China Youth Media, Inc. Form 10-Q August 23, 2010

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: June 30, 2010

Commission File Number: 000-33067

CHINA YOUTH MEDIA, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

87-0398271

(State or other jurisdiction of incorporation or organization)

(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: (424) 244-1450

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. x 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 " Smaller reporting company x

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 20, 2010, the issuer had 159,031,461 outstanding shares of Common Stock, \$.001 par value.

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Consolidated Balance Sheet

| | June 30, 2010 (Unaudited) | | December 31, 2009 | |
|---|---------------------------------|------------|-------------------|-----------|
| ASSETS | (1 | Jnaudited) | (| (Audited) |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ | 5,287 | \$ | 181,723 |
| Accounts receivable, net | Ψ | 1,475 | Ψ | 101,723 |
| Other current assets | | 28,411 | | 157,432 |
| TOTAL CURRENT ASSETS | | 35,173 | | 339,155 |
| TOTAL COMMENT INSELS | | 35,175 | | 333,103 |
| Property and equipment, net | | 52,591 | | 65,457 |
| Intangible assets, net | | 4,398,479 | | 4,664,879 |
| Other Assets | | 23,141 | | 24,916 |
| | | | | |
| TOTAL ASSETS | \$ | 4,509,384 | \$ | 5,094,407 |
| | | | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | | | |
| | | | | |
| CURRENT LIABILITIES | | | | |
| | | | | |
| Accounts payable | \$ | 114,983 | \$ | 106,382 |
| Accrued liabilities | | 1,073,713 | | 1,068,293 |
| Note payable | | 20,000 | | - |
| Note payable - related party | | 6,000 | | - |
| | | | | |
| TOTAL CURRENT LIABILITIES | | 1,214,696 | | 1,174,675 |
| | | | | |
| LONG TERM LIABILITIES | | | | |
| | | | | |
| Convertible notes payable - related party | | 150,000 | | 150,000 |
| Convertible note payable | | 250,000 | | 250,000 |
| Note payable | | 2,467,312 | | 2,377,312 |
| Beneficial conversion feature | | (227,796) | | (277,128) |
| | | 2 (20 71 (| | 2 700 101 |
| TOTAL LONG TERM LIABILITIES | | 2,639,516 | | 2,500,184 |
| TOTAL LA DIVITING | ф | 2.054.212 | ф | 2 (54 050 |
| TOTAL LIABILITIES | \$ | 3,854,212 | \$ | 3,674,859 |
| OTOGIZIOI DEDGI FOLHTV (DEFICIT) | | | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | | | |
| Drafawad ata ala 60 001 man walva 2 000 000 ahawa | | | | |
| Preferred stock, \$0.001 par value: 2,000,000 shares | | | | |
| authorized; Series A Preferred Stock, \$0.001 par value; 500,000 shares authorized; 3,000 shares issued and outstanding at June 30, | | | | |
| | | | | 3 |
| 2010; 3,000 shares issued and outstanding at December 31, 2009; | | _ | _ | 3 |

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| Common stock, \$0.001 par value: 500,000,000 shares authorized; 159,031,461 shares issued and outstanding at June 30, 2010; 158,631,461 shares issued and outstanding at December 31, | | |
|---|--------------|--------------|
| 2009; | 159,031 | 158,631 |
| Paid-in capital | 22,261,334 | 21,420,227 |
| Accumulated other comprehensive income | (482) | (213) |
| Accumulated deficit | (21,764,711) | (20,159,100) |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | 655,172 | 1,419,548 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 4,509,384 | \$ 5,094,407 |

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

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Consolidated Statements of Operations and Comprehensive Income (Unaudited)

