

Media Exchange Group, Inc.
Form 10-Q
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from _____ to _____

Commission File Number: 333-49388

Media Exchange Group, Inc.
(formerly known as China Wireless Communications, Inc.)
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation
or organization)

91-196948
(I.R.S. Employer Identification No.)

101 Church Street, Suite 14, Los Gatos, California 95030
(Address of principal executive offices)

(408)827-3083
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (ss. 232.405 of this chapter) during the preceding 12 (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Indicated the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date, 249,460,702 shares of common stock are issued and outstanding as of March 29, 2011.

OTHER PERTINENT INFORMATION

When used in this report, the terms “Media Exchange,” the Company”, “ we”, “our”, and “us” refers to Media Exchange Group Inc., a Nevada corporation, and our subsidiary. The information which appears on our web site is not part of this report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this report contain or may contain forward-looking statements that are subject to known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements were based on various factors and were derived utilizing numerous assumptions and other factors that could cause our actual results to differ materially from those in the forward-looking statements. These factors include, but are not limited to, our ability to raise sufficient capital to fund our ongoing operations and satisfy our obligations as they become due, our ability to generate any meaningful revenues, our ability to compete within our market segment, our ability to implement our strategic initiatives, economic, political and market conditions and fluctuations, government and industry regulation, interest rate risk, U.S. and global competition, and other factors. Most of these factors are difficult to predict accurately and are generally beyond our control. You should consider the areas of risk described in connection with any forward-looking statements that may be made herein. Readers are cautioned not to place undue reliance on these forward-looking statements and readers should carefully review this report in its entirety, as well as our annual report on Form 10-K for the year ended December 31, 2009 including the risks described in Part I. Item 1A. Risk Factors of that report. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

Media Exchange Group, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Media Exchange Group, Inc.
BALANCE SHEETS

ASSETS	March 31, 2010 (Unaudited)	December 31, 2009 (1)
Current Assets:		
Cash	\$200	\$200
Total current assets	200	200
Total assets	\$200	\$200
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	\$206,643	\$163,093
Accrued compensation	846,142	696,942
Convertible notes payable and accrued interest- related parties	511,397	455,865
Convertible notes payable and accrued interest	1,041,151	856,170
Derivative liabilities	74,200	22,945
Total current liabilities	2,679,533	2,195,015
Stockholders' Deficit:		
Preferred stock, \$0.01 par value, 1,000,000 shares authorized: none issued and outstanding	-	-
Common stock, par value \$0.001 per share, 250,000,000 shares of common stock authorized, 234,260,702 issued and outstanding	234,261	234,261
Additional paid-in capital	15,104,403	15,104,403
Accumulated deficit	(18,017,997)	(17,533,479)
Total stockholders' deficit	(2,679,333)	(2,194,815)
Total liabilities and stockholders' deficit	\$200	\$200

(1) Derived from audited financial statements

See Notes to Unaudited Financial Statements.

Media Exchange Group, Inc.
STATEMENTS OF OPERATIONS

	Three-Month Periods Ended March 31,	
	2010 (Unaudited)	2009 (Unaudited)
Operating expenses:		
Research and development	\$103,600	\$-
Selling, general and administrative	310,750	179,800
Total operating expenses	414,350	179,800
Operating loss	(414,350)	(179,800)
Other income(expenses):		
Change in fair value of derivative liabilities	(47,655)	3,530
Interest expense related parties	(7,532)	(6,945)
Interest expense, net	(14,981)	(12,024)
	(70,168)	(15,439)
Net loss	\$(484,518)	\$(195,239)
Basic and diluted loss per common share	\$(0.00)	\$(0.00)
Basic and diluted weighted average common shares outstanding	234,260,702	234,260,702

See Notes to Unaudited Financial Statements.

