

ZOOM TECHNOLOGIES INC  
Form 10-K  
April 15, 2013

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

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**FORM 10-K**

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**REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

or

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**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

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

Commission File Number: **0-18672**

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ZOOM TECHNOLOGIES, INC.

*(Exact name of registrant as specified in its charter)*

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Delaware

51-0448969

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

Headquarters:

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Sanlitun SOHO, Building A, 11th Floor  
No.8 Workers Stadium North Road  
Chaoyang District, Beijing 10027, China

U.S. Office:

136 First Street  
Nanuet, NY 10954

*(Address of Principal Executive Office) (Zip Code)*

1-845-507-8200

*(Registrant's telephone number, including area code)*

Securities Registered Pursuant to Section 12 (b) of the Act: **Common Stock, \$0.01 Par Value**  
Securities Registered Pursuant to Section 12 (g) of the Act: **None**

(Title of Class)

\_\_\_\_\_

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes

No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes

No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of the Regulation S-T ( 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes

No

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer                      Accelerated filer                      Non-accelerated filer                      Smaller reporting company

          

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

No

The aggregate market value of the common stock, \$0.01 par value, of the registrant held by non-affiliates of the registrant as of June 30, 2012 (computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was \$24,087,307.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of March 28, 2013 was 29,525,168 shares.

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ZOOM TECHNOLOGIES, INC.  
FORM 10-K ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2012  
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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties. Any statements contained, or incorporated by reference, in this prospectus supplement and the accompanying prospectus that are not statements of historical fact may be forward-looking statements. When we use the words "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will" and other similar terms and phrases, including references to assumptions, we are identifying forward-looking statements. Forward-looking statements involve risks and uncertainties which may cause our actual results, performance or achievements to be materially different from those expressed or implied by forward-looking statements.

PART I

ITEM 1 - BUSINESS

Corporate Overview

Zoom Technologies, Inc. (the "Company") was incorporated in the state of Delaware on February 29, 2002. Until September 22, 2009, our business was the design, production, marketing, sales, and support of broadband and dial-up modems, Voice over Internet Protocol or "VoIP" products and services, Bluetooth® wireless products, and other communication-related products.

On September 22, 2009, the Company consummated a share exchange transaction and acquired all the outstanding shares of Gold Lion Holding Limited ("Gold Lion"), a company organized and existing under the laws of the British Virgin Islands ("BVI"). In connection with the share exchange transaction, the Company spun off its then-existing business to its stockholders, by distributing and transferring all assets and liabilities to its then subsidiary, Zoom Telephonics, Inc., and issuing shares of its then operating subsidiary as a dividend to its stockholders.

Zoom's Operations in China

The Company, through Gold Lion, was the owner of 100% of Profit Harvest Corporation Ltd., a company organized under the laws of Hong Kong ("Profit Harvest"), which owns 100% ownership of Celestial Digital Entertainment, Ltd., a mobile platform video game development company based in Hong Kong. The Company, through Gold Lion's wholly owned subsidiary, Jiangsu Leimone, was the owner of 80% of TCB Digital, a company organized under the laws of the People's Republic of China ("PRC"). Both TCB Digital and Jiangsu Leimone were in the business of manufacturing, research and development, and sales of electronic components for third generation mobile phones, wireless communication circuitry, GPS equipment, and related software products.

The Company also held 100% ownership of Silver Tech Enterprises, Ltd ("Silver Tech"), a BVI holding company which owns 100% of Ever Elite Corporation, Ltd ("Ever Elite"), a Hong Kong holding company, which owns 100% of Nollec Wireless ("Nollec"), a mobile phone and wireless communication design company located in Beijing, China.

