

Edgar Filing: URBAN TELEVISION NETWORK CORP - Form 10QSB

URBAN TELEVISION NETWORK CORP  
Form 10QSB  
February 14, 2007

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ending December 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 33-58972  
\_\_\_\_\_

URBAN TELEVISION NETWORK CORPORATION

-----  
(Name of Small Business Issuer in its Charter)

NEVADA  
-----  
(State of Incorporation)

22-2800078  
-----  
(IRS Employer Identification No.)

2707 South Cooper, Arlington, TX  
-----  
(Address of principal executive offices)

76015  
-----  
(Zip Code)

Issuer's telephone number, (817) 303 - 7449  
-----

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
-----

Applicable only to issuers involved in bankruptcy proceedings during the preceding five years.

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No  
-----

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's class of

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common equity, as of the latest practicable date:

102,013,738 shares of common stock, \$0.0001 par value, as of December 31, 2006

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Transitional Small Business Disclosure Format  
(Check One)      Yes      No X  
                            ---      ---

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URBAN TELEVISION NETWORK CORPORATION  
FORM 10-QSB

PART I-FINANCIAL INFORMATION

Item 1. Financial Statements. (Unaudited)

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PART I - FINANCIAL STATEMENTS

Urban Television Network Corporation

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## Consolidated Balance Sheets

|  | December 31,<br>2006<br>(Unaudited) | September 30,<br>2006<br>(Audited) |
|--|-------------------------------------|------------------------------------|
|  | -----                               | -----                              |
| <b>ASSETS</b>  |                                     |                                    |
| Current Assets:  |                                     |                                    |
| Cash and Cash Equivalents  | \$ 176                              | \$ 3,5                             |
| Accounts Receivable  | --                                  | --                                 |
|  | -----                               | -----                              |
| Total Current Assets   | 176                                 | 3,5                                |
|  | -----                               | -----                              |
| Fixed Assets (Net of Accumulated Depreciation)   | 31,145                              | 40,2                               |
|  | -----                               | -----                              |
| Other Assets   |                                     |                                    |
| Network Assets (Net of Amortization)   | 31,782                              | 38,0                               |
| Coal Reserves  | 4,600,000                           | 4,600,0                            |
| Impairment of Coal Reserves  | (4,600,000)                         | (4,600,0                           |
| Organizational Costs-Net   | 360                                 | 3                                  |
|  | -----                               | -----                              |
| Total Other Assets   | 32,142                              | 38,4                               |
|  | -----                               | -----                              |
| TOTAL ASSETS   | \$ 63,463                           | \$ 82,1                            |
|  | =====                               | =====                              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |                                     |                                    |
| Current Liabilities:   |                                     |                                    |
| Accounts Payable   | \$ 1,027,326                        | \$ 977,9                           |
| Due to Stockholders  | 35,565                              | 120,5                              |
| Notes Payable to Stockholders  | 665,091                             | 742,5                              |
| Advances   | 665,000                             | 665,0                              |
| Accrued Compensation   | 712,395                             | 637,8                              |
| Accrued Interest Payable   | 60,813                              | 38,9                               |
|  | -----                               | -----                              |
| Total Liabilities (All Current)  | 3,166,190                           | 3,182,7                            |
|  | -----                               | -----                              |
| Stockholders' Equity (Deficit):  |                                     |                                    |
| Preferred Stock, \$1 par value, 500,000 shares authorized,<br>100,000 outstanding at September 30, 2006  | 100,000                             | 100,0                              |
| Common Stock, \$.0001 par value, 200,000,000 shares authorized,<br>102,013,738 and 77,822,277 outstanding at December 31, 2006 and<br>September 30, 2006 | 10,202                              | 7,7                                |
| Additional Paid-in Capital   | 21,895,806                          | 21,578,1                           |
| Accumulated Deficit  | (25,108,735)                        | (24,786,5                          |
|  | -----                               | -----                              |
| Total Stockholders' Equity   | (3,102,727)                         | (3,100,5                           |
|  | -----                               | -----                              |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY   | \$ 63,463                           | \$ 82,1                            |
|  | =====                               | =====                              |

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

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## Urban Television Network Corporation

### Consolidated Statements of Income

For the three months ended December 31, 2006 and 2005  
(UNAUDITED)

|   | 2006            | 2005            |
|---|-----------------|-----------------|
|   | -----           | -----           |
| REVENUES  | \$ 2,756        | \$ 33,035       |
|   | -----           | -----           |
| OPERATING EXPENSES:                                     |                 |                 |
| Satellite and Uplink Services                           | 36,600          | 102,899         |
| Master Control, Production                              | --              | 38,035          |
| Programming   | --              | 14,938          |
| Affiliate Relations                                     | --              | 27,388          |
| Technology Expenses                                     | 19,840          | 43,130          |
| Administration  | 231,665         | 153,238         |
| Depreciation and Amortization                           | 15,359          | 20,609          |
|   | -----           | -----           |
| TOTAL OPERATING EXPENSES                                | 303,464         | 400,237         |
|   | -----           | -----           |
| NET OPERATING (LOSS)                                    | (300,708)       | (367,202)       |
| OTHER INCOME (EXPENSE)                                  |                 |                 |
| Interest Expense  | (23,254)        | (4,536)         |
| Discounts on liability settlements                      | 1,780           | --              |
|   | -----           | -----           |
| TOTAL OTHER INCOME (EXPENSE)                            | (21,474)        | (4,536)         |
|   | -----           | -----           |
| NET INCOME (LOSS) BEFORE INCOME TAXES                   | (322,182)       | (371,738)       |
| Provision for Income Taxes (Expense) Benefit            | --              | --              |
|   | -----           | -----           |
| NET INCOME (LOSS)                                       | \$ (322,182)    | \$ (371,738)    |
| Beginning Retained Earnings (Deficit)                   | (24,786,553)    | (18,431,993)    |
|   | -----           | -----           |
| ENDING RETAINED EARNINGS (DEFICIT)                      | \$ (25,108,735) | \$ (18,803,731) |
|   | =====           | =====           |
| Earnings per share:                                     |                 |                 |
| Net Income (Loss)                                       | \$ (0.004)      | \$ (0.01)       |
| Weighted average number of common<br>shares outstanding | 79,838,232      | 182,236,277     |

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

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## Urban Television Network Corporation

### Consolidated Statements of Cash Flows

For the three months ended December 31, 2006 and 2005  
(UNAUDITED)

|   | 2006         | 2005         |
|---|--------------|--------------|
|   | -----        | -----        |
| Operating activities:   |              |              |
| Net Income (Loss)   | \$ (322,182) | \$ (371,738) |
| Adjustments to reconcile net (loss) to<br>net cash provided by operating activities |              |              |
| Depreciation and Amortization   | 15,359       | 20,609       |
| Stock Issued for Services   | 95,040       | 10,000       |
| Decrease in Accounts receivable   | --           | 2,310        |
| Discounts on liability settlements  | (1,780)      | --           |
| Increase in Accounts Payable  | 51,174       | 39,712       |
| Increase in Accrued Compensation  | 74,570       | 83,565       |
| Increase (decrease) in Accrued Interest Payable                                     | 21,908       | (3,752)      |
|   | -----        | -----        |
| Net Cash Provided (Used) by Operating Activities                                    | (65,911)     | (219,294)    |
|   | -----        | -----        |
| CASH FLOWS FROM INVESTING ACTIVITIES  |              |              |
| Purchase of Equipment   | --           | --           |
|   | -----        | -----        |
| Net Cash (Used) by Investing Activities   | --           | --           |
|   | -----        | -----        |
| CASH FLOWS FROM FINANCING ACTIVITIES  |              |              |
| Proceeds from Common Stock Sales  | --           | 39,500       |
| Proceeds from Shareholders Advances   | --           | 150,011      |
| Repayments on Shareholder Advances  | --           | (9,000)      |
| Proceeds from Bridge Loans  | 62,564       | --           |
|   | -----        | -----        |
| Net Cash Provided by Financing Activities   | 62,564       | 180,511      |
|   | -----        | -----        |
| NET (DECREASE) IN CASH AND CASH EQUIVALENTS   | (3,347)      | (38,783)     |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                                      | 3,523        | 40,369       |
|   | -----        | -----        |
| CASH AND CASH EQUIVALENTS AT END OF YEAR  | \$ 176       | \$ 1,586     |
|   | =====        | =====        |
| SUPPLEMENTAL DISCLOSURES  |              |              |
| Cash Paid During the Year for:  |              |              |
| Interest Expense  | \$ --        | \$ 5,508     |
| Income Taxes  | \$ --        | \$ --        |
| Non Cash Transactions:  |              |              |

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|   |            |           |
|---|------------|-----------|
| Discounts on liability settlements              | \$ 1,780   | \$ --     |
| Common Stock Issued for Bridge Loan Conversions | \$ 225,000 | 75,000    |
| Common Stock Issued for Services                | \$ 95,040  | \$ 10,000 |

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

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

1. BASIS OF PRESENTATION:

The unaudited financial statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such SEC rules and regulations; nevertheless, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements and the notes hereto should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-KSB for the year ended September 30, 2006, which was filed January 16, 2007. In the opinion of the Company, all adjustments, including normal recurring adjustments necessary to present fairly the financial position of Urban Television Network Corporation as of December 31, 2006 and the results of its Operations and cash flows for the quarter then ended, have been included. The results of operations for the interim period are not necessarily indicative of the results for the full year.

ACCOUNTING POLICIES:

There have been no changes in accounting policies used by the Company during the quarter ended December 31, 2006.

2. Significant Accounting Policies

Description of Business

Urban Television Network Corporation (the "Company") formerly known as Waste Conversion Systems, Inc. was incorporated under the laws of the state of Nevada on October 21, 1986. The principal office of the corporation is 2707 South Cooper Street, Suite 119, Arlington, Texas 76015.

