

China Youth Media, Inc.  
Form 10-Q  
May 23, 2011

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: March 31, 2011

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.)

13428 Maxella Ave. #342, 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.  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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of May 20, 2011, the issuer had 159,031,461 outstanding shares of Common Stock, \$.001 par value.

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CHINA YOUTH MEDIA, INC.  
Consolidated Balance Sheets

|   | March 31,<br>2011<br>Unaudited | December<br>31,<br>2010<br>Audited |
|---|--------------------------------|------------------------------------|
| <b>ASSETS</b>   |                                |                                    |
| <b>CURRENT ASSETS</b>   |                                |                                    |
| Cash and cash equivalents   | \$53,530                       | \$12,165                           |
| Accounts receivable, net  | 1,181                          | 329                                |
| Other current assets  | 1,852                          | —                                  |
| <b>TOTAL CURRENT ASSETS</b>   | <b>56,563</b>                  | <b>12,494</b>                      |
| Property and equipment, net   | 35,496                         | 41,211                             |
| Intangible assets, net  | 2,000                          | 2,000                              |
| <b>TOTAL ASSETS</b>   | <b>\$94,059</b>                | <b>\$55,705</b>                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>                   |                                |                                    |
| <b>CURRENT LIABILITIES</b>  |                                |                                    |
| Accounts payable  | \$89,164                       | \$89,478                           |
| Accrued liabilities   | 761,281                        | 942,739                            |
| Note payable - related party  | 140,242                        | 111,000                            |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>990,687</b>                 | <b>1,143,217</b>                   |
| <b>LONG TERM LIABILITIES</b>  |                                |                                    |
| Convertible notes payable - related party                               | 150,000                        | 150,000                            |
| Convertible note payable  | 250,000                        | 250,000                            |
| Note payable  | 50,000                         | —                                  |
| Beneficial conversion feature   | (153,797 )                     | (178,463 )                         |
| <b>TOTAL LONG TERM LIABILITIES</b>                                      | <b>296,203</b>                 | <b>221,537</b>                     |
| <b>TOTAL LIABILITIES</b>  | <b>\$1,286,890</b>             | <b>\$1,364,754</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; |                                |                                    |
| zero shares issued and outstanding at March 31, 2011;                   |                                |                                    |
| zero shares issued and outstanding at December 31, 2010;                |                                |                                    |
| Common stock, \$0.001 par value: 500,000,000 shares authorized;         |                                |                                    |
| 159,031,461 shares issued and outstanding at March 31, 2011;            |                                |                                    |
| 159,031,461 shares issued and outstanding at December 31, 2010;         |                                |                                    |
| Paid-in capital   | 23,081,205                     | 22,808,917                         |

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|  |                     |                     |
|--|---------------------|---------------------|
| Accumulated other comprehensive income               | (16,525 )           | (705 )              |
| Accumulated deficit                                  | (24,416,542)        | (24,276,292)        |
| <b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>          | <b>(1,192,831 )</b> | <b>(1,309,049 )</b> |
| <hr/>  |                     |                     |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$94,059            | \$55,705            |

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

CHINA YOUTH MEDIA, INC.  
Consolidated Statements of Operations and Comprehensive Income (Unaudited)