On October 26, 2011, the Company closed the sale of 1,676,300 shares of common stock to Spreadtrum Communications, Inc., ("Spreadtrum") in consideration of \$2,900,000, pursuant to a Common Stock Purchase Agreement (the "Purchase Agreement") entered into by and among the Company, Spreadtrum and Leo (Lei) Gu (the "Key Stockholder"). Pursuant to the Purchase Agreement, the Company also agreed to design and develop all applicable Company products to integrate and operate solely with Spreadtrum's products, and to not design and develop any Company products to integrate or operate with any Spreadtrum's competitive products for a term of three years from the Purchase Agreement. Also pursuant to the Purchase Agreement, Spreadtrum has the right to nominate one nominee to the board of directors of the Company (the "Nomination Right"), subject to approval of the Company's

independent directors, as required under Nasdaq Rule 5605(e)-Independent Director Oversight of Director Nominations. Spreadtrum's Nomination Right shall continue until such time that Spreadtrum owns not less than 838,150 shares of the Company's outstanding common stock. In accordance to the Purchase Agreement, Dr. Leo Li, Chairman and Chief Executive Officer of Spreadtrum, was added to our Board of Directors.

In May 2012, the Company and Spreadtrum Communications (Tianjin) Co, Ltd formed a joint venture in Tianjin City, China, named SpreadZoom Technologies, Inc. ("SpreadZoom"), of which the Company holds 47.4% ownership. In connection with the joint venture, the Company contributed a manufacturing facility valued at approximately \$11 million into SpreadZoom. SpreadZoom's business is focused on manufacturing and sales of mobile phones containing certain chipset products of Spreadtrum.

#### Subsidiary Sale

On December 31, 2012, the Company entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. (the "Purchaser"), a PRC company that provides services to the telecommunication industry. Pursuant to the SPA, the Company agreed to sell (the "Subsidiary Sale") to the Purchaser all the equity interests the Company holds in its China based subsidiaries (except for SpreadZoom as mentioned above), which include 100% of the outstanding equity interest of Ever Elite and its wholly owned subsidiary Nollec, 80% of the outstanding equity interest of TCB Digital, 100% of the outstanding equity interest of Profit Harvest, and 100% of the outstanding equity interest of CDE. As consideration for the Subsidiary Sale, the Purchaser agreed to pay to the Company RMB 200 million (approximately US\$32 million) (the "Purchase Price"), subject to adjustment pending an appraisal by an independent third party appraiser. The Purchaser has deposited the full amount of RMB 200 million into an escrow account, to be released to the Company upon the final closing of the Subsidiary Sale, which will be held 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale. As of the date of this annual report, the transfer of ownership of Profit Harvest, Nollec Wireless and CDE has been completed.

#### Zoom's Operation in the U.S.

On October 12, 2011, the Company and Zoom USA Holdings, Inc., a wholly-owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), an exclusive wholesale distributor of T-Mobile products in the United States. As consideration of the 50% interest in Portables, Zoom (i) issued 1,494,688 shares of Zoom common stock (the "Equity Consideration") to the principals of CNCG and (ii) through Zoom Sub, issued a promissory note of \$500,000 payable to CNCG. The promissory note accrues interest at 2% and matures three years from the date of issuance. In addition, Zoom Sub purchased an additional 5% interest in Portables for \$750,000. Further, in connection with the transaction, Zoom assumed the responsibility for repaying certain indebtedness owed by Portables to T-Mobile USA, Inc. of \$4,757,187 (the "T-Mobile Indebtedness"), and agreed to arrange for a \$500,000 letter of credit in the name of Portables to secure obligations of Portables to T-Mobile. The T-Mobile Indebtedness was payable under the following schedule: \$2,500,000 was due on November 10, 2011 (the "Initial Payment"), \$1,400,000 was due on December 10, 2011 (the "Second Payment"), and the remaining \$857,186 was due on December 20, 2011 (the "Final Payment"). The Initial Payment and Second Payment were made timely, and pursuant to the agreement with T-Mobile the Final Payment was waived. Zoom also agreed to pay other outstanding indebtedness of Portables of \$4,500,000, less the amount of T-Mobile Indebtedness paid off. Additionally, the Company had previously recognized acquisition payables to Portables in the amount of \$1,350,000 and the need to arrange a \$500,000 Letter of Credit in Portables' name to secure obligations to T-Mobile. As of the date of this annual report, the Company's and Portables Unlimited, Inc.'s ownership interests in Portables is 50.1% and 49.9%, respectively.