In January 2002, the Company underwent a change of control in connection with Urban Television Network Corporation, a Texas corporation, (Urban-Texas) agreeing to deposit \$100,000 into an attorneys escrow account in return for receiving a balance sheet with no assets and no liabilities. The directors of the Company appointed Urban-Texas officers as new officers of the Company, and at the same time, resigned their board positions and appointed the directors of Urban-Texas as the Company's new board of directors. Urban-Texas agreed to deposit 300,000 shares of the Company's common stock into the attorney's escrow account after the completion of the Stock Exchange Agreement described below, dated February 7, 2003.

On May 1, 2002, the Company entered into an agreement with Urban-Texas to

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acquire the rights to the Urban-Texas affiliate network signal space which included the assignment of the Urban-Texas broadcast television station affiliates for 16,000,000 shares of common stock, which became 800,000 after a 1 for 20 reverse stock split.

On February 7, 2003, the Company entered into a Stock Exchange Agreement with the majority shareholders of Urban-Texas. Among other things, the Agreement provided for the Company's purchase of approximately 90% of the issued and outstanding capital stock of Urban-Texas (13,248,000 of 14,759,000 shares) in exchange for the Company's issuance of 13,248,000 shares of its authorized but unissued common stock, \$.0001 par value (the "Exchange Shares"), to the majority shareholders of Urban-Texas. In June 2003, the remaining 10% of Urban-Texas was acquired by Company.

Urban-Texas is considered the accounting acquirer, and the accompanying financial statements include the operations of Urban-Texas from the

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

2. Significant Accounting Policies - continued

earliest period presented. The Company operated from May 1, 2002 to February 7, 2003 as a 71% subsidiary of Urban-Texas, a predecessor entity to the existing business. The May 1, 2002 and February 7, 2003 transactions with the Company are presented as a recapitalization of Urban-Texas.

The Company is authorized to issue 200,000,000 shares of \$.0001 par value stock and 500,000 shares of \$1.00 par value preferred stock.

The Company is engaged in the business of supplying programming to broadcast television stations and cable systems. Formerly the Company's business had been the marketing of thermal burner systems that utilize industrial and agricultural waste products as fuel to produce steam, which generates electricity, air-conditioning or heat.

On September 30, 2005, the Company entered into an agreement with GeoTec Thermal Generators, Inc. to acquire 200,000 tons of mined coal in exchange for 100,000 shares of Preferred Stock, which may be converted into the Company's Common Stock, at the sole discretion of the GeoTec Thermal Generators, Inc., at any time in an amount equal to the purchase price at the stock bid price of \$.10 on September 30, 2005.

The Company is actively pursuing the sale of the mined coal reserves to utility companies and other companies that use coal as an alternative fuel. Also the coal reserves have related federal income tax credits resulting from the Super Fund established by The Federal Government that can be sold to other companies and the Company is actively pursuing buyers for these tax credits. At September 30, 2006, the Company established an impairment reserve of \$4,600,000 against the coal reserves.

Accounting Method

The Company records income and expenses on the accrual method.

Revenue Recognition



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The Company's sources of revenues include the sale of short-form national and local spot advertising and long-form program time slots. The Company's policy is to recognize the revenue associated with these sources of revenue at the time that it inserts the short-form advertising spots or airs the long-form program at the network or local level.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions are eliminated. The Company owns 100% of Urban Television Network Corporation, a Texas corporation and Urban Records, Inc., a Nevada Corporation, which has no assets and operations.

### Coal Reserves

The Coal reserves owned by the Company are recorded at lower of cost or net realizable value. Net realizable value is the estimated price at which the coal reserves can be sold in the normal course of business after allowing for the cost of processing and sale. Such cost will be depreciated using the units-of-production method as the coal reserves are sold. See impairment of assets disclosure below for impairment provision against the coal reserves. At September 30, 2006, the Company established an impairment reserve of \$4,600,000 against the coal reserves.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

## 2. Significant Accounting Policies - continued

### Non Goodwill Intangible Assets

Intangible assets other than goodwill consist of network assets acquired by purchase. They are being amortized over their expected lives of 5 years and are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. No impairment loss was recognized during the reporting periods. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Intangible Assets. This provides that a recognized intangible shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. The amount of an intangible asset to be amortized shall be the amount initially assigned to that asset less any residual value.

### Impairment of Assets

The Company has adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses the financial accounting and reporting for the impairment of long-lived assets, excluding goodwill and intangible assets, to be held and used or disposed of. In accordance with SFAS No. 144, the carrying values of long-lived assets are periodically reviewed by the Company and impairments would be recognized if the expected future operating non-discounted cash flows derived from an asset were less than its carrying value and if the carrying value is more than the fair value of the asset. At September 30, 2006, the Company

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concluded that the coal reserves acquired for 100,000 shares of preferred shares and valued at \$4,600,000 was impaired and an impairment provision of \$4,600,000 was provided at September 30, 2006.

### Issuance of Common Stock

The issuance of common stock for other than cash is recorded by the Company at management's estimate of the fair value of the assets acquired or services rendered.

### Income (Loss) Per Share

Income (loss) per common share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". Basic Income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed similar to basic net income (loss) per share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Stock options and warrants are anti-dilutive, and accordingly, are not included in the calculation of income (loss) per share.

### Comprehensive Income

Comprehensive income (loss) and net income (loss) are the same for the Company.

### Cash

For purposes of the statement of cash flows, the Company considers unrestricted cash and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

## 2. Significant Accounting Policies - continued

### Concentration of Credit Risk

The Company at times maintains cash in excess of federally insured limits. The amount in excess of the federally insured limits at December 31, 2006 was \$-0-.

### Advertising Costs

The Company expenses non-direct advertising costs as incurred. The Company did not incur any direct response advertising costs for the three months ended December 31, 2006.

### Stock Based Compensation

The Company accounts for equity instruments issued to employees for services based on the fair value of the equity instruments issued and accounts for equity instruments issued to other than employees based on the

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fair value of the consideration received or the fair value of the equity instruments, whichever is more reliably measurable. The determined value is recognized as an expense in the accompanying consolidated statements of operations.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Recent Accounting Standards

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." This Statement eliminates the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect application of SFAS No. 153 to have a material affect on its financial statements.

In December 2004, the FASB issued a revision to SFAS No. 123, "Share-Based Payment." This Statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. It establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement No. 123 as originally issued and EITF Issue No. 96-18. This Statement is effective for public entities that file as small business issuers as of the beginning of the first fiscal period that begins after December 15, 2005. The Company has not yet determined the impact of SFAS No. 123 (revised) on its financial statements.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
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## 2. Significant Accounting Policies - continued

In May 2005, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 154, "Accounting Changes and Error Corrections." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle, requiring, in general, retrospective application to prior periods' financial statements of changes in accounting principle. The Company has adopted the provisions of SFAS No. 154 which are effective for accounting

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changes and corrections of errors beginning after December 15, 2005. The adoption did not have a material effect on the results of operations of the Company.

In February 2006, FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments". SFAS No. 155 amends SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company's first fiscal year that begins after September 15, 2006.

In March 2006, FASB issued SFAS 156 'Accounting for Servicing of Financial Assets'. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.
2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.
3. Permits an entity to choose 'Amortization method' or 'Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities:
4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.
5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

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### 2. Significant Accounting Policies - continued

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. The management is currently evaluating the effect of this pronouncement on financial statements.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), effective for fiscal years beginning after December 15, 2006. FIN 48 requires a two-step approach to determine how to recognize tax benefits in the financial statements where recognition and measurement of a tax benefit must be evaluated separately. A tax benefit will be recognized only if it meets a "more-likely-than-not" recognition threshold. For tax positions that meet this threshold, the tax benefit recognized is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. We are currently evaluating the impact of adopting FIN 48, and have not yet determined the significance of this new rule to our overall results of operations, cash flows or financial position.

In September 2006, FASB issued SFAS 157 'Fair Value Measurements.' This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on financial statements.

In September 2006, FASB issued SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans--an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

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- a) A brief description of the provisions of this Statement
- b) The date that adoption is required
- c) The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

### 2. Significant Accounting Policies - continued

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2006. The management is currently evaluating the effect of this pronouncement on financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Current Year Misstatements." SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides a one-time cumulative effect transition adjustment. SAB No. 108 is effective for the Company's 2006 annual financial statements. The Company is currently assessing the potential impact that the adoption of SAB No. 108 will have on its financial statements. The adoption of SAB No. 108 is not expected to materially impact the financial statements.

Other recent accounting pronouncements issued by the FASB (including its EITF), the AICPA, and the SEC did not or are not believed by management to have a material impact on the Company's present or future financial statements.

#### Stock Options

The Company accounts for non-employee stock options under SFAS 123, whereby option costs are recorded at the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliable measurement, in accordance with EITF 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring or in Conjunction with Selling Goods or Services".

#### Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with current year presentation.

### 3. Accounts receivable

Accounts receivable consists of normal trade receivables. The Company assesses the collectibility of its accounts receivable regularly. Based on this assessment, an allowance for doubtful accounts is recorded. At December 31, 2006, an allowance for doubtful accounts was not considered necessary.

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### 4. Network Assets - Amortization

Network assets consist of intangibles other than Goodwill. These assets are recorded at cost and consist of amounts paid to acquire the television network affiliate base from Hispanic Television Network, plus technology consulting directly related to setting up the affiliate network. These assets automatically renew every year unless either party terminates the agreement by such notification to the other party. A useful life of five (5) years is estimated for the assets. These agreements are not expected to be terminated by either party prior to its useful life period. Total amortization of these assets has been \$163,846 and the amortization for the three months ended December 31, 2006 and 2005 was \$6,260 and \$6,260, respectively.