|  | Three Months Ended  |                       |
|--|---------------------|-----------------------|
|  | March 31,<br>2011   | March 31,<br>2010     |
| <b>REVENUE</b>                                     |                     |                       |
| Sales  | \$5,096             | \$37,430              |
| <b>Total revenue</b>                               | <b>5,096</b>        | <b>37,430</b>         |
| <b>OPERATING EXPENSES</b>                          |                     |                       |
| Cost of sales                                      | —                   | —                     |
| Selling, general and administrative expenses       | 354,970             | 1,070,585             |
| <b>Total operating expenses</b>                    | <b>354,970</b>      | <b>1,070,585</b>      |
| Operating loss                                     | (349,874 )          | (1,033,155 )          |
| <b>Other Income (expense)</b>                      |                     |                       |
| Interest income (expense)                          | (37,712 )           | (78,671 )             |
| Rental Income                                      | —                   | 49,562                |
| Gain on debt extinguishment                        | 247,335             | —                     |
| <b>Total other income (expense)</b>                | <b>209,623</b>      | <b>(29,109 )</b>      |
| <b>NET LOSS</b>                                    | <b>\$(140,251 )</b> | <b>\$(1,062,264 )</b> |
| <b>BASIC AND DILUTED NET LOSS PER COMMON SHARE</b> | <b>\$0.00</b>       | <b>\$(0.01 )</b>      |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>  | <b>159,031,461</b>  | <b>158,631,461</b>    |
| <b>Other Comprehensive Income</b>                  |                     |                       |
| Foreign currency translation adjustment            | (16,525 )           | (199 )                |
| <b>Net income</b>                                  | <b>(140,251 )</b>   | <b>(1,062,264 )</b>   |
| <b>COMPREHENSIVE INCOME</b>                        | <b>\$(156,776 )</b> | <b>\$(1,062,463 )</b> |

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

## CHINA YOUTH MEDIA, INC.

## Consolidated Statements of Cash Flows (Unaudited)

|  | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2011  | March 31,<br>2010 |
| <b>Cash flows from operating activities:</b>                                       |                    |                   |
| Net loss   | \$(140,251 )       | \$(1,062,264)     |
| <b>Adjustments to reconcile net loss to net cash used in operating activities:</b> |                    |                   |
| Gain on debt extinguishment  | (247,335 )         | —                 |
| Depreciation   | 6,214              | 6,941             |
| Amortization of licenses   | —                  | 155,075           |
| Amortization of beneficial conversion feature                                      | 24,667             | 24,666            |
| Stock-based compensation to employees and directors                                | 272,288            | 526,207           |
| <b>Changes in operating assets and liabilities:</b>                                |                    |                   |
| Accounts receivable  | (852 )             | —                 |
| Other assets   | (1,852 )           | 63,870            |
| Accounts payable and accrued liabilities   | 65,563             | 67,119            |
| <b>Net cash used in operating activities</b>                                       | <b>(21,558 )</b>   | <b>(218,386 )</b> |
| <b>Cash flows from investing activities:</b>                                       |                    |                   |
| Purchases of property and equipment  | (499 )             | (70 )             |
| <b>Net cash used in investing activities</b>                                       | <b>(499 )</b>      | <b>(70 )</b>      |
| <b>Cash flows from financing activities:</b>                                       |                    |                   |
| Proceeds from notes - related party  | 29,242             | —                 |
| Proceeds from note   | 50,000             | 90,000            |
| <b>Net cash provided by financing activities</b>                                   | <b>79,242</b>      | <b>90,000</b>     |
| Effect of exchange rate  | (15,820 )          | 14                |
| <b>Net increase (decrease) in cash and cash equivalents</b>                        | <b>41,365</b>      | <b>(128,442 )</b> |
| Cash and cash equivalents at beginning of period                                   | 12,165             | 181,723           |
| Cash and cash equivalents at end of period   | \$53,530           | \$53,281          |
| <b>Non-cash investing and financing activity:</b>                                  |                    |                   |
| Beneficial conversion feature  | 24,667             | 24,666            |

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





CHINA YOUTH MEDIA, INC.

Notes to Consolidated Interim Financial Statements - Unaudited  
March 31, 2011

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.

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. Rebel Crew Films is currently maintained as a corporation in good standing with no operations.

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 March 31, 2011, the Company had an accumulated deficit of \$24.4 million and a working capital deficit of \$930,000. During the three months ended March 31, 2011, the Company incurred a loss of approximately \$140,000. During the three months ended March 31, 2011, 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 to fund its operations, however no assurances can be made that we will be able to obtain additional financing on acceptable terms, if at all. 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 Operations and 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 foreign currencies, such as, the People's Republic of China and SAR Hong Kong, whose principal units are the Renminbi ("RMB") and the Hong Kong Dollar ("HK Dollar"), respectively.