Our principal executive offices are located in the People's Republic of China at Sanlitun SOHO, Building A, 11th Floor, No.8 Workers Stadium North Road, Chaoyang District, Beijing, China 100027; our telephone number is 86-10-5935-9000. Our U.S. office is located at Portables' offices at 136 First Street, Nanuet, NY 10954, and the telephone number is 1-845-507-8200. Our corporate web site address is

[www.zoom.com](http://www.zoom.com)





The diagram below summarizes our corporate structure as of December 31, 2012:

#### Description of Business

The Company is a holding company which, through its subsidiaries, was engaged in the manufacture, development, and sale of electronic and telecommunication products. As of the fourth quarter of 2012 the Company decided to dispose of substantially all of its manufacturing, development and trading businesses (except its joint venture with Spreadrum), and redeploy its capital for the acquisition and development of distribution channels for consumer electronics in North America.

The Company through its subsidiary, Portables, operates an exclusive wholesale distributor business for T-Mobile products and services in the United States.

#### Competitive Strengths

The Company has assembled a global management team with access to diverse markets to source and distribute products globally.

#### Experienced Management Team & Strong Technology Experts

Although as of the filing of this annual report, the Company is in the process of completing its Subsidiary Sale, our management team has years of experience in the manufacturing and sales of mobile handsets and related electronic products, and will continue to have a sound relationship with the manufacturing, sourcing and distribution networks in China and Asia. With the proceeds from the Subsidiary Sale, the Company will be seeking to acquire opportunities in North America and Europe for the development and sales of consumer electronic products in those regions while

contracting for cost-effective manufacturing and sourcing of the products from China.

#### Marketing Capability

We also have access to the US markets via our Portables subsidiary that allows us to place our competitive products within the T-Mobile retail stores that we manage. We believe our competitors from the OEM space are not able to gain access to US markets because of significant barriers to entry due to controls by the major US operators.

## Strategy

Our goal is to become a leader in distribution of consumer electronic products, including mobile handsets in North America and Europe. Our strategy is to strengthen our position as an effective source of electronic products from China, taking advantage of our past experience as a manufacturer, and as an innovative service provider and marketer in North America and Europe. To meet this challenge, we intend to acquire opportunities that demonstrate success in the distribution and sales of products and services in our targeted regions. No agreement is entered into to date.

## Sale and Marketing - Mobile Phone Business

Our Company's 50.1% owned subsidiary, Portables Unlimited LLC, is a distributor of T-Mobile USA products and services. Portables Unlimited distributes T-Mobile products and services to over 100 exclusive T-Mobile retail stores in the U.S. and over 1,000 multi-carrier retail locations. We intend to develop new and competitive products and market them in the US through Portables Unlimited.

## Employees

Currently the Company has approximately 45 employees, of which approximately 30 employees are employed by our Portables subsidiary and our Beijing headquarters has about 15 persons including executives, accounting and administrative positions. Our employees do not have a collective bargaining agreement and we believe our relationship with our employees is good.

## ITEM 1A. - RISK FACTORS

You should carefully consider the following risk factors, together with all of the other information included in this annual report.

In assessing these risks, you should also refer to the other information included in this report, including the consolidated financial statements and the accompanying notes. Zoom is a holding company with substantial operations in the United States and investments in the PRC via SpreadZoom, our joint venture with Spreadtrum Technologies, Inc. As a result, Zoom is subject to legal and regulatory environments of both the United States and the PRC. The legal and regulatory environment in the PRC may differ in many respects from those of the United States; as such, Zoom's business, financial condition or results of operations could be affected materially and adversely by any of the risks discussed below.

### Risks Related to Our Business

Loss of T-Mobile license will materially affect the operations of Portables

Operations of Portables are heavily dependent on the license granted by T-Mobile. If Portables could not renew its license with T-Mobile on acceptable terms, its operations will be significantly affected.