Media Exchange Group, Inc.
STATEMENTS OF CASH FLOWS

	Three-Month Periods Ended March 31,	
	2010	2009
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net loss	\$(484,518)	\$(195,239)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of derivative liabilities	47,655	(3,530)
Fair value of derivative liabilities upon issuance of debt for services rendered	3,600	-
Changes in operating assets and liabilities:		
Accrued interest	14,981	12,024
Accrued interest-related parties	7,532	6,945
Accrued compensation	297,200	107,921
Accounts payable and accrued expenses	43,550	10,800
Net cash used in operating activities	(70,000)	(61,079)
Cash flows from financing activities:		
Proceeds from notes payable	70,000	61,000
Net cash provided by financing activities	70,000	61,000
Net decrease in cash	-	(79)
Cash, beginning of period	200	274
Cash, end of period	\$200	\$195
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$-	\$-
Cash paid for income taxes	\$-	\$-
Non-cash investing and financing activities:		
Issuance of convertible notes payable to satisfy liabilities to related parties	\$48,000	\$100,000
Issuance of convertible notes payable to satisfy liabilities	\$100,000	\$-

See Notes to Unaudited Financial Statements.

MEDIA EXCHANGE GROUP, INC.

Notes to Unaudited Financial Statements

Note 1. Organization, Basis of Presentation and Accounting Policies.

Media Exchange Group, Inc. formerly known as China Wireless Communications, Inc. (the "Company") is a Nevada corporation formed in March 1999. The Company operated as AVL Sys International Inc. (between March 1999 and March 2000), I-Track, Inc. (between March 2000 and March 2003, and as China Wireless Communications, Inc. between March 2003 and May 2010. As China Wireless Communications, the Company marketed information technology systems integration and internet protocol services to customers. It also provided IP routing equipment and network cabling and its customers are principally in the People's Republic of China ("China"). In March 2008, the Company discontinued its operations in China.

The Company's current plan of operations consists of capitalizing on its digital sport cards delivery to youth and acquiring an operating business. The Company has identified certain acquisition target(s) but has not reached any final agreements. The Company's current plan of business is to seek merger or acquisition opportunities. The Company's information technology systems business operations are accounted for as discontinued operations in the accompanying financial statements.

The balance sheet presented as of March 31, 2010 is unaudited. The unaudited financial statements have been prepared pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted pursuant to those rules and regulations, but we believe that the disclosures are adequate to make the information presented not misleading. The financial statements and notes included herein should be read in conjunction with the annual financial statements and notes for the year ended December 31, 2009 included in our Annual Report on Form 10-K. The results of operations for the three-month period ended March 31, 2010 are not necessarily indicative of the results for fiscal 2010.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced substantial losses since its inception (\$18.0 million) as well as negative cash flows from its current operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue in existence as a going concern is dependent upon its ability to obtain equity or debt financing and to merge with a company which will generate cash flows from operating activities. Management is unable to determine whether it will be successful in obtaining such equity or debt financing or merge with a company generating cash flows from operations.

Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on the knowledge of current events and actions the Company may undertake in the future, they will differ from actual results. Included in these estimates are assumptions about recovery of assets from discontinued operations and allocation of expenses between

continued and discontinued operations.

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Cash and Cash Equivalents

The Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2010 and December 31, 2009.

Concentration of Credit Risk

The Company's US cash and cash equivalents accounts are held at financial institutions and are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. To reduce its risk associated with the failure of such financial institutions, the Company periodically evaluates the credit quality of the financial institutions in which it holds deposits. As of March 31, 2010 and December 31, 2009, the Company had no deposits in excess of FDIC limits in the US.

Share-Based Compensation

Share-based compensation expenses are reflected in the Company's statement of operations under selling, general and administrative expenses.

The Company's computation of fair value of shares issued is based on the price per share as quoted on the over-the-counter bulletin or the pink sheets, as applicable, at the date of grant.

Income Taxes

The Company accounts for income taxes under the asset and liability approach for the financial accounting and reporting of income taxes. Deferred taxes are recorded based upon the tax impact of items affecting financial reporting and tax filings in different periods. A valuation allowance is provided against net deferred tax assets when the Company determines realization is not currently judged to be more likely than not.