The Company's subsidiary in Hong Kong uses the US Dollar as its functional currency.

The Company's subsidiary in China, whose principal country of operations is the PRC, uses the RMB as its functional currency. The financial position and results of operations are therefore recorded in RMB. In accordance with ASC 830 "Foreign Currency Translation," the Company's China subsidiary's financial statements are translated into U.S. Dollars (USD). According to the Statement, all assets and liabilities are translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year.

The average rate of exchange during the three months ended March 31, 2011 for the Chinese Yuan to the United States Dollar is based on the exchange rate quoted by the Federal Reserve Bank of New York, which represents the noon buying rate in the City of New York and is 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.

The Company's China subsidiary's assets and liabilities denominated in RMB at the balance sheet date are translated at the going market rate of exchange at that date. The registered equity capital denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. The resulting translation adjustments are reported under Other Comprehensive Income in accordance with Accounting Standard Codification ASC 220-10, Reporting Comprehensive Income. At March 31, 2011 and 2010, the comprehensive losses were \$16,525 and \$705, respectively; differences and amounts were immaterial.

The Company's foreign operations have been, and will continue to be, affected by periodic changes or developments in the foreign countries' political and economic conditions, as well as, changes in laws and regulations. Any such changes could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

#### Risks related to cash

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.

#### Risks related to our foreign operations

The Chinese economy differs from the economies of most developed countries in many respects, including in the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the Chinese economy has experienced significant growth since the late 1970s, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented numerous measures to encourage economic growth and to guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but also have a negative effect on us.

The Company's subsidiary Youth Media (Beijing) Limited's operations are carried out in China and consequently, the Company's business, financial condition and results of operations may be affected by the political, economic and legal environment in China, and by the general state of the Chinese economy. The Company's operations in the China are subject to specific considerations and significant risks not typically associated with companies in North America. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

#### 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.

## Fair Value of Financial Instruments

The accounting standards regarding disclosures about fair value of financial instruments defines financial instruments and required fair value disclosure of those instruments. This accounting standard defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. Receivables, investments, payables, short and long term debt and warrant liabilities qualified as financial instruments. Management believes the carrying amounts of receivables, payables and debt are a reasonable estimate of fair value because of the short period of time between the origination of such instruments, their expected realization, and if applicable, their stated interest rate is equivalent to interest rates currently available. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The Company analyzes all financial instruments with features of both liabilities and equity under the accounting standards regarding accounting for certain financial instruments with characteristics of both liabilities and equity, accounting for derivative instruments and hedging activities, accounting for derivative financial instruments indexed to, and potentially settled in, a company's own stock, and the accounting standard regarding determining whether an instrument (or embedded feature) is indexed to an entity's own stock. The accounting standard specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. This standard provides a two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for this accounting standard scope exception. All warrants issued by the Company are denominated in U.S. dollars.

## Goodwill

In accordance with Goodwill and Other Intangible Assets, 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. No amortization is recorded for goodwill with indefinite useful life. Goodwill impairment during the three months ended March 31, 2011 and 2010 was zero and zero, respectively.

## Intangible Assets

In accordance with Goodwill and Other Intangible Assets, 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 Accounting for the Impairment or Disposal of Long-Lived Assets, 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. Impairment of intangible assets during the three months ended March 31, 2011 and 2010 was zero and zero, respectively.

#### Stock-Based Compensation

The Company accounts for stock-based compensation awards in accordance with the provisions of Share-Based Payment, which addresses the accounting for employee stock options and which 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 three months ended March 31, 2011 and 2010, the Company had stock-based compensation expense related to issuances of stock options and warrants to the Company's employees, directors and consultants of \$272,000 and \$526,000, respectively.

