$56,000 and \$58,000, respectively.

Amortization of Intangible Assets. Non-cash amortization expense for the nine months ended September 30, 2009 and 2008 were \$595,500 and \$633,500, respectively. Amortization expense is attributed almost exclusively to the amortization of the Content License Agreement with New China Media, LLC, YGP, LLC ("YGP") and TWK Holdings, LLC. and to the amortization of the Cooperation Agreement with China Youth Net Technology (Beijing) Co., Ltd., China Youth Interactive Cultural Media (Beijing) Co., Ltd. and China Youth Net Advertising Co. Ltd. During the three months ended September 30, 2009 and 2008, non-cash amortization expense was \$257,000 and \$579,000, respectively.

General and administrative expense increased by approximately \$421,000 during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 and is attributed to the Company's focus on our Internet media portal in China. During the nine months ended September 30, 2009 and 2008 general and administrative expense was \$644,000 and \$244,000, respectively. During the three months ended September 30, 2009 and 2008 general and administrative expense was \$202,000 and \$90,000, respectively.

#### Net Loss

For the nine months ended September 30, 2009 and 2008 the Company had a net loss of approximately \$4 million and \$2.2 million, respectively. For the three months ended September 30, 2009 and 2008, the Company had a net loss of approximately \$1.3 million and \$1.2 million, respectively. The increase in the net loss recorded for both the three months ended and the nine months ended September 30, 2009 as compared to the three months ended and the nine months ended September 30, 2008, respectively is in part attributed to the significant increases in the non-cash expense from the amortization of our intangible assets and the non-cash expense from grants of nonqualified stock options to our employees and non-employee directors.

For the nine months ended September 30, 2009, the aggregate amount of the non-cash expense from the amortization of our intangible assets and the non-cash expense from grants of nonqualified stock options was \$2.3 million, representing 58% of the Company's net loss for the nine months ended September 30, 2009, as compared to the nine months ending September 30, 2008 where the aggregate amount of the non-cash expense from the amortization of our intangible assets and the non-cash expense from grants of nonqualified stock options was \$768,000 representing 36% of the Company's net loss for the nine months ended September 30, 2008. For the three months ended September 30, 2009 and 2008, non-cash expense from the amortization of our intangible assets were \$257,000 and \$579,000, respectively, and non-cash expense from grants of nonqualified stock options during the same two periods were

\$531,000 and \$38,000, respectively.

Interest Income and Other, Net

Given the financial constraints of the Company and its reliance on financing activities, interest expense related to the financing of capital was \$207,000 for the nine months ended September 30, 2009 as compared to \$330,000 for the nine months ended September 30, 2008. This represents a decrease of approximately \$124,000 in interest expense and is primarily attributed to the interest that no longer accrued subsequent to the conversion of the Rebel Holdings Convertible Note on September 10, 2008. See Note 10. Convertible Note Payable - Related Party. For the three months ended September 30, 2009 and 2008, interest expense was \$66,000 and \$250,000, respectively.

## Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from financing activities. For the nine months ended, September 30, 2009, the Company's primary source of liquidity was the working capital provided to the Company pursuant to the Joint Venture Agreement with Xinhua Sports and Entertainment Limited (formerly Xinhua Finance Media Limited) ("XSEL"). Pursuant to the Joint Venture agreement, XSEL provides working capital to the Company's wholly-owned subsidiary, YMHK, in monthly increments for the twelve month period ending December 31, 2009. At September 30, 2009, the Joint Venture Agreement with XSEL provided the Company with \$1.87 million in gross proceeds and the Company recognized that amount as the principal amount of a 7% Promissory Note due January 1, 2011. As of September 30, 2009, our cash and cash equivalents were \$217,000. We had a working capital deficit of approximately \$746,000 at September 30, 2009 and we continue to have recurring losses. In the past we have primarily relied upon loans from related parties to fund our operations and, to a lesser extent, financing transactions with other parties. These conditions raise substantial doubt about our ability to continue as a going concern. We are actively seeking sources of additional financing in order to maintain and potentially expand our operations and to fund our debt repayment obligations. Even if we are able to obtain funding, there can be no assurance that a sufficient level of sales will be attained to fund such operations or that unbudgeted costs will not be incurred. Future events, including the problems, delays, expenses and difficulties frequently encountered by similarly situated companies, as well as changes in economic, regulatory or competitive conditions, may lead to cost increases that could make the net proceeds of any new funding and cash flow from operations insufficient to fund our capital requirements. There can be no assurances that we will be able to obtain such additional funding from management or other investors on terms acceptable to us, if at all.