The Company follows the provisions of the Financial Accounting Standards Board Accounting Standards Codification ("ASC") No. 740, Income Taxes ("ASC 740"). ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition purposes by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Accordingly, the Company reports a liability for unrecognized tax benefits resulting from the uncertain tax positions taken or expected to be taken on a tax return and recognizes interest and penalties, if any, related to uncertain tax positions as interest expense.

Loss per Common Share and Common Share Equivalent

The Company presents "basic: income (loss) per common share and, if applicable "diluted" income (loss) per share, pursuant to the provisions of ASC 260 "Earnings Per Share". Basic income (loss) per common share is based on the weighted average number of common shares outstanding in each year and after preferred stock dividend requirements. The calculation of diluted income (loss) per common share assumes that any dilutive convertible shares outstanding at the beginning of each year or the date issued were convertible at those dates, with outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options and warrants for which average period market price exceeds exercise price, less shares that could have been purchased by the Company with related proceeds.

There were no outstanding stock option grants as of March 31, 2010 and December 31, 2009. The outstanding common share equivalents issuable pursuant to conversion of notes payable amounted to 86,230,000 and 53,930,000 as of March 31, 2010 and December 31, 2009, respectively. The conversion feature of a note amounting to \$100,000 and convertible into 4,000,000 shares of the Company's stock has not lapsed. Additionally, the chief executive officer obtained rights to 7% of the authorized shares of common stock of the Company which amounted to approximately 17,500,000 shares at March 31, 2010 and December 31, 2009 and 150,000 shares of Preferred Stock, which includes, among other things voting rights equivalent to 450,000,000 shares of the Company's common stock. The outstanding common share equivalents issuable pursuant to convertible notes and other rights have been excluded from the earnings per share computation due to their anti-dilutive effect.

Derivative Liabilities

The Company assessed the classification of its derivative financial instruments as of March 31, 2010 and December 31, 2009, which consist of convertible instruments and rights to shares of the Company's common stock and to shares of the Company's Preferred Stock, and determined that such derivatives meet the criteria for liability classification under ASC 815.

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional (as that term is described).

The Company believes that certain conversion features embedded in certain of its convertible notes payable and rights to the Company's common stock and preferred stock are not clearly and closely related to the economic characteristics of the Company's stock price. The Company does not have a sufficient amount of authorized shares to satisfy its obligations under the convertible promissory notes and rights to the shares of common stock. Additionally, while rights to preferred stock have been granted to the Company's chief executive officer, substantially all the terms were finalized in January 2011. Accordingly, the Company has recognized derivative liabilities in connection with such instruments. The Company uses judgment in determining the fair value of derivative liabilities at the date of issuance at every balance sheet thereafter. The Company uses judgment in determining which valuation is most appropriate for the instrument (e.g., Black Scholes), the expected volatility, the implied risk free interest rate, as well as the expected dividend rate.

The conversion feature of the substantially all convertible promissory notes outstanding at March 31, 2010 have lapsed between December 2009 and January 2011 without conversion or additional consideration provided to the note holders. Accordingly, the Company did not issue additional considerations to such instruments and it believes that there is no liability associated with them. However, the conversion feature of one note amounting to \$100,000 and convertible into 4,000,000 shares of the Company's common stock, the rights to the shares of common stock and preferred stock have not lapsed and are still outstanding. The Company estimates its liability under such rights using its traded price per share and under the convertible note payable using the binomial method.

Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted FASB ASC 820-Fair Value Measurements and Disclosures, or ASC 820, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing generally accepted accounting principles that require the use of fair value measurements establishes a framework for measuring fair value and expands disclosure about such fair value measurements. The adoption of ASC 820 did not have an impact on the Company's financial position or operating results, but did expand certain disclosures.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any Level 2 or Level 3 assets or liabilities as of March 31, 2010 and December 31, 2009, with the exception of its convertible promissory notes and the derivative liability associated with one note payable amounting to \$100,000. The carrying amounts of the convertible promissory notes at March 31, 2010 and December 31, 2009 approximate their respective fair value based on the Company's incremental borrowing rate.

Cash is considered to be highly liquid and easily tradable as of March 31, 2010 and December 31, 2009, respectively. The derivative liabilities are based on the Company's quoted trade price per share as traded on the Pink Sheets. These securities are valued using inputs observable in active markets for identical securities and are therefore classified as Level 1 within our fair value hierarchy.