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Urban Television Network Corporation  
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Future amortization of the Network assets at December 31, 2006 will be \$31,782 and on an annual basis be as follows:

|                               |          |
|-------------------------------|----------|
| Year ended September 30, 2007 | \$18,780 |
| Year ended September 30, 2008 | \$13,002 |

### 5. Coal Reserves

By agreement dated September 30, 2005 with GeoTec Thermal Generators, Inc., the Company acquired 200,000 tons of mined coal in exchange for 100,000 shares of preferred Stock, which may be converted into the Company's common stock, at the sole discretion of the GeoTec Thermal Generators, Inc., at any time in an amount equal to the purchase price, which based on the bid price of \$.10 price on September 30, 2005, was valued at \$4,600,000. GeoTec Thermal Generators, Inc. has other coal in other locations in the United States and the agreement allows the Company to substitute coal in these other locations, which the Company may exercise this right if it for example would expedite the delivery process. In evaluating the coal assets in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" as discussed in Note 1 -Significant Accounting Policies, the Company has placed recorded an impairment reserve of \$4,600,000 against the coal assets.

### 6. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment, their estimated useful lives, and related accumulated depreciation are summarized as follows:

|                                   | Range of<br>Lives in<br>Years | December 31,<br>2006 | September 30,<br>2006 |
|-----------------------------------|-------------------------------|----------------------|-----------------------|
|                                   | -----                         | -----                | -----                 |
| Master Control, Editing Equipment | 3-5                           | \$ 84,074            | \$ 84,074             |
| Studio and Production Equipment   | 3-5                           | 60,500               | 60,500                |
| Production Van                    | 5                             | 45,000               | 45,000                |
| Affiliated Receiver Equipment     | 5                             | 20,247               | 20,247                |
|                                   |                               | -----                | -----                 |

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|                                |           |           |
|--------------------------------|-----------|-----------|
|                                | 209,821   | 209,821   |
| Less: Accumulated Depreciation | (178,676) | (169,577) |
|                                | \$ 31,145 | \$ 40,244 |
|                                | \$ 31,145 | \$ 40,244 |

The Company did not acquired any equipment during the three months ended December 31, 2006 and 2005, respectively. Total depreciation expense for the three months ended December 31, 2006 and 2005 was \$9,099 and \$14,349, respectively.

### 7. Related Party Transactions

In May 2002, the Company issued 16,000,000 (800,000 after the 1 for 20 Reverse) shares to Urban Television Network Corporation, a Texas corporation for asset purchase of network assets - See footnote 1.

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Urban Television Network Corporation  
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### 7. Related Party Transactions - continued

The Company has leased office space from one its shareholders and director for \$2,000 per month. The total rental expense for the years ended September 30, 2004 was \$24,000.

In year 2003, the Company began using the services of a company owned by shareholders, one being a director of the Company, that provides the Company with the equipment and master control services to put the Company's programming on the satellite for the broadcast affiliates to receive and rebroadcast to their local markets. During the periods ended September 30, 2004 the total expense paid out for these services was \$430,367.

The Company uses the services of a company owned by shareholders to provide it with technology services including Internet and affiliate relations. During the periods ended December 31, 2005 and 2004 the total expense paid out for these services was \$43,130 and \$46,230 respectively.

During the period ended September 2003, the Company executed an interest bearing note with a shareholder. The principal borrowed of \$168,765 plus accrued interest of \$29,750 were converted to a non-interest payable to the shareholder. As discussed below, the shareholder agreed to reduce the Company payable by \$198,515 to apply towards the purchase of common stock by Wright Entertainment LLC during the period ended September 30, 2004. In December 2004, this payable was reinstated in conjunction with the termination of the Wright Entertainment LLC subscription agreement and the execution of the World One Media Group, Inc. subscription Agreement discussed later in this Note 7. This note was converted to 1,000,000 shares of common stock in February of 2005.

The Company executed an interest bearing note with a shareholder of the Company during the year ended September 30, 2003 to pay operating expenses. During the year ended September 30, 2003 the amounts loaned totaled \$132,200. During the year ended September 30, 2004, the Company repaid \$130,000 and the remaining \$2,200 was repaid during the year ended September 30, 2005.



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The Company executed an interest bearing note with a shareholder of the Company during the year ended September 30, 2004 to pay operating expenses. During the year ended September 30, 2004 the amounts loaned totaled \$400,000. In September 2005, \$228,290 of this note was converted to 2,282,900 shares of common stock by the noteholder and the remaining balance of \$171,710 was extended to March 31, 2006. See Note 8 disclosure of terms, interest rate and conversion privileges.

On October 30, 2003, the Company completed a stock subscription agreement with Wright Entertainment, LLC, a Nevada limited liability company, whose owner and managing director is Lonnie G. Wright, Chairman and Chief Executive Officer of the Company. Wright Entertainment, LLC entered into the stock subscription agreement for Fourteen Million (14,000,000) common shares for Seven Million (\$7,000,000) Dollars or Fifty (\$0.50) Cents per share. The stock sale was structured as an installment stock sale. The terms of the stock sale are as follows: \$500,000 down, the \$6,500,000 balance payable on a promissory note at \$875,000 dollars quarterly, including 6% interest on the declining balance. A portion (\$200,000) of the \$500,000 down payment was satisfied by one of the Company's lenders forgiving \$198,515 of advances due the lender and \$1,485 of accrued interest on a note payable to the lender. As part of the definitive agreement, between the Company, Wright Entertainment LLC and World One Media Group, Inc. discussed in the next paragraph this stock subscription agreement for 14,000,000 shares was termination and the 4,000,000 shares that had been issued to Wright Entertainment LLC's for management services

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7. Related Party Transactions - continued

and to be vested upon Wright Entertainment LLC's completed the payment for its subscription agreement were cancelled. The definitive agreement calls for the Company to pay Wright Entertainment LLC, owned by Lonnie G. Wright, \$300,000 (\$60,000 at the signing and \$15,000 per month for sixteen months beginning January 15, 2005) and issue Wright Entertainment LLC 1,000,000 shares of the Company's restricted common stock.

On December 13, 2004, we entered into a definitive agreement with World One Media Group, Inc., a Nevada corporation. The definitive agreement called for World One to purchase 70,000,000 restricted common shares for \$7,000,000. The subscription agreement signed on December 23, 2004 set the terms of the installment purchase at \$100,000 being paid on December 23, 2004 and with a promissory note bearing no interest being executed for the remaining \$6,900,000 and being paid at the rate of \$150,000 every 45 days beginning on January 31, 2005 until promissory note has been paid in full.

All the shares are pledged as collateral for the promissory note and will be physically held by the Company. Additionally, World One will be issued warrants for 30,000,000 (reduced by mutual agreement from the original 80,000,000 warrant) shares of common stock that can be exercised for \$.01 per share at any time after the Company's stock price has maintained a \$10 bid price for 20 consecutive trading days. The total warrants exercisable will be subject the available authorized and unissued shares of the Company at the time of exercise.

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On July 26, 2005, the Board of Directors voted to (1) terminate the stock subscription agreement with Dove Media Group, Inc. (formerly known as World One Media Group, Inc.) due to its nonpayment of required installment payments, (2) cancel the 70,000,000 shares issued and held by the Company as security on the stock subscription agreement, (3) reissue 2,500,000 shares to Dove Media Group, Inc. for \$250,000 that it paid towards the stock subscription Agreement and (4) cancel the 5,000,000 shares that had been authorized for Dr. Ajibike Akinkoye for services to be rendered.

On July 29, 2005, we entered into a stock subscription agreement with Miles Investment Group, Inc., a Texas limited liability company owned by Jacob R. Miles III, a shareholder and the Company's Chief Executive Officer. The agreement called for Miles Investment Group, LLC to purchase 69,000,000 restricted common shares for \$6,900,000 on an installment basis over a 28 month period with the terms being \$100,000 as a down payment and \$250,000 per month beginning on September 1, 2005 and the first each month thereafter until the total of \$6,800,000 has been paid in full. The Company had deferred payments on the stock subscription agreement at various times with the final deferment being August 15, 2006, in consideration for Miles Investment Group LLC bringing the coal reserves deal to the Company. All the shares were pledged as collateral for the promissory note and were physically held by the Company. Additionally, Miles Investment Group, LLC was issued warrants for 30,000,000 shares of restricted common stock that could have been exercised for \$.01 per share in various amounts depending on the future stock price of the Company's stock.

During the fiscal year ended September 30, 2005, Randy Moseley, CFO advanced the Company \$30,900 for operating expenses.

During the fiscal year ended September 30, 2006, Jacob R. Miles, CEO advanced the Company \$30,000 for operating expenses.

During the fiscal year ended September 30, 2006, Randy Moseley, CFO advanced the Company \$43,500 for operating expenses and received reimbursements of \$22,000.

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Urban Television Network Corporation  
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7. Related Party Transactions - continued

On September 29, 2006, the Board of Directors voted to terminate the stock subscription agreement and warrants with Miles Investment Group, LLC due to non-performance on the payment terms as called for in the subscription agreement, after allowing Miles Investment Group, LLC a number of extension to come into compliance with the subscription agreement. The impact of this action was to (1) remove 67,000,000 shares from the issued \$0.0001 par value common stock, which reduced the number of issued and outstanding from 144,822,277 shares to 77,822,277 shares and (2) cancel the 30,000,000 warrants.

8. Notes Payable and Advances

December 31, September 30,  
2006 2006

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|  |              |              |
|--|--------------|--------------|
| Note payable to stockholder at 20% interest payable on or before September 20, 2008 (1)  | \$ 351,580   | 358,016      |
| Notes payable to stockholders at 6% due Upon sale of coal reserves   | 160,000      | 231,000      |
| Note payable to stockholder at no Interest, payable \$15,000 per month, on 15th of the month, final payment due April 15, 2006 (2) | 90,000       | 90,000       |
| Note payable to vendor at 12% interest (18% on past due amounts) payable on April 30, 2006 (3)                                     | 63,511       | 63,511       |
| Advances from shareholders (4)   | 35,565       | 120,565      |
| Advances from a non-related party that has been assumed by a receiver (5)  | 665,000      | 665,000      |
|  | -----        | -----        |
|  | \$ 1,365,656 | \$ 1,528,093 |
|  | -----        | -----        |

(1) The holders of the March 2006 note and vendor note have a UCC-1 lien against the Company's assets. The March 2006 note originally due on August 31, 2005 was extended by the noteholder to June 30, 2006 in consideration for the Company issuing the noteholder 200,000 shares of common stock, which the Company valued at \$20,000 and the conversion ratio from five shares to ten shares of common stock for each dollar of loan amount plus accrued interest through the date of conversion. In September 2006 the note was made part of an increased bridge loan of \$492,400 of which \$358,016 had been advanced at September 30, 2006. The note is associated with a stock subscription agreement with R.J. Halden Holdings, Inc. discussed in Note 9.