#### 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 March 31, 2011 and March 31, 2010 are presented net of accumulated depreciation of \$74,000 and \$68,000, respectfully.

#### Beneficial Conversion Feature of Convertible Notes Payable

The Company accounts for convertible notes payable in accordance with the guidelines established by Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants, 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. 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 follows "Accounting for Income Taxes" that requires recognition of deferred income tax liabilities and assets for the expected future tax consequences of temporary differences between the income tax basis and financial reporting basis of assets and liabilities. Provision for income taxes consists of taxes currently due plus deferred taxes. Because the Company had no operations within the United States there is no provision for US income taxes and there are no deferred tax amounts as of March 31, 2011 and 2010.

The charge for taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of assessable tax profit. In principle, deferred tax liabilities are recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also recorded in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company adopted "Accounting for Uncertainty in Income Taxes", as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption of ASC 740-10-25 had no effect on the Company's financial statements.

#### Advertising Costs

The Company expenses advertising costs when incurred. Advertising expense for the three months ended March 31, 2011 and 2010 was zero and \$2,300, respectively.

#### Subsequent Events

During May 2009 and February 2010, the FASB issued new authoritative pronouncement regarding recognized and non-recognized subsequent events. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be

issued. The Company adopted this guidance during our second fiscal quarter of 2009 and it had no impact on the Company's results of operations or financial position. The Company has evaluated subsequent events through May 20, 2011, the date that the financial statements were available to be issued.

#### Recent Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-01- Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this ASU did not have a material impact on our consolidated financial statements.



In January 2010, FASB issued ASU No. 2010-02 - Accounting and Reporting for Decreases in Ownership of a Subsidiary - a Scope Clarification. The amendments in this Update affect accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity. The amendments also affect accounting and reporting by an entity that exchanges a group of assets that constitutes a business or nonprofit activity for an equity interest in another entity. The amendments in this update are effective beginning in the period that an entity adopts Non-controlling Interests in Consolidated Financial Statements. If an entity has previously adopted Non-controlling Interests in Consolidated Financial Statements as of the date the amendments in this update are included in the Accounting Standards Codification, the amendments in this update are effective beginning in the first interim or annual reporting period ending on or after December 15, 2009. The amendments in this update should be applied retrospectively to the first period that an entity adopted Non-controlling Interests in Consolidated Financial Statements. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In January 2010, FASB issued ASU No. 2010-06 - Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarify existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued Accounting Standards Update No. 2009-08 Earnings Per Share - Amendments to Section 260-10-S99, which represents technical corrections to topic 260-10-S99 Earnings per share, based on EITF Topic D-53 Computation of Earnings Per Share for a Period that includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock and EITF Topic D-42 The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock. The adoption of this ASU did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In August 2009, the FASB issued Accounting Standards Update No. 2009-05 Fair Value Measurement and Disclosures Topic 820 - Measuring Liabilities at Fair Value, which provides amendments to subtopic 820-10 Fair Value Measurements and Disclosures - Overall for the fair value measurement of liabilities. This update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of the following techniques: 1. A valuation technique that uses: a) the quoted price of the identical liability when traded as an asset b) quoted prices for similar liabilities or similar liabilities when traded as assets. 2. Another valuation technique that is consistent with the principles of topic 820; two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. The amendments in this update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate

input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The amendments in this update also clarify that both a quoted price in an active market for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The adoption of this ASU did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In June 2009, the FASB issued standards that establish 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. As the Codification was not intended to change or alter existing GAAP, it did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued standards that require 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 and is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In June 2009, the FASB issued standards that eliminate 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. This standard is effective for fiscal years beginning after November 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements, results of operations or cash flows.