In addition, FASB ASC 825-10-25 Fair Value Option, or ASC 825-10-25, was effective for January 1, 2008. ASC 825-10-25 expands opportunities to use fair value measurements in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value options for any of its qualifying financial instruments.

Impact of Recently Issued Accounting Standards

None.

Note 2. Notes Payable and Notes Payable to Related Parties

	March 31, 2010	December 31, 2009
\$463,000 and \$415,000 Notes payable to related parties, 5% to 8% interest per annum, unsecured and maturing between March 2009 and February 2011. At the Company's option, the principal is convertible into the Company's common stock for \$48,000 of such notes at a price of \$0.004 per share, including accrued interest of \$48,397 and \$40,865.	\$511,397	\$455,865
\$919,500 and \$749,500 Notes payable, interest rate ranging from 5% to 8% interest per annum, unsecured and maturing between February 2008 and March 2011. At the Company's option, the principal is convertible for \$489,500 of such notes into shares of the Company's common stock at a prices ranging between \$0.004 to \$0.01 per share, including accrued interest of \$121,651 and \$106,670.	1,041,151 \$1,552,548	856,170 \$1,312,035

During the three-month period ended March 31, 2009, the Company issued a note payable to its General Counsel amounting to \$100,000 to satisfy compensation liabilities.

During the three-month period ended March 31, 2010, the Company issued a note payable to two consultants aggregating \$148,000, one of which amounted to \$48,000 issued to a relative of our chief executive officer.

During the three-month period ended March 31, 2010 and 2009, the Company generated proceeds by issuing \$70,000 and \$61,000 notes payable, respectively.

Notes payable aggregating \$1,056,000 were past due at March 31, 2010.

Note 3. Derivative Liabilities

The Company estimated its derivative liabilities under its outstanding contracts at March 31, 2010. The Company is unable to ascertain that it had a sufficient amount of authorized shares to satisfy its obligations under existing convertible promissory notes and rights held by its chief executive officer pursuant to his employment contract with the Company. Additionally, the Company has granted 150,000 shares of its Preferred Stock without finalizing the terms of such preferred stock until January 2011.

The conversion feature of the substantially all convertible promissory notes outstanding at March 31, 2010 have lapsed between December 2008 and January 2011 without conversion or additional consideration provided to the note holders. Accordingly, the Company did not issue additional considerations to such instruments and it believes that there is no liability associated with them. However, the conversion feature of one note amounting to \$100,000 and convertible into 4,000,000 shares of the Company's common stock, the rights to the shares of common stock and preferred stock have not lapsed and are still outstanding. The Company estimates its liability under such rights using its traded price per share and under the convertible note payable using the binomial method.

The aggregate fair value of derivative liabilities at March 31, 2010 and December 31, 2009 amounted to approximately \$74,000 and \$23,000, respectively.

During the three-month period ended March 31, 2010, the Company issued a \$100,000 note payable which is convertible into 4,000,000 shares of the Company's common stock. The fair value of the embedded conversion feature at the date of issuance amounted to \$3,600 and was recorded as research and development expense as additional consideration provided for the services of a software engineer.

The fair value of the rights and embedded conversion feature were based on the Company's quoted traded price and the binomial; method, respectively, at each measurement date.

The fair value of the derivative instruments were based on the following assumptions:

	March 31, 2010	Issuance during the three-month period ended March 31, 2010	December 31, 2009
Rights:			
market value	\$ 0.004	N/A	\$ 0.0013
Embedded Conversion Feature:			
Effective Exercise price	\$ 0.025	\$ 0.025	N/A
Effective Market price	0.04	0.04	N/A
Volatility	116 %	116 %	N/A
Risk-free interest	0.40 %	0.40 %	N/A
Terms	1 year	1 year	N/A
Expected dividend rate	0 %	0 %	N/A

The fair value of derivative liabilities increased by approximately \$48,000 between measurement dates during the three-month period ended March 31, 2010. Such increase is recorded as other expense in the accompanying statement of operations.