(2) The holder of the \$165,000 note converted \$75,000 of the note balance into 750,000 shares of the Company's common stock in October 2005.

(3) Westar Satellite Services was granted 100,000 warrants at an exercise price \$0.12 per share for a period of three years from November 7, 2005. The noteholder has filed suit against the Company for payment of this note and accrued interest. See Note 12 - Commitments and Contingencies for a discussion of this liability.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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8. Notes Payable and Advances - continued

(4) The advances from shareholders are due on demand and do not bear interest.

(5) See Note 12 - Commitments and Contingencies - Legal Matters for a discussion of the dismissal of this liability by the presiding judge in a

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receivership case for Mega Fund Corporation.

### 9. Income Tax

The Company accounts for income taxes under the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This standard requires, among other things, recognition of future tax consequences, measured by enacted tax rates attributable to taxable and deductible temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in the deferred tax asset and liability.

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities did not give rise to significant portions of deferred taxes at December 31, 2006 and September 30, 2006.

The (provision) benefit for income tax consist of the following:

|          | December 31,<br>2006 | September 30,<br>2006 |
|----------|----------------------|-----------------------|
|          | -----                | -----                 |
| Current  | \$ 0                 | \$ 0                  |
| Deferred | 0                    | 0                     |
|          | -----                | -----                 |
|          | \$ 0                 | \$ 0                  |
|          | =====                | =====                 |

The Company's utilization of any tax loss carryforward available to it will be significantly limited under Internal Revenue Code Section 382, if not totally, by recent stock issuances and changes in control. The Company has established a 100% valuation allowance until such time as it is decided that any tax loss carryforwards might be available to it. The Company accounts for income taxes pursuant to the Statement of Financial Accounting Standards No.109. The Company has no current or Deferred income tax component. For the year ended September 30, 2006, the Valuation Allowance increased by approximately \$350,000. During the three months ended December 31, 2006, the Valuation Allowance increased by approximately \$100,000.

### 10. Capital Stock

The Company has authorized 200,000,000 common shares with a par value of \$0.0001 per share. Each common share entitles the holder to one vote, in person or proxy, on any matter on which action of the stockholders of the corporation is sought.

The Company began operations by completing the acquisition of Urban Television Network Corporation, a Texas corporation, in two steps; (1) in May of 2002 the Company issued 16,000,000 shares (800,000 after the 1 for 20 reverse) and (2) in February of 2003, the Company entered into an Exchange Agreement with the majority shareholders of Urban Television Network Corporation, a Texas corporation (Urban-Texas) to acquire 90% of the issued and outstanding capital stock of Urban-Texas in return for 13,248,000 shares of the Company's common stock - See footnote 1.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2006 (UNAUDITED)

### 10. Capital Stock - continued

In September 2002, issuing 100,000 (5,000 after the 1 for 20 reverse) shares to Hispanic Television Network, Inc. as part of the mutual settlement agreement between the two companies to cancel the Satellite Transponder Service Agreement and notes payable/receivable.

On November 21, 2002 the Company completed a 1:20 reverse stock split and amending its Articles of Incorporation to increase its authorized common shares to 200,000,000 and adjust its par value to \$0.0001 per share.

During the years ended September 30, 2003, 2004, 2005 and 2006 the Company issued shares of its common stock for consulting, legal and management services as follows;

|                               | Number of<br>Shares Issued | Company<br>Valuation of<br>Shares Issued |
|-------------------------------|----------------------------|--|
|                               | -----                      | -----                                    |
| Year ended September 30, 2003 | 7,275,000                  | \$ 811,250                               |
| Year ended September 30, 2004 | 21,308,000                 | \$4,771,450                              |
| Year ended September 30, 2005 | 4,150,000                  | \$ 427,000                               |
| Year ended September 30, 2006 | 6,129,000                  | \$ 190,870                               |

During the years ended September 30, 2003, 2004, 2005 and 2006 the Company issued common stock for Bridge Loan conversions as follows;

|                               | Number of<br>Shares Issued | Amount of<br>Bridge Loans<br>Converted |
|-------------------------------|----------------------------|--|
|                               | -----                      | -----                                  |
| Year ended September 30, 2003 | 1,957,300                  | \$ 978,650                             |
| Year ended September 30, 2004 | 4,135,441                  | \$1,852,648                            |
| Year ended September 30, 2005 | 10,276,100                 | \$1,136,922                            |
| Year ended September 30, 2006 | 2,482,000                  | \$ 85,000                              |

In the fiscal years ended September 30, 2004, 2005 and 2006 the Company has entered into four stock subscription agreements, of which three have been terminated, of which three were with different minority groups for a majority ownership interest in the Company's common stock. Following is a summary of the three terminated stock transactions involved in the terminated agreements, which or more fully described in Note 6 - Related Party Transactions;

| Date of<br>Agreement | Name of Group         | Number of<br>Shares<br>Issued | Value<br>Assigned<br>To Shares | Note<br>Value  | Warrants<br>Issued |
|----------------------|-----------------------|-------------------------------|--------------------------------|----------------|--------------------|
|                      | -----                 | -----                         | -----                          | -----          | -----              |
| 10/30/03             | Wright Entertainment  | 18,000,000                    | \$ 9,000,000                   | \$ 6,800,000   |                    |
| 12/13/04             | Wright Entertainment  | (18,000,000)                  | \$ (9,000,000)                 | \$ (6,800,000) |                    |
| 12/13/04             | World One Media Group | 70,000,000                    | \$ 7,000,000                   | \$ 6,750,000   | 30,000,000         |
| 7/26/05              | World One Media Group | (67,500,000)                  | \$ (6,750,000)                 | \$ (6,750,000) | (30,000,000)       |

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|                       |                        |              |                |             |              |
|-----------------------|------------------------|--------------|----------------|-------------|--------------|
| 7/29/05               | Miles Investment Group | 69,000,000   | \$ 6,900,000   | 6,690,000   | 30,000,000   |
| 9/29/06               | Miles Investment Group | (67,000,000) | \$ (6,700,000) | (6,690,000) | (30,000,000) |
| Net Effect at 9/30/06 |                        | 4,500,000    | \$ 450,000     | \$ --       | --           |

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Urban Television Network Corporation  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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10. Capital Stock - continued

In September 2005, the Company issued 200,000 shares of its common stock to the noteholder of the \$171,710 note payable discussed in Note 8 as part of the consideration for the noteholder agreeing to extend the note to March 31, 2006.

On September 29, 2006, the Board of Directors voted to terminate the stock subscription agreement and warrants with Miles Investment Group, LLC due to non-performance on the payment terms as called for in the subscription agreement, after allowing Miles Investment Group, LLC a number of extension to come into compliance with the subscription agreement. The impact of this action was to (1) remove 67,000,000 shares from the issued \$0.0001 par value common stock, which reduced the number of issued and outstanding from 144,822,277 shares to 77,822,277 shares and (2) cancel the 30,000,000 warrants.

On September 29, 2006, the Board of Directors approved effective as of September 23, 2006, a subscription agreement R. J. Halden Holdings, Inc. ("RJHH"). RJHH is one of the largest, if not largest shareholders in the Company. The Subscription Agreement calls for RJH to fund \$1.5 million on or before January 31, 2007. RJHH is entitled to purchase 64% interest in the Company, or a total of 136,104,486 shares. The subscription vest with pro rata advances in increments of a minimum of 500,000 shares as paid. The Company's currently authorized shares of 200,000,000 will have to be amended in the future to allow for the full issuance of the 136,104,486 shares, should R.J. Halden Holdings, Inc. fund the entire \$1,500,000.

In December of 2006, the Company issued 3,960,000 shares of its common stock for consulting and management services, which the Company valued at \$95,041.

In December of 2006, the Company issued 20,231,461 shares of its common stock to Bridge Loan lenders for the election to convert \$225,000 to common stock.

Warrants

In connection with a vendor converting a payable to note payable, the Company issued the vendor 100,000 warrants that can be exercised over a five year period at the exercise price of \$.25 per share.

The Company issued management 950,000 warrants in March 2006 which are vested immediately and exercisable at \$0.05 per shares on or before December 31, 2007 in return for loans made to the Company for operating expenses. The Company has not recognized any expense related to these

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warrants as the market price of the Company's stock at issuance was equal to the exercise price.

### Non-Qualified Stock Grant and Option Plan

The Company is authorized to issue up to 6,800,000 shares of common stock under its 2003 Non-Qualified Stock Grant and Option Plan (the "Plan") through an S-8 registration, as amended. This Plan is intended to serve as an incentive to and to encourage stock ownership by certain directors, officers, employees of and certain persons rendering service to the Company, so that they may acquire or increase their proprietary interest in the success of the Company, and to encourage them to remain in the Company's service. During the year ended September 30, 2003, the Company had distributed 1,900,000 of the shares through grants. During the year ended September 30, 2004, the Company had distributed 1,586,000 of the shares through grants. During the year ended September 30, 2005, the Company distributed 200,000 of the shares through grants. During the three months ended December 31, 2006, the Company distributed 3,960,000 of the shares through grants.

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Urban Television Network Corporation  
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#### 11. Preferred Stock

The Articles of Incorporation of the Company authorize issuance of a maximum of 500,000 shares of nonvoting preferred stock with a par value of \$1.00 per share. The Articles of Incorporation grant the Board of Directors of the Company authority to determine the designations, preferences, and relative participating, optional or other special rights of any preferred stock issued.