In May 2009, the FASB issued standards that require 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. This standard is effective for interim or annual financial periods ending after June 15, 2009. The Company evaluated its December 31, 2010 financial statements for subsequent events through February 28, 2011, the date the financial statements were available to be issued. Other than the events in Note 21, the Company is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

In April 2009, the FASB issued standards that require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also requires those disclosures in summarized financial information at interim reporting periods. This standard 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 include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. This standard is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this standard did not have a material impact on our consolidated financial statements, results of operations or cash flows.

### 3. Other Current Assets

The balance recorded in other current assets at March 31, 2010 corresponded to amounts associated with office space rent, which amounts consisted of two months prepaid rent.

### 4. Property and Equipment

Property and equipment at March 31, 2011 and December 31, 2010 consist of the following:

|                                 | March 31,<br>2011 | December 31,<br>2010 |
|---------------------------------|-------------------|----------------------|
| Property and Equipment          |                   |                      |
| Computer Software and Equipment | \$ 101,270        | \$ 100,771           |
| Office Furniture and Equipment  | 7,953             | 7,953                |
| Total Property and Equipment    | \$ 109,223        | \$ 108,724           |
| Less: Accumulated Depreciation  | (73,748 )         | (67,512 )            |
| Property and Equipment, net     | \$ 35,475         | \$ 41,212            |

### 5. Intangible Assets

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.

### 6. Loss Per Common Share

Income (loss) per common share is based on the weighted average number of common shares outstanding. The Company complies with 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 March 31, 2011, there were outstanding (i) 40,908,333 options, (ii) 2,650,000 shares issuable upon conversion of outstanding warrants that were issued outside the Company's Stock Option Plan, and (iii) and 4,444,444 shares reserved for issuance upon conversion of outstanding convertible promissory notes.

7. Accounts Payable

Accounts payable at March 31, 2011 included amounts owed to certain vendors related to the normal operations, legal and accounting expenses.

8. Accrued Liabilities

In accordance with ASC 470-50 Modifications and Extinguishments, the recognition of a gain on extinguishment of debt is deemed extinguished if the debtor is legally released from being the primary obligor, either judicially or by the creditor. At March 31, 2011, the Company determined that the statute of limitations expired with respect to certain other accrued liabilities due to vendors related to the Company's then home video library business. At March 31, 2011, the Company recognized a gain on debt extinguishment of \$272,300.

Accrued liabilities at March 31, 2011 and December 31, 2010 are comprised of the following:

|                                    | March 31,<br>2011 | December 31,<br>2010 |
|------------------------------------|-------------------|----------------------|
| Accrued Liabilities                |                   |                      |
| Obligations on license agreements  | \$ -              | \$ 110,095           |
| Accrued salaries                   | 449,000           | 330,000              |
| Interest                           | 232,540           | 264,513              |
| Deferred Rent Expense              | -                 | 21,988               |
| Lease Security Deposits            | 16,000            | 32,000               |
| Accrued Liabilities due to vendors | 24,327            | 219,740              |
| Other                              | 39,414            | 89,956               |
|                                    | \$ 761,281        | \$ 1,068,292         |

#### 9. Note Payable - Related Party

During the three months ended March 31, 2011, Jay Rifkin, our Chief Executive Officer and Director, loaned the Company \$29,000. As consideration for the loans, the Company issued Mr. Rifkin demand promissory notes at a rate equal to the prime rate plus one percent. See Note 17. Subsequent Events.

#### 10. Convertible Note Payable - Related Party

##### Mojo Music Convertible Note

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 three months ended March 31, 2011, interest expense of \$2,400 has been recorded from the debt discount amortization.

#### 11. 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 three months ended March 31, 2011, interest expense of \$9,400 has been recorded from the debt discount amortization.