Total assets were \$9,390,419 at September 30, 2009 versus \$8,961,778 at December 31, 2008. The change in total assets is primarily attributable to several transactions conducted by the Company resulting in an increase in Intangible Assets. See Note 5 Intangible Assets.

DVD sales decreased significantly during the year ended December 31, 2008 and ceased completely during the nine months ended September 30, 2009. This reflects the Company's plan to exploit of our internet media portal in China. We do not expect to generate revenues from the sales of our home video library during the years ending December 31, 2009 and 2010.

Intangible Assets, net at September 30, 2009 and December 31, 2008 were \$8,810,000 and \$8,537,000, respectively. This increase in the Company's intangible assets was as a result of the capitalization of the Supplement to the Content License Agreement and the EPL Agreement as described in Note 5 Intangible Assets. Furthermore, the increase in intangible assets was slightly offset by the increase in the amortization expense.

Accumulated amortization expense at September 30, 2009 and December 31, 2008 was \$595,500 and \$497,000, respectively.

Property and Equipment increased primarily from the purchase of computers, computer servers, and office equipment in China during the nine months ended September 30, 2009. At September 30, 2009 and 2008, property and equipment, excluding accumulated depreciation, was \$105,000 and \$37,000, respectively. Accumulated depreciation for the nine months ended, September 30, 2009 and 2008 was \$34,000 and \$22,000, respectively.

## Off-Balance Sheet Arrangements

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

## Risk Factors

There have been no material changes from risk factors previously disclosed in Item 1A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which was filed with the SEC on April 13, 2009.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### Item 4T. Controls and Procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based upon this evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2009, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is: (1) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure; and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. There was no change to our internal controls or in other factors that could affect these controls during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II

### Item 1. Legal Proceedings.

We are not a party to any pending legal proceeding, nor is our property the subject of a pending legal proceeding, that is not in the ordinary course of business or otherwise material to the financial condition of our business. None of our directors, officers or affiliates is involved in a proceeding adverse to our business or has a material interest adverse to our business.

### Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On January 8, 2009, the Content License Agreement was further extended by an additional eight (8) years for a total of ten (10) years. In consideration for the increase in the term of the agreement, New China Media received four million (4,000,000) shares of the Company's common stock. The Content License Agreement extension was valued at \$604,000 based on the fair value of the associated underlying shares of the Company's common stock on the date of the extension agreement. See Note 5 Intangible Assets.

On February 6, 2009, pursuant to a letter of agreement with ACV, notwithstanding anything to the contrary to the Consulting Agreement between ACV and the Company, the Company agreed to issue in advance of the thirteenth month of the Consulting Agreement 250,000 shares of the Company's common stock that will be deducted from the 1,000,000 (one million) shares of the Company's common stock that were scheduled to be issued on the thirteenth month of the Consulting Agreement so that the remaining shares of the Company's common stock to be issued to ACV on such date are 750,000, unless the Consulting Agreement is earlier terminated pursuant to the terms thereof. On September 29, 2009, pursuant to the Consulting Agreement between the Company and ACV, the remaining 750,000 shares of the Company's common stock were issued.