On September 30, 2005, the Company entered into an agreement with GeoTec Thermal Generators, Inc. to acquire 200,000 tons of coal in exchange for 100,000 shares of preferred Stock, which may be converted into the Company's common stock, at the sole discretion of the GeoTec Thermal Generators, Inc., at any time in an amount equal to the purchase price at the stock bid price of \$.10 on September 30, 2005. The 100,000 shares of preferred stock do not have any voting rights or preferences, except for the conversion privilege.

#### 12. Commitments and Contingencies

##### Satellite Transponder Lease

In December 2005, the Company renewed its Satellite space segment service agreement with Intelsat, Inc. for 6 MHz of satellite bandwidth on Intelsat 5 for a period of five years ending on October 31, 2010 at the rate of \$17,850 per month. This agreement was terminated by Intelsat in April of 2006 for non-payment by the Company. For the periods ended September 30, 2006 and 2005, the amounts expensed were \$326,638 and \$215,516, respectively.

##### Signal Uplink Lease

The Company renewed its Full Time Broadcast Agreement with Westar Satellite

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Services, LP on October 15, 2005 for a full time redundant 6 MHz digital C-band uplink service for a period of five years ending on October 31, 2010 at the rate of \$8,800 per month plus taxes. For periods ended September 30, 2006 and 2005 the amounts expensed for uplink services were \$159,850 and \$96,000, respectively.

Westar Satellite Services, LP has sued the Company for non-payment of this contract. Future lease payments due during the term of the master service agreement ending on October 31, 2010 will equal \$413,600 and be due as follows:

|                               |           |
|-------------------------------|-----------|
| Year ended September 30, 2007 | \$105,600 |
| Year ended September 30, 2008 | \$105,600 |
| Year ended September 30, 2009 | \$105,600 |
| Year ended September 30, 2010 | \$ 96,800 |

### Facilities Space Lease

The Company entered into a lease for office and uplink space on March 1, 2004 for a period of one year ending on February 28, 2005 and renewed the lease through February 28, 2007 at the rate of \$2,569 per month. For periods ended September 30, 2006 and 2005, the amount expensed for this office space lease was \$33,720 and \$22,491, respectively. For periods ended December 31, 2006 and 2005, the amount expensed for this office space lease was \$7,707 and \$7,473, respectively.

The Company entered into a lease for additional space at the its corporate headquarters facilities on April 1, 2005 for one year ending on March 31, 2006, at the rate of 4,100 per month. The Company exercised its option to terminate this lease on its March 31, 2006 anniversary date. For the period ended September 30, 2006 the amount expensed for this office space lease was \$24,600. For periods ended December 31, 2006 and 2005, the amount expensed for this office space lease was \$1,200 and \$12,300, respectively.

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### 12. Commitments and Contingencies - continued

Future lease payments due in the year ending September 30, 2007 for the term of the March 31, 2004 lease ending on February 28, 2007, equals \$21,414.

### Employment Agreements

Mr. Randy Moseley is employed pursuant to a five-year employment agreement that commenced on October 2, 2002. The agreement provides for a base annual salary equal to \$200,000 and a possible annual cash bonus as determined by the Board of Directors and/or the Compensation Committee. In October 2003, the employment agreement of Mr. Moseley was extended and amended to allow for the naming of a new President and Chief Executive Officer for the Company. Mr. Moseley accepted the officer position of Executive Vice President and Chief Financial Officer and agreed to defer the payment of his salary for the period from October 2, 2002 to September 30, 2003 with this deferred year being added to the end of the original employment term to make the term of the employment agreement now end on September 30, 2008.



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During the periods ended September 30, 2006 and 2005, \$150,000 and \$126,000 of Mr. Moseley's annual compensation was accrued as a payable. During the three months ended December 31, 2006, \$34,160 of Mr. Moseley's annual compensation was accrued as a payable. At December 31, 2006, a total of \$460,160 in compensation was accrued as a payable to Mr. Moseley.

Mr. Jacob R. Miles III, is employed as the Company's President and Chief Executive Officer pursuant to a three-year employment agreement that commenced effective January 1, 2006. The agreement provides for a base annual salary equal to \$225,000 with a minimum of annual increases of 5% and a possible annual cash bonus as determined by the Board of Directors and/or the Compensation Committee. During the period ended September 30, 2006, \$86,250 of Mr. Miles' annual compensation was accrued as a payable. At September 30, 2006, a total of \$142,500 in compensation was accrued as a payable to Mr. Miles. During the three months ended December 31, 2006, \$40,410 of Mr. Miles's annual compensation was accrued as a payable. At December 31, 2006, a total of \$218,410 in compensation was accrued as a payable to Mr. Miles.

### Legal Matters

The Company's motion to dismiss was granted on February 23, 2006 by the United States District Court, Central District of California, Los Angeles Division in a legal action styled Walter E. Morgan, Jr. vs. Urban Television Network Corporation et al. The Company claimed that the Plaintiff claims should have been brought in a previous case wherein the Company took a judgment against Mr. Morgan in excess of \$1,500,000 in June 2204 in the U.S. District Court for the Northern District of Texas, Fort Worth Division. Mr. Morgan and his related companies appealed the judgment, which was dismissed sua sponte by the U.S. Court of Appeals for the Fifth Circuit. The Company has made the decision not to record the default judgment as an asset until at such time as it is confident that asset value can be recovered from the defendants.

The Company was party to legal action pending in the United States District Court for the Northern District of Texas. In a lawsuit styled Michael J. Quilling, Receiver For MegaFund Corporation and Stanley A. Leitner vs. Urban Television Network Corporation, the Receiver filed a complaint against the Company to recover advances in the amount of \$665,000 to the Company by Mega Fund Corporation. The Company recorded these advances as a liability on its financial statements and on December 6, 2006, the presiding judge signed an Agreed Order of Dismissal that dismissed without prejudice the lawsuit of Michael J. Quilling, the Receiver for Mega Fund Corporation.

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Urban Television Network Corporation  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2006  
(UNAUDITED)

### 12. Commitments and Contingencies - continued

The Company is party to legal action pending in the 162nd District Court, Dallas, Texas. The Company has been served with a summons in a civil case styled Westar Satellite Services, L.P. vs. Urban Television Network Corporation. The Plaintiff has filed complaint against the Company to Recover amounts due Plaintiff under a promissory note and Master Service Agreement. The Company has recorded the related liabilities for the promissory note and master service agreement on its financial statements

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and believes that the ultimate disposition will not have a material adverse effect on the Company's consolidated financial position, results of operations and liquidity.

### 13. Going Concern

The Company has suffered recurring losses from operations and has a deficit in both working capital and stockholders' equity. In order for the Company to sustain operations and execute its television broadcast and programming business plan, capital will need to be raised to support operations as the company executes its business plan. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company may raise additional capital through operating cash flows, the sale of its equity securities, or debt securities. Subsequent to December 31, 2006, the Company has raised additional capital of approximately \$10,000 from shareholder advances. In January of 2007, R.J. Halden Holdings, Inc. converted \$200,000 of its bridge loan to the Company to 18,147,272 shares of the Company's common stock in accordance with its bridge loan and stock subscription agreement.

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### Item 2. Management's Discussion and Analysis or Plan of Operation.

This Form 10-QSB contains statements that constitute "forward-looking statements." These forward-looking statements can be identified by the use of predictive, future-tense or forward-looking terminology, such as "believes," "anticipates," "expects," "estimates," "plans," "may," "will," or similar terms. These statements appear in a number of places in this report and include statements regarding the intent, belief or current expectations of the Company, its directors or its officers with respect to, among other things: (i) trends affecting the Company's financial condition or results of operations for its limited history; (ii) the Company's business and growth strategies; (iii) the Internet and Internet commerce; and, (iv) the Company's financing plans. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve significant risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements as a result of various factors. Factors that could adversely affect actual results and performance include, among others, the Company's limited operating history, dependence on key management, financing requirements, government regulation, technological change and competition. Consequently, all of the forward-looking statements made in this Form 10-QSB are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequence to or effects on the Company or its business or operations. The Company assumes no obligations to update any such forward-looking statements.

Readers are urged to carefully review and consider the various disclosures made

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by us in this Quarterly Report on Form 10-QSB and our Form 10-KSB for the period ended September 30, 2006 and our other filings with the U.S. Securities and Exchange Commission. These reports and filings attempt to advise interested parties of the risks and factors that may affect our business, financial condition and results of operations and prospects. The forward-looking statements made in this Form 10-QSB speak only as of the date hereof and we disclaim any obligation to provide updates, revisions or amendments to any forward-looking statements to reflect changes in our expectations or future events.

### Background

Urban Television Network Corporation (the "Company") formerly known as Waste Conversion Systems, Inc. was incorporated under the laws of the state of Nevada On October 21, 1986. The principal office of the corporation is 2707 South Cooper, Suite 119, Arlington, Texas 76035.

In January 2002, the Company underwent a change of control with the directors of the Company appointing the directors and officers of Urban Television Network Corporation, a Texas corporation, (Urban-Texas) as the new directors and officers of the Company, and at the same time resigning their board positions.

On May 1, 2002, the Company entered into an agreement with Urban-Texas to acquire the rights to the Urban-Texas affiliate network signal space which included the assignment of the Urban-Texas broadcast television station affiliates for 16,000,000 shares of common stock, which became 800,000 shares after the 1 for 20 reverse split in November 2002.

On February 7, 2003, the Company entered into a Stock Exchange Agreement with the majority shareholders of Urban-Texas to acquire approximately 90% of the issued and outstanding capital stock of Urban-Texas (13,248,000 of 14,759,000 shares) in exchange for the Company's issuance of 13,248,000 shares of its authorized but unissued common stock, \$.0001 par value (the "Exchange Shares"), to the majority shareholders of Urban-Texas. In June 2003, the remaining 10% of the Urban-Texas common stock was contributed to the Company.