## 12. Note Payable

On March 30, 2011, the Company entered into an agreement with an unrelated third party pursuant to which such party agreed to assist the Company to effect a reverse merger or similar transaction with an operating business to be identified as the parties shall mutually agree. Such party agreed to immediately loan the Company the principal amount of \$50,000 which shall be due and payable in one year, bear interest at the rate of 8.0% per annum, and be convertible into shares of common stock of the Company at the rate of \$.004 per share at the option of such party at any time following an exclusivity period granted to such party and until the maturity date of the loan. The Company has granted such party certain exclusivity rights for a period of 120 days which may be extended under certain conditions.

## 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. During the three months ended March 31, 2011, interest expense of \$2,400 has been recorded from the debt discount amortization.

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. During the three months ended March 31, 2011, interest expense of \$4,800 has been recorded from the debt discount amortization.

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 three months ended March 31, 2011, interest expense of \$5,800 has been recorded from the debt discount amortization.

## 14. Related Party Transactions

All material intercompany transactions have been eliminated upon consolidation of these our entities. At March 31, 2011, cash transfers between the Company and its subsidiary in Hong Kong, Youth Media (Hong Kong) Limited, in the aggregate amount of \$1,197,500, have been eliminated upon consolidation. At March 31, 2011, cash transfers between the Company's subsidiary in Hong Kong, Youth Media (Hong Kong) Limited, and the Company's subsidiary in Beijing, China, Youth Media (Beijing) Limited, in the aggregate amount of \$822,400, have been eliminated upon consolidation.

## 15. 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 Share-Based Payment, which addresses the accounting for employee stock options which 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.



A summary of stock option activity for the three months ended March 31, 2011 is presented below:

|                         | Outstanding Options              |                     | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(years) | Aggregate<br>Intrinsic<br>Value |
|-------------------------|----------------------------------|---------------------|--|--|---------------------------------|
|                         | Shares<br>Available for<br>Grant | Number of<br>Shares |  |  |                                 |
| December 31, 2009       | 9,041,667                        | 40,958,333          | 0.13                                     | 9.30   | -                               |
| Stock Plan Amendment    | -                                |                     |  |  |                                 |
| Grants                  | -                                | -                   | -  | -  | -                               |
| Cancellations           | 50,000                           | (50,000 )           | 0.25                                     | -  | -                               |
| December 31, 2010       | 9,091,667                        | 40,908,333          | 0.13                                     | 8.30   | -                               |
| Stock Plan Amendment    | -                                |                     |  |  |                                 |
| Grants                  | -                                | -                   | -  | -  | -                               |
| Cancellations           | -                                | -                   | -  | -  | -                               |
| March 31, 2011          | 9,091,667                        | 40,908,333          | -  | -  | -                               |
| Options exercisable at: |                                  |                     |  |  |                                 |
| December 31, 2010       |                                  | 15,037,500          | 0.13                                     | 8.23   | -                               |
| March 31, 2011          |                                  | 15,037,500          | 0.13                                     | 7.98   | -                               |

During the three months ended March 31, 2011, the Company did not grant stock-based compensation awards. During the three months ended March 31, 2011, the Company had stock-based compensation expense related to issuances of stock options and warrants to the Company's employees, directors and consultants of \$272,000.

The Company utilized the Black-Scholes options pricing model.

#### 16. Warrants

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.

The following table summarizes information about common stock warrants outstanding at March 31, 2011:

| Outstanding    |                    | Exercisable   |                                 |                    |                                 |
|----------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| \$0.09         | 875,000            | 0.80  | \$0.03                          | 875,000            | \$0.03                          |

|        |           |      |        |           |        |
|--------|-----------|------|--------|-----------|--------|
| \$0.09 | 525,000   | 0.50 | \$0.02 | 525,000   | \$0.02 |
| \$0.03 | 1,250,000 | 2.41 | \$0.01 | 1,250,000 | \$0.01 |
| 0.03 - |           |      |        |           |        |
| \$0.09 | 2,650,000 | 3.70 | \$0.06 | 2,650,000 | \$0.06 |

#### 17. Subsequent Events

The Company has evaluated subsequent events through May 20, 2011, the date that the financial statements were available to be issued.