Note 4. Commitments and Contingencies.

Legal proceedings

The Company is not a party to certain legal actions, as either plaintiff or defendant, arising in the ordinary course of business, none of which is expected to have a material adverse effect on the Company's business, financial condition or results of operations. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings, whether civil or criminal, settlements, judgments and investigations, claims or charges in any such matters, and developments or assertions by or against us relating to the Company or to the Company's intellectual property rights and intellectual property licenses could have a material adverse effect on the Company's business, financial condition and operating results.

Compensation-Chief Executive Officer

The compensation of the Company's Chief Executive Officer is effective March 2008 through December 2009 and is as follows:

- Base annual compensation of \$400,000;
- 7% of the authorized shares of the Company;
- 7% of all capital raised by the Company;
- 7% of the disposition proceeds upon the sale of the Company;
- Incentive compensation based on revenues ranging from \$20,000 if revenues range between \$0-2 million to \$200,000 if revenues are in excess of \$10 million;
 - \$275,000 upon the performance of specific performances, which were accomplished during March 2008.

This agreement was modified effective January 1, 2010 as follows:

- Base annual compensation of \$450,000;
- Incentive compensation based on revenues ranging from \$20,000 if revenues range between \$0-2 million to \$200,000 if revenues are in excess of \$10 million;
 - Monthly stipend for office and residence of \$9,000 per month;
 - 2% of all capital raised by the Company;
 - 5% of the disposition proceeds upon the sale of the Company.

Compensation-General Counsel

The compensation of the Company's General Counsel is effective January 1, 2009 and is as follows:

- Base annual compensation of \$204,000;
- Incentive compensation based on revenues ranging from \$10,400 if revenues range between \$0-2 million to \$102,000 if revenues are in excess of \$10 million;
 - 2% of all capital raised by the Company;
 - 5% of the disposition proceeds upon the sale of the Company;
 - Monthly stipend for office of \$3,000 per month.

Note 5. Subsequent Events

The Company has issued approximately \$1.4 million notes payable after March 31, 2010, in consideration of both cash and services from investors and vendors, respectively. The Company satisfied its obligations under \$52,500 of notes issued during 2008 by issuing 15,200,000 shares of its common stock in 2010.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the financial statements and related notes included elsewhere in this report and our Annual Report on Form 10-K for the year ended December 31, 2009. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements. See “Cautionary Statement Regarding Forward Looking Information” elsewhere in this report. Because this discussion involves risk and uncertainties, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

Media Exchange Group, Inc., formerly known as China Wireless Communications, Inc. (the“Company”) is a Nevada corporation formed in March 1999. The Company operated as AVL Sys International Inc. (between March 1999 and March 2000), I-Track, Inc. (between March 2000 and March 2003, and as China Wireless Communications, Inc. between March 2003 and May 2010. As China Wireless Communications, the Company marketed information technology systems integration and internet protocol services to customers. It also provided IP routing equipment and network cabling and its customers are principally in the People’s Republic of China (“China”). In March 2008, the Company discontinued its operations in China.

The Company’s current plan of operations consists of acquiring an operating business. The Company identified certain acquisition target(s) but as not reached any final agreements. The Company’s current plan of business is to seek merger or acquisition opportunities. The Company’s information technology systems business operations are accounted for as discontinued operations in the accompanying financial statements.

The Company’s current plan of operations consists of acquiring an operating business. The Company identified certain acquisition target(s) but as not reached any final agreements. The Company’s current plan of business is to seek merger or acquisition opportunities. The Company’s information technology systems business operations are accounted for as discontinued operations in the accompanying financial statements.

We currently license certain rights from a related party (Malibu Entertainment Group, Inc.) an affiliate by means of common ownership and management, to market a youth sports social network under the following brand:

www.myespnhighlights.com

Among other things, this website allows young sports participant to personalize, showcase and share their passion for a professional sport. We work with various national youth sports league to help build their the player database through registrations. The profile control the management and sharing of sport profiles, statistics and content. We use the Capsa platform to ensure support across significant carriers and handset.