Urban-Texas is considered the accounting acquirer, and the accompanying financial statements include the operations of Urban-Texas from the earliest period presented. The transaction with the Company is presented as a recapitalization of Urban-Texas.

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The consideration exchanged in Stock Exchange Agreement was negotiated between the Company and Urban-Texas in a transaction with management. The management of the Company and Urban-Texas, were the same individuals. The transaction does not represent an arms-length transaction.

On October 30, 2003, the Company completed a stock subscription agreement with Wright Entertainment, LLC, a Nevada limited liability company, whose owner and managing director is Lonnie G. Wright, Chairman and Chief Executive Officer of the Company. Wright Entertainment, LLC entered into the stock subscription agreement for Fourteen Million (14,000,000) common shares for Seven Million (\$7,000,000) Dollars or Fifty (\$0.50) Cents per share. The stock sale was structured as an installment stock sale. The terms of the stock sale were as follows: \$500,000 down, the \$6,500,000 balance payable on a promissory note at \$875,000 Dollars quarterly, including 6% interest on the declining balance. A portion (\$200,000) of the \$500,000 down payment was satisfied by one of the Company's lenders forgiving \$198,515 of advances due the lender and \$1,485 of accrued interest on a note payable to the lender. In December 2004, this subscription agreement was terminated by mutual agreement between the Company

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and Wright Entertainment LLC as well as the termination of 4,000,000 shares that has been issued to Wright Entertainment and were to be vested to Wright Entertainment upon the full payment of the subscription agreement.

On December 13, 2004, we entered into a definitive agreement with World One Media Group, Inc., a Nevada corporation. The definitive agreement called for World One to purchase 70,000,000 restricted common shares for \$7,000,000. The subscription agreement signed on December 23, 2004 set the terms of the installment purchase at \$100,000 being paid on December 23, 2004 and with a promissory note bearing no interest being executed for the remaining \$6,900,000 and being paid at the rate of \$150,000 every 45 days beginning on January 31, 2005 until the promissory note was paid in full. Additionally, World One had the right to purchase 30,000,000 warrants for shares of common stock that could be exercised for \$.01 per share at any time after the Company's stock price maintained a \$10 bid price for 20 consecutive trading days.

As part of the definitive agreement, Wright Entertainment LLC which had previously entered into a stock subscription agreement for 14,000,000 shares agreed to the termination and cancellation of that agreement by the Company and further agreed to the termination and cancellation of 4,000,000 shares that had been issued in Wright Entertainment LLC's name. The definitive agreement provided for the Company to pay Wright Entertainment LLC, owned by Lonnie G. Wright, \$300,000 (\$60,000 at the signing and \$15,000 per month for sixteen months beginning January 15, 2005) and issue Wright Entertainment LLC 1,000,000 shares of the Company's restricted common stock.

On July 26, 2005, the Board of Directors voted to (1) terminate the stock subscription agreement with Dove Media Group, Inc. (formerly known as World One Media Group, Inc.) due to its nonpayment of required installment payments, (2) cancel the 70,000,000 shares issued and held by the Company as security on the stock subscription agreement, (3) reissue 2,500,000 shares to Dove Media Group, Inc. for the \$250,000 that it paid towards the stock subscription Agreement, (4) cancel the 30,000,000 warrants issued as part of the subscription agreement and (5) cancel the 5,000,000 shares that had been authorized for Dr. Ajibike Akinkoye for services to be rendered.

On July 29, 2005, we entered into a stock subscription agreement with Miles Investment Group, Inc., a Texas limited liability company controlled by Jacob R. Miles III, a shareholder and the Company's Chief Executive Officer. The agreement called for Miles Investment Group, LLC to purchase 69,000,000 restricted common shares for \$6,900,000 on an installment basis over a 28 month period with the terms being \$100,000 as a down payment and \$250,000 per month beginning on September 1, 2005 and the first each month thereafter until the total of \$6,800,000 has been paid in full. Additionally, Miles Investment Group, LLC had the right to warrants for 30,000,000 shares of restricted common stock that could be exercised for \$.01 per share in varying amounts depending on the Company's stock price on the OTCBB exchange.

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On September 29, 2006, the Board of Directors voted to terminate the stock subscription agreement and warrants with Miles Investment Group, LLC due to non-performance on the payment terms as called for in the subscription agreement, after allowing Miles Investment Group, LLC a number of extension to come into compliance with the subscription agreement. The impact of this action was to (1) remove 67,000,000 shares from the issued \$0.0001 par value common stock, which reduced the number of issued and outstanding from 144,822,277 shares to 77,822,277 shares and (2) cancel the 30,000,000 warrants.

On September 29, 2006, the Board of Directors approved effective as of September 23, 2006, a subscription agreement R. J. Halden Holdings, Inc. ("RJHH"). RJHH is

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one of the largest, if not largest shareholders in the Company. The Subscription Agreement calls for RJH to fund \$1.5 million on or before January 31, 2007. RJHH is entitled to purchase 64% interest in the Company, or a total of 136,104,486 shares. The subscription vest with pro rata advances in increments of a minimum of 500,000 shares as paid.

Although the Company is currently not airing programming to affiliates as discussed later in this Item 2 in the Liquidity and Capital Resources Section, the Company's business plan is to supply programming to independent broadcast television stations and cable systems. Formerly as Waste Conversion Systems, Inc., the Company's business had been the marketing of thermal burner systems that utilize industrial and agricultural waste products as fuel to produce steam, which generates electricity, air-conditioning or heat.

In 2001, the Company acquired a general market television network affiliate base from Hispanic Television Network, Inc. (HTVN) and rebranded it towards the Urban market. The Company's business is to provide ethnic television programming to the minority programming interests of the African-American and English-speaking Hispanic population markets across the United States. The Company at the time of going dark in April of 2006 included approximately 74 broadcast television station affiliates in various parts of the country. Upon successfully securing new financing and maintaining its Nielsen Market Research agreement, the Company's goal is to attract the larger of these 74 affiliates along with independent full power stations as affiliates.

We plan to target the minority markets, primarily the African American and Hispanic Markets, because we believe that they present vast marketing opportunities and that are currently under-served by our competition. The African American market, composes approximately 13% of the U.S. population with a spending power in excess of \$600 billion. The Hispanic population is also approximately 13% of the U.S. total with a spending power also in the \$600+ billion range. With few competitors in broadcast television that are exclusively devoted to programming to the minority markets, we feel that there are attractive opportunities to provide a quality broadcasting service to the African American and Hispanic (especially bi-lingual and English speaking Hispanic programming) populations that together make up in excess of 25% of the U.S. population.

On July 10, 2004, the Company received a certificate from Nevada Minority Business Council, an affiliate of the National Minority Supplier Development Council, indicating that the Company qualifies as a Minority Owned and Managed Company, which has met the certification criteria established by the National Minority Supplier Development Council. The certification was renewed on February 1, 2005 for a one year period. On January 31, 2006, the Company renewed its certification with the Dallas/Fort Worth Minority Business Council, Inc. for a one year period ending January 31, 2007. The Company did not apply for renewal of the certification after it expired on January 31, 2007.

Our financial results depend on a number of factors, including the ability to attract new financing for the Company's growth, the strength of the national economy and the local economies served by affiliate stations, total advertising dollars dedicated to the markets served by affiliate stations, advertising dollars dedicated to the African American and Hispanic consumers in the markets served by affiliate stations, the affiliate stations' audience ratings, our ability to provide interesting minority focused programming, local market competition from other television stations and other media, and government regulations and policies, such as the multiple ownership rules, the ability of Class A affiliate stations to be considered must carry for cable systems to increase their distribution and the deadlines for television stations converting to digital signals.

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Management has developed a revenue generation plan that includes program syndication, securing network advertising at the best available rate, uplinking other party's signals to the satellite, plus implementing a technology plan to assist its affiliates with sale of their local advertising time. Management's plan is to increase rates as affiliate stations are added to the network. The implementation of this comprehensive plan is expected to have a positive affect upon sales revenues. In addition, the Company has added a focus to secure affiliations with independent full power stations that have must carry privileges with cable and digital distribution companies, but do not have the financial capability to subscribe to Nielsen ratings in its local market.

### Revenues

The Company's business plan includes multiple sources of revenues that are now available to companies that have the ability to reach viewers through television, the Internet and wireless devices that are delivering programming and messages viewers that have access to these sources. Following is a discussion of these revenue sources;

1. Advertising spots and programming time on the network and local stations. Our revenues are affected primarily by the advertising rates that we are able to charge for national advertising commercials on the Urban TV network and local spots that the Company may obtain on local stations, as well as the overall demand for African-American and English-speaking Hispanic television advertising time by advertisers.

National Spot Advertising. National advertisers have the opportunity to buy "spot" advertising on a network wide basis or in specific markets. For example, an advertising agency in New York could purchase advertising spots on a program airing in a particular time period on all the affiliate stations or purchase advertising spots for a program airing on affiliate stations in particular markets where the Network has an affiliate station.

The Company's plan is to have the yet to be established sales personnel located in all major markets that have a large concentration of advertising agencies targeting the African-American and English-speaking Hispanic markets. The sales of the local spot advertising would them be generated by these local sales staff personnel.

Local Spot Advertising. Advertising agencies and businesses located in specific markets will buy commercial air-time in their respective market. This commercial time will be sold in the market by a local sales force or as a specific buy from a national client. Local spot advertising also includes event marketing. In conjunction with a spot buy, the station incorporates events that may be held on the premise of a business or advertiser for the purpose of driving traffic to that place of business.

Program Time Sales. Also known as long-form programs are sold on the network and on locally managed stations to companies wanting to purchase the television time and air their own programs.

Advertising rates in general are determined primarily by:

- o the markets covered by broadcast television affiliates,
- o the number of competing African-American television stations in the same market as our affiliate stations,
- o the television audience share in the demographic groups targeted by advertisers, and

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- o the supply and demand for African-American advertising time.