If CNCG determines to enforce its rescission rights with respect to the Portables subsidiary, we will suffer a material adverse affect on our business and operations.

The Company has outstanding notes payable CNCG. If the Company does not continue to make interest and principal payments, CNCG will be entitled to enforce certain rescission rights against the Company, as more fully described in the Securities Purchase Agreement. Also, in case of a default, Portables, CNCG and the other member of Portables may bring claims for indemnification against the Company for a breach under the Securities Purchase Agreement, as more fully described in the Securities Purchase Agreement. In the event CNCG determines to enforce its rescission rights, we may lose our entire interest in Portables. If rescission is enforced against us or an indemnification claim is

brought against us by these parties, we would suffer a material adverse effect to our operations and our business.

We have limited influence over our distributors and individual stores and, as a result, we cannot be certain that their marketing and after-sale support of our products will be adequate to meet our sales requirements and to protect our brand and reputation

In the United States, our subsidiary, Portables Unlimited is licensed by T-Mobile to operate as an authorized master distributor of T-Mobile wireless communication services and equipment. Under our master distribution license we can also sell third party and our own branded products in the retail stores under our control. A decline in sales or the closure or poor performance of individual stores operated via our master distribution license could materially adversely affect the Company's financial condition and operating results.

Zoom maintains inventories of raw materials, components and handsets, and its inventories may decline in value or become obsolete.

The rapid technological change in Zoom's industry, the short product life cycle of its handsets, its limited forecasting experience and processes, and the competitive nature of its target markets make forecasting our future sales and operating results difficult. Our expense levels are based, in part, on our expectations regarding future sales. In order to for us to promptly fill orders, we maintain inventories of handsets and accessories. As a result, we have to commit to considerable costs in advance of anticipated sales. Any significant shortfall of sales may result in our maintaining higher levels of finished goods than required, thereby increasing our risk of inventory obsolescence and corresponding inventory write-downs and write-offs. Zoom cannot guarantee that such write-downs will be adequate to cover all losses resulting from inventory obsolescence.

We record a write-down for product and component inventories when they have become obsolete, exceed anticipated demand, or when net realizable value is lower than their carrying costs and accrue cancellation fee reserves for excess orders of components. We also review our long-lived assets for impairment whenever events or changed circumstances indicate the carrying amount of an asset may not be recoverable. If we determine that impairment has occurred, we record a write-down equal to the amount by which the carrying value of the assets exceeds its fair market value. Although we believe our provisions related to inventory, other assets and purchase commitments are currently adequate, no assurance can be given that we will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which we compete. Such charges could materially adversely affect our financial condition and operating results.

We must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts, open orders and, where appropriate, inventory component prepayments, in each case based on projected demand. Such purchase commitments typically cover forecasted component and manufacturing requirements for periods up to 150 days. Because markets are volatile, competitive and subject to rapid technology and price changes, there is a risk we will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments. Our financial condition and operating results could be materially adversely affected by our ability to manage our inventory levels and respond to short-term shifts in customer demand patterns.

Zoom's operating results are difficult to predict and may fluctuate significantly from period to period in the future.

Zoom's operating results are difficult to predict and may fluctuate significantly from period to period, based on a number of factors such as the launch of new products in a given period, the seasonality of mobile handset sales, the short life-cycle of any given handset model due to rapid technological advances, a possible deterioration of economic conditions, and potential changes to the regulation of the mobile handset industry, and also changes in our subsidiary, Portables Unlimited's working relationship with T-Mobile USA . As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of its future performance. If our revenues for a particular period are lower than our expectations, we may be unable to reduce our fixed costs and operating expenses

for that period by a corresponding amount, which would negatively impact our operating results for that period relative to our operating results for other periods.

Zoom's sales and profitability depend on the continued growth and recovery of the mobile telecommunications industry, and if the mobile telecommunications industry does not grow or recover, as we expect or grows at a slower pace than we expect, our sales and profitability may be materially adversely affected.