On June 2, 2008, the Company entered into a Content License Agreement with New China Media, LLC ("New China Media"), YGP, LLC ("YGP") and TWK Holdings, LLC ("TWK") (New China Media, YGP and TWK collectively referred to as "Content Providers") providing for (i) the assignment by Content Providers and the assumption by the Company of certain rights of Content Providers for the territory of the People's Republic of China to use, transmit and publicly display via the Internet certain content; and (ii) the purchase by YGP, New China Media and TWK of 16,200 shares, 3,000 shares and 12,000 shares of Series A Convertible Preferred Stock of the Company for \$16,200, \$3,000 and \$12,000, respectively. On May 14, 2009 the Company issued 12,000,000 shares of common stock to TWK, pursuant to a notice of conversion, in which TWK agreed to convert the entire amount of their shares of Series A Convertible Preferred Stock of the Company into 12,000,000 shares of common stock.

On September 10, 2008, the Company, on the one hand, and Jay Rifkin, the Company's President and Chief Executive Officer, and Rebel Holdings, LLC ("Rebel Holdings"), of which Mr. Rifkin is the sole managing member, on the other hand, entered into a Loan Consolidation and Amendment to Security Agreement (the "Loan Consolidation Agreement"), effective as of July 1, 2008. Pursuant to the Loan Consolidation Agreement, the parties agreed to consolidate various outstanding loans made to the Company by Jay Rifkin and Rebel Holdings and other amounts incurred by or due to Mr. Rifkin, in each case through June 30, 2008, into one convertible promissory note payable to Rebel Holdings in the principal amount of \$2,078,047, with a maturity date of July 1, 2010 and interest at the prime rate (the "Consolidated Note"). The Consolidated Note provided that the principal amount thereof shall, at the option of Rebel Holdings, be

convertible at a conversion price equal to the lesser of, or more favorable to Rebel Holdings, of the following (i) \$0.03 per share of Common Stock (which represents the offering price of the Company's Common Stock in its most recently completed equity financing transaction) provided a notice of conversion is submitted no later than 45 days after September 10, 2008, or (ii) the then current offering terms for any bona fide pending offering of the Company, provided a notice of conversion pursuant thereto is submitted no later than 30 days following the completion of the offering, and contains such other terms and conditions as set forth therein. On May 14, 2009 the Company issued Rebel Holdings 69,268,233, pursuant to a notice of conversion provided within the allowable time period, in which Rebel Holdings elected to convert the entire principal amount outstanding under the Consolidated Note into 69,268,233 shares of common stock at \$0.03 per share.

On October 22, 2009, the Company issued 234,789 shares of the Company's common stock pursuant to a Conversion and Note Termination Agreement dated July 1, 2008 pursuant to which the entire principal amount outstanding and all interest accrued from inception of a certain promissory note through the date of the Conversion Note would be converted into 234,789 shares of the Company's common stock. See Note 9 Note Payable - Related Party.

On October 22, 2009, the Company issued 200,000 shares of the Company's common stock pursuant to a Reimbursement Termination Agreement pursuant to which amounts owed to a director of the Company, as fees for services as the Audit Committee Chairwoman, totaling \$6,000, with a conversion price of \$0.03 per share, would be converted into 200,000 shares of the Company's common stock.

On November 3, 2009, the Company agreed to issue an aggregate of 19,000,000 shares of its common stock, in conjunction with, a new Cooperation Agreement (the "2009 Cooperation Agreement") entered into by YMHK, on July 3, 2009, with China Youth Interactive Cultural Media (Beijing) Co., Ltd. ("CYI") and China Youth Net Advertising Co. Ltd. ("CYN Ads") which replaced a Cooperation Agreement entered into on June 10, 2008 among YMHK, China Youth Net Technology (Beijing) Co., Ltd. ("CYN"), CYI and CYN Ads pursuant to which the parties agreed to cooperate with each other to develop, build and operate a fully managed video and audio distribution network based on, including but not limited to, the China Education and Research Network, the broadband network infrastructure built in schools, universities and other education institutions in China (the "Campus Network"). See Item 5. Other Information for a discussion of the 2009 Cooperation Agreement.