RESULTS OF OPERATIONS

	Three-Month Periods Ended		Increase/ (Decrease) in \$ 2010 vs 2009	Increase/ (Decrease) in % 2010 vs 2009
	March 31, 2010	2009		
Operating expenses:				
Research and development	\$ 103,600	\$-	\$ 103,600	NM
Selling, general and administrative	310,750	179,800	130,950	72.8 %
Total operating expenses	414,350	179,800	234,550	130.5 %
Operating loss	(414,350)	(179,800)	234,550	130.5 %
Other income(expenses):				
Change in fair value of derivative liabilities	(47,655)	3,530	(44,125)	NM
Interest expense related parties	(7,532)	(6,945)	587	8.5 %
Interest expense, net	(14,981)	(12,024)	2,957	24.6 %
	(70,168)	(15,439)	54,729	354.5 %
Net loss	\$(484,518)	\$(195,239)	\$289,279	148.2 %

NM: Not Meaningful

Three-Month Period Ending March 31, 2010 and 2009

Research and development

Research and development consists of consulting fees incurred by the Company in connection with the enhancement of its digital youth sports social network.

The increase in research and development during the three-month period ended March 31, 2010 when compared to the prior year period is primarily due to our enhancement of our digital youth sports social network which began during that period. We did not incur such expenses during the three-month period ended March 31, 2009.

Selling, general and administrative expenses

Selling, general, and administrative expenses primarily consists of compensation to officers and consultants incurred in connection with researching and identifying strategic transactions and being a publicly-traded company.

The increase in selling, general, and administrative expenses during the three-month period ended March 31, 2010 when compare to the prior year period is primarily due to increased compensation from additional staff to support our operations and increased compensation to our chief executive officer, pursuant to a new contract effective January 1, 2010.

Interest expense and interest expense to related parties

Interest expense primarily consists of interest on debt.

The increase in interest expense during the three-month period ended March 31, 2010 when compared to the prior year is primarily due to by our weighted-average debt higher during the three-month period ended March 31, 2010 when compared to the comparable prior year period.

Change in fair value of derivative liabilities

The change in fair value of derivative liabilities consists of unrealized gains or losses associated with derivative liabilities at each measurement date. The change in change of fair value of derivative liabilities between the three-month period ended March 31, 2010 when compared to the prior year is attributable to a change in the quoted price per share of common stock, one of the key assumptions used in our valuation of such derivative liabilities, during the three-month period ended March 31, 2010 and 2009, respectively. There was an increase in our quoted price per share during the three-month period ended March 31, 2010 while it remained constant between December 31, 2008 and March 31, 2009.

Going Concern

The Company has experienced substantial losses since its inception as well as negative cash flows from its current operations. These matters raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue in existence as a going concern is dependent upon its ability to obtain equity or debt financing and to merge with a company which will generate cash flows from operating activities. Management is unable to determine whether it will be successful in obtaining such equity or debt financing and whether it will be successful in completing a merger with a company generating cash flows.

Liquidity

Our cash balance amounted to approximately \$200 at March 31, 2010. We are unable to ascertain that our cash balance will be sufficient to meet our obligations for the next twelve months.

During the three-month period ended March 31, 2010, we used cash flows in operating activities of approximately \$90,000. This is primarily due to our net loss of approximately \$485,000, adjusted by the following non-cash transactions or changes in operating activities:

- Change in fair value of derivative liabilities of approximately \$48,000;
- Increase of accrued compensation of approximately \$297,000 and accrued expenses of \$44,000;

During the three-month period ended March 31, 2010 we generated proceeds of approximately \$70,000 by issuing notes payable.

During the three-month period ended March 31, 2009, we used cash flows from operations of approximately \$61,000 in our operating activities. This is primarily due to our net loss from operating activities of approximately \$195,000, adjusted by the following non-cash transactions or changes in operating liabilities:

- Increase of accrued compensation of approximately \$108,000.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 periods. Significant estimates made by management include, but are not limited to the realization of accounts receivables. Actual results will differ from these estimates. Present below are those accounting policies that we believe require subjective and complex judgments that could affect reported results:

Derivative liabilities

ASC 815 generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument subject to the requirements of ASC 815. ASC 815 also provides an exception to this rule when the host instrument is deemed to be conventional (as that term is described).