| | Three Months Ended | | | Six Months Ended | | | | |
|--|--------------------|-------------|----|------------------|----------|-------------|----------|-------------|
| | | June 30, | | June 30, | June 30, | | June 30, | |
| | | 2010 | | 2009 | | 2010 | | 2009 |
| REVENUE | | | | | | | | |
| Sales | \$ | 40,301 | \$ | _ | \$ | 77,730 | \$ | _ |
| Total revenue | | 40,301 | | _ | | 77,730 | | _ |
| OPERATING EXPENSES | | | | | | | | |
| Selling, general and administrative | | | | | | | | |
| expenses | | 553,840 | | 1,931,046 | | 1,623,894 | | 2,625,855 |
| | | | | | | | | |
| Total operating expenses | | 553,840 | | 1,931,046 | | 1,623,894 | | 2,625,855 |
| Operating loss | | (513,539) | | (1,931,046) | | (1,546,164) | | (2,625,855) |
| | | | | | | | | |
| Other Income (expense) | | | | | | | | |
| Interest income | | 12 | | 43 | | 12 | | 43 |
| Interest expense | | | | (158,384) | | (140,979) | | |
| Rental Income | | 49,362 | | 49,362 | | 98,924 | | 98,724 |
| Total other income (expense) | | (30,319) | | (21,235) | | (59,448) | | (42,212) |
| LOSS BEFORE INCOME TAXES | | | | | | | | |
| Provision for Income Taxes | | | | <u></u> | | <u> </u> | | |
| Trovision for medine ranes | | | | | | | | |
| NET LOSS | \$ | (543,858) | \$ | (1,952,281) | \$ | (1,605,612) | \$ | (2,668,067) |
| DACIC AND DILLITED MET | | | | | | | | |
| BASIC AND DILUTED NET LOSS PER COMMON SHARE | \$ | (0.00) | \$ | (0.02) | \$ | (0.01) | \$ | (0.03) |
| | | | | | | | | |
| WEIGHTED AVERAGE | | | | | | | | |
| COMMON SHARES | | | | | | | | |
| OUTSTANDING | | 158,838,054 | | 118,052,142 | | 158,735,328 | | 96,127,372 |
| Other Comprehensive Income | | | | | | | | |
| Foreign currency translation | | | | | | | | |
| adjustment | | (482) | | _ | | (482) | | |
| Net income | | (543,858) | | (1,952,281) | | (1,605,612) | | (2,668,067) |
| COMPREHENSIVE INCOME | \$ | (544,340) | \$ | (1,952,281) | \$ | (1,606,094) | \$ | (2,668,067) |

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

Consolidated Statements of Cash Flows (Unaudited)

| Cook flows from an arcting activities | Six MonthsEnded June 30, June 30, 2010 2009 | | |
|---|---|----------------|--|
| Cash flows from operating activities: | ¢ (1 605 612) (| 1 (2 669 067) | |
| Net loss | \$(1,605,612) \$ | \$ (2,008,007) | |
| Adjustments to reconcile net loss to net cash used in operating | | | |
| activities: | | | |
| Loss on Abandonment | _ | _ | |
| Loss on Impairment of Goodwill | _ | - | |
| Loss on Impairment of IP Holdings | 12.026 | 5 110 | |
| Depreciation | 13,936 | 5,113 | |
| Amortization of licenses | 266,400 | 338,649 | |
| Amortization of beneficial conversion feature | 49,332 | 43,529 | |
| Stock-based compensation to employees and directors | 801,504 | 1,179,380 | |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,475) | 14,033 | |
| Inventories | _ | _ | |
| Other assets | 170,797 | 54,733 | |
| Accounts payable and accrued liabilities | 14,021 | 164,873 | |
| | | | |
| Net cash used in operating activities | (291,097) | (867,757) | |
| | | | |
| Cash flows from investing activities: | | | |
| Purchases of licenses and developed content | _ | _ | |
| Purchases of property and equipment | (1,070) | (24,574) | |
| Purchases of intangible assets | _ | (5,823) | |
| | | | |
| Net cash used in investing activities | (1,070) | (30,397) | |
| | | | |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock | _ | 4,000 | |
| Proceeds from note related party | 6,000 | | |
| Proceeds from note | 20,000 | | |
| Proceeds from note - XSEL | 90,000 | 1,271,321 | |
| | | | |
| Net cash provided by financing activities | 116,000 | 1,275,321 | |
| , , , | | | |
| Effect of exchange rate | (269) | | |
| Net increase (decrease) in cash and cash equivalents | (176,436) | 377,167 | |
| Cash and cash equivalents at beginning of period | 181,723 | 34,425 | |
| Cash and cash equivalents at end of period | | \$ 411,592 | |
| | | | |
| Supplemental disclosures of cash flow information: | | | |

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| Cash paid for income taxes | \$ — \$ | |
|--|-------------------|---------|
| Interest paid | \$ — \$ | _ |
| | | |
| Non-cash investing and financing activity: | | |
| | | |
| Beneficial conversion feature | 49,332 | |
| Shares issued pursuant to consulting agreement | \$ 40,000 \$ | 22,500 |
| Acquisition of intangible assets for stock | \$ \$ | 600,000 |

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

Notes to Consolidated Interim Financial Statements - Unaudited June $30,\,2010$

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 (the "Westlake Agreement"). Effective the date of the Westlake Agreement, Rebel Crew Films ceased operations and is currently maintained as a corporation in good standing with no operations.

Recent Developments

Although written demand for payment has not yet been made, we have been advised by XSEL that it will not provide any addit