On May 11, 2009, with the consent of Jay Rifkin, the Company's President and Chief Executive Officer, the Company canceled options held by him to purchase 4,400,000 shares of common stock, exercisable at \$0.85 per share. Further, on May 11, 2009, the Company granted Mr. Rifkin options to purchase 3,750,000 shares of common stock with an exercise price of \$0.13 per share, which equals the closing price of the Company's common stock on the date of grant, which stock options vest fully on the date of grant. In addition, on May 11, 2009, the Company granted Mr. Rifkin options to purchase 20,000,000 shares of the Company's common stock with an exercise price of \$0.13 per share, which stock options shall vest annually over a period of four years from the date of grant.

On May 11, 2009, with the consent of each of the Company's four non-employee directors, the Company cancelled options held by such directors to purchase an aggregate of 1,450,000 shares of common stock, exercisable at prices ranging from \$0.25 to \$1.50 per share. On the same date, the Company granted options to such four directors to purchase an aggregate of 1,200,000 shares of common stock, with an exercise price of \$0.13 per share, which stock options vest fully on the date of grant. In addition, on May 11, 2009, the Company granted each of the four directors options to purchase 2,000,000 shares each with an exercise price of \$0.13 per share, which stock options shall vest annually over a period of four years from the date of grant.

On May 11, 2009, the Company granted to three employees options to purchase an aggregate of 7,000,000 shares of common stock with an exercise price of \$0.13 per share. These stock options vest annually over four years from the date of grant.

On May 11, 2009, the Company granted a consultant, as consideration for services on behalf of the Company, a vested warrant with a term of seven years to purchase 1,250,000 shares of common stock with an exercise price of \$0.03 per share.

All of the foregoing securities were issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

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Item 5. Other Information.

On July 3, 2009, the Company's subsidiary, Youth Media (Hong Kong) Limited ("YMHK"), entered into a new Cooperation Agreement (the "2009 Cooperation Agreement") with China Youth Interactive Cultural Media (Beijing) Co., Ltd. ("CYI") and China Youth Net Advertising Co. Ltd. ("CYN Ads") which replaced a Cooperation Agreement entered into on June 10, 2008 (the "Old Agreement") among YMHK, China Youth Net Technology (Beijing) Co., Ltd. ("CYN"), CYI and CYN Ads pursuant to which the parties agreed to cooperate with each other to develop, build and operate a fully managed video and audio distribution network based on, including but not limited to, the China Education and Research Network, the broadband network infrastructure built in schools, universities and other education institutions in China (the "Campus Network"). See the Company's Current Report on Form 8-K filed on June 16, 2008 for information on the Old Agreement.

CYI is a business entity ultimately controlled by China Youth League and is entrusted by China Youth League to develop, set up and operate a comprehensive network platform with on-campus students as targeted users and to provide information and related value-added services through such network under the China Youth League, and CYI has obtained an exclusive authorization from the Movie and Television Network Center of China Youth League (the "Center") for that purpose. The China Youth League is a youth movement of the People's Republic of China ("PRC") for youth between the ages of 14 and 28, run by the Communist Party of China. The Center, which is a related entity of CYN and is also controlled by China Youth League, has been approved by the PRC State Administration of Radio, Film and Television and issued an Online Video-Audio License by the same authority for dissemination of video and audio contents through an information network. CYN Ads has been granted by CYN with certain advertising rights to place advertisements through networks under the auspices of CYN.

The 2009 Cooperation Agreement, which is materially comparable to the Old Agreement except as noted below, provides that YMHK or any third party/parties designated by YMHK shall be granted the following exclusive rights during the term of the 2009 Cooperation Agreement and any renewal period of the term: (a) exclusive right to advertise on the Campus Network and to source advertising business for this purpose; (b) exclusive right to sell and operate the commercial campus marketing events; (c) right to provide foreign commercial content to the Campus Network (excluding non-profit, educational content exchange and those contents that are not permitted to be disseminated through the Campus Network under applicable Chinese laws); and (d) enjoy the rights with respect to the setup, operation, maintenance and expansion of the Campus Network according to a separate commercial and technical services agreement.