Seasonal fluctuations are also common to the broadcast industry and are due primarily to fluctuations in advertising expenditures by national and local advertisers. The first calendar quarter typically produces the lowest broadcast revenues for the year because of the normal post-holiday decreases in advertising.

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Historically most of our network advertising has been sold to direct response and per inquiry advertisers. Going forward, we plan to deploy a network advertising team consisting of account executives that will solicit advertising directly from national advertisers as well as soliciting advertising from national advertising agencies. Locally managed stations will also have account executives that will solicit local and national advertising directly from advertisers and from advertising agencies in the local markets.

We will market our advertising time on the Urban Television network to:

- o Advertising agencies and independent advertisers. We market commercial time to advertising agencies and independent advertisers. The monetary value of this time is based upon the estimated size of the viewing audience; the larger the audience, the more we are able to charge for the advertising time.

To measure the size of a viewing audience, networks and stations generally subscribe to nationally recognized rating services, such as Nielsen. We have executed an agreement with Nielsen Media Research to measure the viewing audience of certain of our programs that are aired in the must carry programming on our affiliate network. This Agreement will allow us to approach the larger advertising agencies. Currently, a number of Urban Television's affiliate stations are located in the smaller market areas of the country, which is also not as desirable to the larger advertising clients. Our goal is to enter into affiliate agreements with full-power television stations located in the top demographic market areas do not have the ability to obtain Nielsen ratings for their individual station. Urban Television believes that it can offer these stations a proposal that will give them the benefit of Nielsen ratings on a local basis while giving the UATV Network the ability to cumulate local ratings into a national rating for its national advertisers.

- o Affiliate Stations. In exchange for providing programming and advertising time to affiliate stations, we retain advertising time and gain access to the affiliate stations' markets. In a traditional broadcasting contract, an affiliate station would retain all available advertising time, which it would then sell to outside advertisers, and the network would receive a fee from the affiliate station. As mentioned above, our goal is to move our network from its predominate low-power station affiliates to a full-power affiliate base. The basic plan would continue to share advertising time in return for providing the programming. By aggregating a number of the affiliate stations and accumulating a large household coverage base, Urban Television will be able to sell its national advertising spots for the best rate possible.
- o Program Owners: In exchange for licensing rights to select programming, the program owner retains a portion (usually half) of the available advertising time in each program and we as the network get

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the other half of the available advertising time in each program. The program owner is then able to sell the advertising time he retains to outside agencies and corporate advertisers. We obtain programming by contracting with program owners at the annual National Association of Television Program Executives convention and by contracting with program owners who during the year are looking for distribution sources. In the future, to acquire certain exclusive, original or first-run usage and licenses for programming, we may be required to incur upfront programming expenses.

2. Syndication: The Company also plans to become a leading syndicator to independent stations outside the Urban Television Network and advertising agencies of television programming targeting African-American, English-speaking Hispanics, and Asian urban households. The Company's long-term strategic objective is to be the dominant integrated urban media company; developing, producing, and distributing entertainment content in the television and other media channels that target the wide audience of consumers who enjoy urban

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entertainment content, including African-Americans, English-speaking Hispanics, Asian, suburban and urban consumers. The Company believes that it is well positioned to achieve this objective, given the strength of its management leadership, operating discipline, long-standing relationships, product mix, and executional capabilities.

The size of the syndication television market is currently estimated to be \$2.6 billion. (1) African-American households represent 13,171,160 of the total household universe of 109,600,000 or roughly 12%. (2) The value of Company's market segment, focused on African-American household television advertising dollars, is thus conservatively estimated by the Company at \$312 million, representing 12% of the aforementioned \$2.6 billion in advertising sales in broadcast syndication. The Company believes that a similar size market is on the horizon for English speaking Hispanic-Americans. According to HispanIntelligence, (3) a national media organization focused on Hispanic advertising, the overall size of the market for advertising directed to Hispanics is \$2.8 billion per year. Ninety percent (90%) of these dollars are dedicated to Spanish-language programming, leaving the size of the English speaking market at 10%, or approximately \$279 million per year. However, 52% of Hispanics surveyed by HispanIntelligence, with the results reported in the same publication, indicated that they prefer English as the communication medium for advertisements across a broad base of programming, including the Internet. Thus, HMG believes that this segment is poised to experience explosive growth in the near future.

### 3. Multi-Platform Strategy in Wireless and other Digital Applications

After over five years of operation of the Urban Television Network, the Company believes upon successfully obtaining new financing that it has assembled a seasoned management team with the experience to develop the Company into a diversified multi-platform distribution media company generating multiple cash flow streams from produced and acquired urban focused content. The Company believes that this platform would extend the Company's offerings to its targeted urban consumers by enabling those consumers to access UATV content through alternative distribution channels. To achieve this end, the Company intends to expand its distribution to other media platforms such as cable television, video-on-demand ("VOD"), wireless, broadband internet, internet protocol TV ("IPTV"), home video, personal digital appliances ("PDA's), cellular phones utilizing G-3 broadband streaming infrastructure, and like digital and wireless applications now known and hereinafter conceived and/or invented. The Company intends to create equity value by monetizing cost-efficiently produced content



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across multiple distribution channels generating multiple revenue streams, while building a library of content assets that will have annuity value.

### Expenses

Our most significant operating expenses are satellite and uplink transmission costs, master control costs, technology expenses, employee compensation, advertising and promotional expenses, and production and programming expenses. In cases, where we may in the future incur upfront programming expenses to procure exclusive programming usages and licenses, upfront payments will, in most cases, be amortized over the applicable contract term. Until cash flow permits, we do not expect to acquire exclusive programming usages and licenses that require up front costs. We will maintain tight controls over our operating expenses by contracting master control and centralizing network programming, finance, human resources and management information system functions. Depreciation of fixed assets and amortization of costs associated with the acquisition of additional stations are also significant elements in determining our total expense level.

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- 1 Television Week, March 7, 2006, p. 30, citing to data provided by Syndicated National Television Association
  - 2 Black Hispanic DMA Market Demographic Rank, Nielsen Media Research, September 2004, p.40.
  - 3 Volume 4, #68, April 27, 2004.

As a result of attracting key officers and personnel to Urban Television, we may offer stock grants or options as an alternate form of compensation. In the event that the strike price of the stock option is less than the fair market value of the stock on the date of grant, any difference will be amortized as compensation expense over the vesting period of the stock options.

Our monthly operating expense level may vary from month to month due primarily to the timing of significant advertising and promotion expenses. We will incur significant advertising and promotion expenses associated with the growth of Urban Television and with the establishment of our presence in new markets associated with any new station lease or acquisition agreements. Increased advertising revenue associated with these advertising and promotional expenses will typically lag behind the incurrence of these expenses.

### Results of Operations

Urban Television Network Corporation - Historical Results for the three months ended December 31, 2006 and 2005.

REVENUES. Revenues have been primarily derived from sales of advertising and programming time. Revenues for the three months ended December 31, 2006 and 2005 were \$2,756 and \$33,035, respectively. The decrease in revenues is primarily attributable to the Company not airing programming to a network of affiliates during the three months ended December 31, 2006. The Company at the time of going dark in April of 2006 included approximately 70 broadcast television station affiliates in various parts of the country. Upon successfully securing new financing and maintaining its Nielsen Market Research agreement, the Company's goal is to attract the larger of these 70 affiliates along with independent full power stations as affiliates.

The operations are still in the growth stages and the Company is dependent upon working capital derived from management, significant shareholders and private

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investors to provide sufficient working capital. There is no assurance, however, that the Company will be able to generate the necessary working capital needs from these sources.

Cost of Operations. Costs of operations for the three months ended December 31, 2006 and 2005 were \$56,440 and \$226,390, respectively. The major components of cost of operations for the three months ended December 31, 2006 and 2005 were as follows:

|                               | 2006      | 2005      |
|-------------------------------|-----------|-----------|
|                               | -----     | -----     |
| Satellite and uplink services | \$ 36,600 | \$102,899 |
| Master control and production | -         | 38,035    |
| Programming costs             | -         | 14,938    |
| Affiliate relations           | -         | 27,388    |
| Technology expenses           | 19,840    | 43,130    |
|                               | -----     | -----     |
| Total Cost of Operations      | \$ 56,440 | \$226,390 |
|                               | -----     | -----     |

The expense for satellite, uplink services, master control and production, Programming and affiliate relations decreased by \$146,660 during the three months ended December 31, 2006 as compared to the same period ended December 31, 2005, primarily because the Company was not on the air and did not incur any costs for satellite time, master control and production, programming and production during the three months ended December 31, 2006.

Technology costs decreased by \$23,290 for the three months ended December 31, 2006 as compared to the same period ended December 31, 2005, primarily because the Company was not on the air and did not require the level of technology support that is required when the network is airing programming to an affiliate base.

Administration expenses of \$231,665 for the three months ended December 31, 2006 increased by \$79,427 or 52% over the administrative expenses of \$153,238 for the three months ended December 31, 2005.

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Following is a comparative of the general administrative expense categories for the three months ended December 31, 2006 and 2005.

|                                   | 2006      | 2005      |
|-----------------------------------|-----------|-----------|
|                                   | -----     | -----     |
| Administrative personnel          | \$114,170 | \$ 84,500 |
| Stock based compensation          | 79,200    | 10,000    |
| Consulting                        | --        | 1,000     |
| Travel, conventions               | 1,642     | 2,629     |
| Legal fees                        | --        | --        |
| Accounting fees                   | 12,975    | 10,000    |
| Public relations costs            | --        | 790       |
| Transfer Agent, permit fees       | 500       | 2,373     |
| Rent expenses                     | 8,907     | 19,559    |
| Internet and service bureau costs | 4,195     | 3,085     |
| Supplies                          | 500       | 387       |
| Payroll taxes                     | --        | 3,855     |
| Taxes -other                      | 4,000     | 4,215     |
| Telephone                         | 4,254     | 6,341     |
| Postage and shipping              | --        | 1,379     |
| Utilities                         | 1,298     | 2,008     |
| Other                             | 24        | 1,117     |

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|       |           |           |
|-------|-----------|-----------|
|       | -----     | -----     |
| TOTAL | \$231,665 | \$153,238 |
|       | -----     | -----     |

The increase of \$29,670 in administrative cost for the three months ended December 31, 2006 as compared to the same period ending December 31, 2005 is due primarily to the Company having an employment agreement with the Chief Executive Officer during the three months ended December 31, 2006 and not for the same period ended December 31, 2005.