After the completion of our Subsidiary Sale in China, we will derive substantially all of our revenues from Portables Unlimited LLC. The continued development of our business depends, in large part, on continued growth in the mobile telecommunications industry, particularly in the U.S., in terms of the number of existing mobile subscribers who upgrade or replace their existing mobile handsets, competitive pricing and call-plans supported by T-Mobile, and increased usage. The global wireless telecommunications industry has grown rapidly in the past; however the wireless telecommunication industry may not continue to grow at the same growth rate in the future or to grow at all.

These developments in its industry are, to a large extent, outside of Zoom's control; and any reduced demand for wireless voice and data services, any other downturn, or other adverse changes in the global wireless telecommunications industry could severely harm our business.

Zoom depends on its key personnel, and its business and growth may be severely disrupted if it loses their services. Zoom may also have difficulty attracting and retaining qualified management personnel.

Zoom's future success depends substantially on the continued services of its key personnel. Zoom relies on key personnel's experience in the mobile handset sales, service and manufacturing industry. If Zoom loses the services of one or more of these key personnel, it may not be able to replace them readily, if at all, with suitable or qualified candidates, and may incur additional expenses to recruit and retain new officers, which could severely disrupt its business and growth.

Fluctuations in exchange rates could adversely affect Zoom's business.

Because Zoom intends to source or contract third-parties to manufacture products from China, any appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the Renminbi would affect the relative purchasing power of Zoom's U.S. dollar denominated cash assets and the Renminbi value of Zoom's U.S. dollar denominated bank borrowings, if any.

Zoom Operating Group's competitive position could decline if it is unable to obtain additional financing to acquire businesses or technologies that are strategic for its success, or otherwise execute its business strategy.

Zoom believes that its current cash and sales proceeds will be sufficient to fund its working capital requirements for at least the next twelve months. However, Zoom may need to raise additional funds to support capital expansion, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. Zoom cannot assure you that additional funding will be available to it in amounts or on terms acceptable to Zoom. If sufficient funds are not available or are not available on acceptable terms, Zoom's ability to fund its expansion, take advantage of acquisition opportunities, develop or enhance its services or products, or otherwise respond to competitive pressures would be significantly limited. If appropriate opportunities arise, Zoom intends to acquire businesses; technologies, services or products that it believes are strategic.

There is no assurance that the Company will successfully acquire or make strategic investments in additional companies.

Though the Company intends to utilize its capital and sales proceeds in the acquisition and development of distribution channels for consumer electronics in North America, we can give no assurances that we will successfully identify and evaluate suitable business opportunities or that we will consummate an acquisition or strategic

investments in additional companies. Management has not identified any specific business within the consumer electronics industry for evaluation. We cannot guarantee that we will be able to negotiate an acquisition or investments on favorable terms.



We may not realize the anticipated benefits of past or future acquisitions and strategic investments, and integration of acquisitions may disrupt our business and management.

During fiscal year ended 2011, we acquired 55% interests in Portables, which was reduced to 50.1%. We may in the future acquire or make strategic investments in additional companies. We may not realize the anticipated benefits of the acquisition or any other acquisitions or strategic investments, which involve numerous risks, including:

- our inability to integrate the purchased operations, technologies, personnel or products into our existing operations and/or over geographically disparate locations;
- unanticipated costs, litigation and other contingent liabilities;
- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- incurrence of acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business; and
- potential loss of our key employees or the key employees of an acquired organization;

If we are not be able to integrate businesses, products, technologies or personnel that we acquire, or to realize expected benefits of our acquisitions or strategic investments, our business and financial results may be adversely affected.

We hold a minority interest in the newly established SpreadZoom and are exposed to various risks.