Subsequent to the quarter ending March 31, 2011, Jay Rifkin, our Chief Executive Officer and Director, loaned the Company approximately \$8,100. As consideration for the loan, the Company issued Mr. Rifkin a demand promissory note at a rate equal to the prime rate plus one percent. At May 20, 2011, the total amount loaned to the Company by Mr. Rifkin since January 1, 2011 totaled \$37,100.

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 and in our annual report on Form 10-K for the year ended December 31, 2010. This discussion contains forward-looking statements, made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 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, 2010, which was filed with the SEC on April 19, 2011.

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. ("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.

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. Rebel Crew Films is currently maintained as a corporation in good standing with no operations.

#### Recent Developments

On March 30, 2011, we entered into an agreement with an unrelated third party pursuant to which such party agreed to assist the Company to effect a reverse merger or similar transaction with an operating business to be identified as the parties shall mutually agree. Such party agreed to immediately loan the Company the principal amount of \$50,000 which shall be due and payable in one year, bear interest at the rate of 8.0% per annum, and be convertible into shares of common stock of the Company at the rate of \$.004 per share at the option of such party at any time following an exclusivity period granted to such party and until the maturity date of the loan. We have granted such party certain exclusivity rights for a period of 120 days which may be extended under certain conditions. There can be no assurance that we will be able to complete any such transaction on terms satisfactory to us or at all.

## 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.

**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. 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 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 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. Goodwill impairment during the three months ended March 31, 2011 and 2010 was zero and zero, respectively. Impairment of intangible assets during the three months ended March 31, 2011 and 2010 was zero and zero, respectively.

**Stock-Based Compensation -** We have adopted the provisions of 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

Sales - We generated revenues of \$5,000 and \$37,000 for the three months ended March 31, 2011 and March 31, 2010, respectively. During the quarter ended March 31, 2011 and 2010, the Company generated all of its revenue through the aggregation and distribution of international content and advertising for Internet consumption in China.

### Operating Expenses

Operating expenses were \$355,000 and \$1,071,000 during the quarter ended March 31, 2011 and 2010, respectively. The decrease in operating expenses is attributable to significant decreases in salaries and employee benefits, non-cash amortization expense and general and administrative. The significant decrease in operating expenses is related to the Termination Agreements, which as a result of, the Company substantially reduced our operations and terminated various employees. See Recent Developments in Note 1 Description of Business in the Notes to the Financial Statements as filed with our Form 10-K for the year ended December 31, 2010 filed with the SEC on April 19, 2011, which describes that pursuant to the Termination Agreements, the Cooperation Agreement and Joint Venture Agreement, as well as a business and technical services agreement, commercial and technical services agreement and an advertising agreement which were signed in conjunction with the Cooperation Agreement, were all terminated.

Stock based compensation expense from grants of nonqualified stock options to our employees and non-employee directors decreased significantly to \$272,300 during the quarter ended March 31, 2011 from \$526,200 during the quarter ended March 31, 2010. The decrease in stock based compensation expense from grants of nonqualified stock options during the quarter ended March 31, 2011 resulted primarily from the cancellation of stock options related to employees that are no longer with the Company.

Cost of sales during the three months ended March 31, 2011 and 2010 was zero.

Salaries and employee benefits, excluding stock based compensation expense, reflected a decrease to \$15,000 during the quarter ended March 31, 2011 from 159,500 during the quarter ended March 31, 2010.

The remaining operating expenses consisted of professional fees, rent expense and general and administrative expenses all of which experienced significant decreases related to the Termination Agreements, which as a result of, the Company substantially reduced our operations and terminated various employees. See Recent Developments in Note 1 Description of Business in the Notes to the Financial Statements as filed with our Form 10-K for the year ended December 31, 2010 filed with the SEC on April 19, 2011, which describes that pursuant to the Termination Agreements, the Cooperation Agreement and Joint Venture Agreement, as well as a business and technical services agreement, commercial and technical services agreement and an advertising agreement which were signed in conjunction with the Cooperation Agreement, were all terminated.