The increase of \$69,200 in stock based compensation for the three months ended December 31, 2006 as compared to the same period ending December 31, 2005 is due to an increase during the three months ended December 31, 2006 in the number of shares of common stock issued to management and consultants as partial payment of compensation.

Transfer agent and permit expenses decreased by \$1,873 for the three months ended December 31, 2006 compared to the same period for 2005 due primarily to the Company not incurring as much expense related to the issuance of stock certificates for the conversion of bridge loans.

Rent expenses decreased by \$10,652 for the three months ended December 31, 2006 primarily due the Company not renewing the lease for production facilities in March of 2006 that were being rented during the three months ended December 31, 2006.

Internet and service bureau costs decreased by \$1,110 for the three months ended December 31, 2006 compared to the same period ended December 31, 2005, primarily due to the Company bringing its Internet services inhouse and managing the content.

Payroll taxes expenses decreased by \$3,855 for the three months ended December 31, 2006 as compared to the same period ended December 31, 2006 because the Company was off the air during the 2006 period and did not pay any payroll costs that would result in payroll taxes being due.

Telephone expenses decreased by \$2,087 during the three months ended December 31, 2006 as compared to the same period ended December 31, 2005 primarily due the Company not being on the air and having normal master control operations, production, programming and affiliate relations operations.

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Operating Results. We had a net operating losses of \$300,708 and \$367,202, for the three months ended December 31, 2006 and 2005, respectively. The decreased loss of \$66,494 for the 2006 period was attributed to the following;

|  |             |
|--|-------------|
| Decrease in revenues   | \$ (30,279) |
| Decrease in satellite, uplinking, master Control, production, programming, affiliate Relations and technology expenses | 169,950     |
| Increase in administrative   | (78,427)    |
| Decrease in depreciation and amortization  | 5,250       |
|  | -----       |
|  | \$ 66,494   |
|  | -----       |

Earnings Per Share of Common Stock. Income (loss) per common share is calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." Basic Income (loss) per share is computed by dividing the

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net income (loss) by the weighted average number of common shares outstanding. Diluted net income (loss) per share is computed similar to basic net income (loss) per share, except that the denominator is increased to include the number of additional common shares that would have outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Stock options and warrants are anti-dilutive, and accordingly, are not included in the calculation of income (loss) per share. The basic and diluted net (loss) per share of common stock was \$(0.004) and \$(0.01) for the three months ended December 31, 2006 and 2005, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations through a combination of loans from stockholders, proceeds from convertible promissory notes and revenues generated from operations. The Company has incurred cumulative losses of \$25,108,735 from the inception of the Company through December 31, 2006.

Current liabilities at December 31, 2006 were \$3,166,190 which exceeded current assets of \$176 by \$3,166,014. The Company's cash position at December 31, 2006 was \$176, a decrease of \$3,347 from the position at September 30, 2006. As discussed below, the Company's ability to continue its growth will require additional funds from various sources. If adequate funds are not available on acceptable terms, our business, results of operations and financial condition could be materially adversely affected. In a worse case scenario, we would have to scale back or cease operations, and we might not be able to remain a viable entity. Accrued compensation is the result of management deferring a portion of their annual compensation until the Company has funds available.

The Company is experiencing liquidity needs resulting from an inability to complete a structured financing with existing shareholders or new investors or a strategic investment on acceptable terms to the company.

Due to the lack of necessary capital resources, the Company is not able to pay for its satellite space and uplinking services which in turn results in the Company not being able to transmit programming to an affiliate network. The Company has laid-off its master control, production, programming and affiliate relations employees while it seek financing.

The Company has made several concerted efforts to enlist support from its major shareholder groups. However, notwithstanding significant commitment, these efforts have been successful only in raising modest amounts to maintain marginal operations. The Company is continuing to work with certain investors to help meet immediate short-term liquidity needs estimated to be approximately \$500 thousand and the funds to execute on its plan of developing an affiliate base of predominately full power stations with associated Nielsen ratings which would lead to advertising revenue from major corporations. As of February 9, 2007, the Company had cash on hand of approximately \$500 and as of December 31, 2006, a net working capital deficit of \$3,166,014. The Company has loan Agreements with "certain lenders" totaling approximately \$500,000 secured by blanket liens upon the Company's assets that matured in April 2006 and are now in default and as described in the December 31, 2006 financial statements presented in this 10-QSB report, one of the lenders (Westar Satellite Services, LP) has filed a lawsuit against the Company for nonpayment of notes and contracts.

The total outstanding indebtedness as of February 9, 2007 is approximately \$3,390,000. The Company's ability to continue its operations and execute on its business plan requires additional funds from various sources. If adequate funds are not available on acceptable terms our business future as a viable entity is in severe jeopardy.

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Our continued growth, will require additional funds that may come from a variety of sources, including the stock subscription agreement with R.J. Halden Holdings, Inc., shareholder loans, equity or debt issuances, bank borrowings, capital lease financings, and the sale of the Company's coal reserves, should Geotec Thermal Generators, Inc., the seller, perform in accordance with the Agreement and process, sell and remit the net proceeds to the Company. As discussed in Note 4 to the Consolidated Financial Statements, the Company has established an impairment reserve against the coal Assets due to the Company not having the financial ability to clean the coal and Geotec Thermal Generators, Inc. declining to perform. Also the coal reserves have related federal income tax credits resulting from the Super Fund established by The Federal Government that can be sold to other companies at such time as the coal is processed and sold. We currently intend to use any funds raised through these sources to fund various aspects of our continued growth, including paying past due notes payable, funding our working capital needs, funding key programming acquisitions, funding sales and marketing, securing cable connections, funding master control/ network equipment upgrades, making strategic investments.

The Company's expects licensing agreements with program suppliers to be generally for a term of 13 to 52 weeks and be cancelable by either party upon thirty (30) days written notice. These license agreements will provide the Company with a source of revenue by the Company's right to share in the commercial spots during the programs. The Company's policy will be to recognize the revenue associated with these sources of revenue at the time that it inserts the advertising spots or airs the long-form program at the network or local level. The cancelable feature of these license agreements could effect the Company's source of revenue generation should a program be cancelled by a licensor and the Company not be able to replace it within the 30 day notice of cancellation period.

The Company's policy is to recognize the revenue associated with these sources of revenue at the time that it inserts the short-form advertising spots or airs the long-form program at the network or local level. As the Company continues to grow, it will enter into new license agreements to replace existing licenses for programs that do not fit into the Company's business model for a minority focused television network. The cancelable feature of these license agreements could effect the Company's source of revenue generation should a program be cancelled by a licensor and the Company not be able to replace it within the 30 day notice of cancellation period.

In summary, until we generate sufficient cash from the sale of advertising revenue, we will need to rely upon private and institutional sources of debt and equity financing. We will require additional cash from the issuance of equity or debt securities in the year ending September 30, 2007 to finance our ongoing operations and strategic objectives. No assurances can be given that we will successfully obtain liquidity sources necessary to fund our operations to profitability and beyond.

### Going Concern

Due to our continuing to be a development stage company and not having generated revenues, in their Notes to our financial statements for the year ended September 30, 2006, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern.

The continuation of our business is dependent upon obtaining further financing and achieving a break even or profitable level of operations. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current or future stockholders.

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There are no assurances that we will be able to either (1) achieve a level of revenues adequate to generate sufficient cash flow from operations; or (2) obtain additional financing through either private placements, public offerings and/or bank financing necessary to support our working capital requirements. To the extent that funds generated from operations and any private placements, public offerings and/or bank financing are insufficient, we will have to raise additional working capital. No assurance can be given that additional financing will be available, or if available, will be on terms acceptable to us. If adequate working capital is not available we may not increase our operations.

These conditions raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might be necessary should we be unable to continue as a going concern.

### Contractual Obligations

Future payments due on the Company's contractual obligations as of December 31, 2006 are as follows:

|                                 | Total       | 2007        | 2008-2010   |
|---------------------------------|-------------|-------------|-------------|
|                                 | -----       | -----       | -----       |
| Operating lease -office space   | \$ 24,450   | \$ 24,450   | --          |
| Advances by shareholders        | 35,565      | 35,565      | --          |
| Loans from shareholders         | 601,580     | 250,000     | 351,580     |
| Loans from vendors              | 75,000      | 75,000      | --          |
| Advances from non-related party | 665,000     | 665,000     | --          |
| Contractual obligations         | 1,664,431   | 874,431     | 790,000     |
|                                 | -----       | -----       | -----       |
| Total                           | \$3,066,026 | \$1,924,446 | \$1,141,580 |
|                                 | -----       | -----       | -----       |

We do not believe that inflation has had a material impact on our business or operations.

We are not a party to any off-balance sheet arrangements and do not engage in trading activities involving non-exchange traded contracts. In addition, we have no financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment or that could change the value of our assets.

We had a net loss of \$322,182 for the three months ended December 31, 2006 and a net loss of \$371,738 for the three months ended December 31, 2005. We expect to incur losses in the future as we incur operating expenses in the growth of the Company's television network and its affiliate base and convert them to an African American and English speaking Hispanic format. We currently anticipate that our revenues as well as cash from financings and equity sales will be sufficient to satisfy operating expenses by the end of fiscal 2007. We may need to raise additional funds, however. If adequate funds are not available on acceptable terms, our business, results of operations and financial condition could be materially adversely affected.

### RISK FACTORS

We are subject to a high degree of risk as we are considered to be in unsound financial condition. The followin