The 2009 Cooperation Agreement acknowledges, and as contemplated by the Old Agreement, that YMHK has established Youth Media (Beijing) Limited, a wholly-foreign-owned company 100% invested by and owned by YMHK in Beijing, China ("YMBJ") to provide CYI with relevant business, commercial, operational and technical supports, assistances and services with respect to the setup, operation, maintenance and expansion of the Campus Network according to separate agreement between CYI and YMBJ.

The parties have agreed, like in the Old Agreement, that the board of directors of YMBJ shall be composed of five directors, of which three shall be nominated by YMHK (and one of them shall be the chairman and legal representative of YMBJ) and the other two nominated by CYI. Further, the articles of association of YMBJ shall contain appropriate provisions that certain significant business matters of YMBJ shall require unanimous approval of all five directors or with substantially the same effect.

The term of the 2009 Cooperation Agreement shall be 20 years and may be renewed for an additional term of 10 years by notice in writing given by YMHK to the other parties at least 60 days prior to the expiration of the term. Notwithstanding the foregoing, either CYI on the one side or YMHK on the other side may terminate the Cooperation Agreement: (a) if the commercial and technical services agreement entered into between CYI and YMBJ

is terminated according to its terms; (b) if the other side commits a material breach of the 2009 Cooperation Agreement; and (c) if the other side becomes insolvent or bankrupt.

The parties have acknowledged, and as contemplated by the Old Agreement, that 49% of CYI's total equity interest has been acquired by a PRC citizen designated and acceptable to CYI and YMHK. Such designated stockholder has entered into a series of contractual arrangements which include (i) appointing a designee of YMHK as the proxy to exercise all of such stockholders' voting rights with respect to CYI, (ii) granting an option to YMHK to acquire such equity interest provided it is permitted by PRC laws, and (iii) pledging all of such stockholder's equity interest in CYI to YMHK in order to guarantee the foregoing obligations.

In consideration of the rights granted to YMHK under the 2009 Cooperation Agreement, YMHK has agreed to pay CYI an amount equal to 20% of YMBJ's annual after-tax profits and dividends, if any, as audited by YMBJ's independent auditor and which YMHK will obtain from YMBJ for each financial year of YMBJ during the term of the 2009 Cooperation Agreement. The Old Agreement did not provide for the payment by YMHK of any such profits to CYI or any other party.

In addition, in conjunction with the 2009 Cooperation Agreement, on November 3, 2009, the Company agreed to issue an aggregate of 19,000,000 shares of its common stock to Beijing Consultancy and Development Limited as a designee of CYI and CYN Ads, which shares replace and are in lieu of 71,020 shares of the Company's Series A Convertible Preferred Stock (convertible into 71,020,000 shares of common stock) which were agreed to be issued to designees of CYN under the Old Agreement. The foregoing securities are being issued in reliance upon the exemption from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The foregoing description of the 2009 Cooperation Agreement is qualified in its entirety by the full text of such document which is filed as Exhibit 10.1 to this report and incorporated by reference herein.

Item 6. Exhibits.

| Exhibit<br>Number | Description   |
|-------------------|---|
| 10.1              | Cooperation Agreement dated July 3, 2009 among China Youth Interactive Cultural Media (Beijing) Co., Ltd., China Youth Net Advertising Co. Ltd. and Youth Media (Hong Kong) Limited |
| 31.1              | Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act  |
| 31.2              | Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act  |
| 32.1              | Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code     |
| 32.2              | Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code     |

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.

CHINA YOUTH MEDIA, INC.

Date: November 16, 2009

By: /s/ Jay Rifkin  
Jay Rifkin  
Chief Executive Officer

Date: November 16, 2009

By: /s/ Jay Rifkin  
Jay Rifkin  
Principal Financial Officer