Legal and accounting expense during the quarter ended March 31, 2011 decreased to \$2,500 as compared to \$14,000 during the quarter ended March 31, 2010 and were composed of fees paid for review of SEC filing related matters.

Consulting fees during the quarter ended March 31, 2011 and 2010 were \$45,000 and \$92,000, respectively, were related to our operations in China and for fees paid for compilation and review of SEC filings. During the quarter ended March 31, 2010, consulting expense was related to sales contracting work and the development of our operations in China.

General and administrative expense decreased by approximately \$41,000 during the quarter ended March 31, 2011 compared to the quarter ended March 31, 2010 and is primarily attributed to the Termination Agreements, which as a result of, the Company substantially reduced our operations and terminated various employees.

#### Net Loss

For the quarter ended March 31, 2011 and 2010 the Company had a net loss of approximately \$140,000 and \$1,062,000, respectively and is primarily attributed to the Termination Agreements, which as a result of, the Company substantially reduced our operations and terminated various employees.

#### Interest Income and Other, Net

Given the financials constraints of the Company and its reliance on financing activities, interest expense related to the financing of capital was \$38,000 during the quarter ended March 31, 2011 and \$79,000 during the quarter ended March 31, 2010.

#### Taxes

At December 31, 2010, we had a net operating loss carryforward of approximately \$8.46 million to offset future taxable income for federal income tax purposes. The utilization of the loss carryforward to reduce any future income taxes will depend on our ability to generate sufficient taxable income prior to the expiration of the net operating loss

carryforwards. The carryforward expires beginning in 2021.

A change in the ownership of a majority of the fair market value of our common stock can delay or limit the utilization of existing net operating loss carryforwards pursuant to Internal Revenue Code Section 382. The Company believes that such a change occurred on December 29, 2005 and again during the year ended December 31, 2008. The Company is evaluating the net operating loss carryforward limitation imposed by Internal Revenue Code Section 382 for net operating losses incurred before the change dates.

#### Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from financing activities and to a lesser extent, cash from current operations. As of March 31, 2011, our cash and cash equivalents were \$53,500. We had a working capital deficit of approximately \$934,000 at March 31, 2011 and we continue to have recurring losses. In the past we have primarily relied upon financing activities and loans from related parties to fund our operations. 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 \$94,000 at March 31, 2011 versus \$55,700 at December 31, 2010. The change in total assets is attributable to an agreement we entered into on March 30, 2011 with an unrelated third party. See Recent Developments in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations above, which discusses an agreement we entered into on March 30, 2011 with an unrelated third party pursuant to which such party agreed to assist the Company to effect a reverse merger or similar transaction with an operating business to be identified as the parties shall mutually agree and which such party agreed to immediately loan the Company the principal amount of \$50,000 which shall be due and payable in one year, bear interest at the rate of 8.0% per annum, and be convertible into shares of common stock of the Company at the rate of \$.004 per share at the option of such party at any time following an exclusivity period granted to such party and until the maturity date of the loan.

Operating activities used \$22,000 of cash during the quarter ended March 31, 2011 compared to \$218,000 during the quarter ended March 31, 2010. The change in cash used for operating activities resulted primarily from the Termination Agreements, which as a result of, the Company substantially reduced our operations and terminated various employees.

#### 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, results of operations, liquidity or capital expenditures.

#### 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 4. 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 March 31, 2011, 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.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. (Removed and Reserved).

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

| Exhibit Number | Description   |
|----------------|---|
| 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 |

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\* Filed herewith.

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: May 23, 2011

By:

/s/ Jay Rifkin  
Jay Rifkin  
Chief Executive Officer

Date: May 23, 2011

By:

/s/ Jay Rifkin  
Jay Rifkin  
Principal Financial Officer