The Company believes that certain conversion features embedded in certain of its convertible notes payable and rights to the Company's common stock and preferred stock are not clearly and closely related to the economic characteristics of the Company's stock price. The Company does not have a sufficient amount of authorized shares to satisfy its obligations under the convertible promissory notes and rights to the shares of common stock. Additionally, while rights to preferred stock have been granted to the Company's chief executive officer, substantially all the terms were finalized in January 2011. Accordingly, the Company has recognized derivative liabilities in connection with such instruments. The Company uses judgment in determining the fair value of derivative liabilities at the date of issuance at every balance sheet thereafter. The Company uses judgment in determining which valuation is most appropriate for the instrument (e.g., Black Scholes), the expected volatility, the implied risk free interest rate, as well as the expected dividend rate.

Income Tax

We account for income taxes under the asset and liability approach for the financial accounting and reporting of income taxes. Deferred taxes are recorded based upon the tax impact of items affecting financial reporting and tax filings in different periods. A valuation allowance is provided against net deferred tax assets when we determine realization is not currently judged to be more likely than not.

We follow the provisions of the Financial Accounting Standards Board Accounting Standards Codification (“ASC”) No. 740, Income Taxes (“ASC 740”). ASC 740 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition purposes by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating its tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes. Accordingly, we report a liability for unrecognized tax benefits resulting from the uncertain tax positions taken or expected to be taken on a tax return and recognizes interest and penalties, if any, related to uncertain tax positions as an as interest expense.

Impact of Recently Issued Accounting Standards

None.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) or Rule 15a-15(e) under the Exchange Act) as of March 31, 2010. This evaluation (the “disclosure controls evaluation”) was done under the supervision and with the participation of management, including our chief executive officer (“CEO”) and chief financial officer (“CFO”). Based upon the disclosure controls evaluation, our CEO and CFO have concluded that, as of March 31, 2010, our disclosure controls and procedures were not effective to provide reasonable assurance that the foregoing objectives are achieved.

Changes in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of management, including the CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting, as of March 31, 2010, based upon the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation under the framework in Internal Control — Integrated Framework, management concluded that our internal control over financial reporting were not effective as of March 31, 2010. We used to have sufficient staff to segregate duties but no longer have the internal resources to do so. Once we have the proper amount of working capital, we will strengthen our internal controls over financial reporting.

There were no changes in our internal controls during the three-month period ended March 31, 2010.

PART II – OTHER INFORMATION

Item 1A. Risk Factors

No significant development

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

During the three-month period ended March 31, 2010, we issued \$70,000 notes payable to two individuals for cash consideration. The notes bear interest at a rate of 5% and 7% and mature a year after their issuance. The notes are convertible into shares of our common stock at rates ranging between \$0.025-\$0.004 per share, at our option.

During the three-month period ended March 31, 2010, we issued \$148,000 notes payable to two individuals in consideration for services provided. One note of \$48,000 was issued to a relative of our chief executive officer. The notes bear interest at a rate of 5% and mature a year after their issuance. The notes are convertible into shares of our common stock at a rate of \$0.004 per share, at our option.

These transactions exempt from registration under the Securities Act of 1933 in reliance on exemptions provided by Section 3(a)(9) of that act.

Item 6. Exhibits

Exhibit

No.	Description
31.1	Certification by Joseph R. Cellura, Chief Executive Officer, pursuant to Exchange Act Rules 13A-14(a) and 15d-14(a)
31.2	Certification by Joseph R Cellura, Chief Financial Officer, pursuant to Exchange Act Rules 13A-14(a) and 15d-14(a)
32.1	Certification by Joseph R. Cellura, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Joseph R. Cellura, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Media Exchange Group, Inc.

Date: March 31, 2011

By: /s/ Joseph Cellura
Joseph R Cellura
Chief Executive Officer and Chairman
of the Board