The Company holds 47.4% ownership in the newly established joint venture with Spreadtrum. As Spreadtrum owns a majority interest in SpreadZoom and exercises voting control over most matters put to a vote of stockholders, the votes cast by Spreadtrum may not be in the best interests for the Company as a minority stockholder. Even though the Company is involved in the operation and management of SpreadZoom, there is no assurance that the management team of SpreadZoom will be able to lead Spreadtrum to business success. In the event we discontinue our involvement in the management of SpreadZoom for any reason, we cannot provide assurance that new management will possess the skills, qualifications or abilities necessary to profitably operate such business.

The joint venture with Spreadtrum is a new business model that we adopted and there is no assurance such model will be successful in the future. In the event the joint venture is terminated for any reason, there is no assurance that we may obtain full recovery of our contribution and investment.

#### Risks Related to Our Industry

If Portables cannot keep pace with market changes and produce or cause to produce mobile phones with new technologies and features in a timely and cost-efficient manner to meet its customers' requirements and preferences, the growth and success of its business will be materially adversely affected.

The mobile handset market is characterized by changing consumer preferences with respect to style and functionality, increasing demand for new and advanced technologies and features, rapid product obsolescence and price erosion, evolving industry standards, intense competition and wide fluctuations in product supply and demand. If Portables cannot keep pace with market changes and distribute new mobile handsets in a timely and cost-efficient manner to meet its customers' requirements and preferences, the growth and success of its business will be materially adversely affected.

Competition in mobile phone manufacture and sales is intense. Portables' failure to maintain or improve its market position and respond successfully to changes in the competitive landscape may have a material adverse impact on its business and results of operations.

Because a significant portion of assets are located outside of the United States and a majority of our directors and our officers will reside outside of the United States, it may be difficult for you to enforce your rights based on the United States federal securities laws against us and our officers and directors in the United States or to enforce judgments of United States courts against us or them in the PRC. In addition, it may be difficult for you to enforce judgments of United States courts against Zoom or our PRC resident directors and officers in the United States.

A majority of our board of directors and officers are outside of the United States. In addition, a substantial portion of our assets are located outside of the United States. China does not have a treaty with the United States providing for the reciprocal recognition and enforcement of judgments of courts. It may therefore be difficult for investors in the United States to enforce their legal rights based on the civil liability provisions of the United States federal securities laws against us in the courts of either the United States or the PRC and, even if civil judgments are obtained in courts of the United States, to enforce such judgments in the PRC courts. Further, it is unclear if extradition treaties now in effect between the United States and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties, under the United States federal securities laws or otherwise. In addition, an investor may have difficulty enforcing a judgment rendered by a United States court against foreign residents such as Zoom and our officers and directors who do not have assets in the United States.

If we fail to meet all applicable Nasdaq Capital Market requirements and Nasdaq determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, impair the value of your investment, adversely affect our ability to raise needed funds and subject us to additional trading restrictions and regulations.

Our Common Stock is listed on Nasdaq Capital Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. On November 27, 2012, we received notice from The NASDAQ Stock Market ("Nasdaq") that, because the closing bid price for the Company's common stock has fallen below \$1.00 per share for 30 consecutive business days, the Company no longer complies with the minimum bid price requirement for continued listing on the Nasdaq Capital Market under Rule 5550(a)(2) of Nasdaq Listing Rules.

Nasdaq's notice has no immediate effect on the listing of the Company's common stock on the Nasdaq Capital Market. Pursuant to Nasdaq Marketplace Rule 5810(c)(3)(A), the Company has been provided an initial compliance period of 180 calendar days, or until May 28, 2013, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of the Company's common stock must meet or exceed \$1.00 per share for a minimum of 10 consecutive business days prior to May 28, 2013.

If the Company does not regain compliance by May 28, 2013, the Company may be eligible for additional time. To qualify, the Company would be required to meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for the Nasdaq Capital Market, with the exception of the minimum bid price requirement, and provide written notice of its intention to cure the minimum bid price deficiency during the second compliance period. If the Company meets these requirements, the Nasdaq staff will grant an additional 180 calendar days for the Company to regain compliance with the minimum bid price requirement. If the Nasdaq staff determines that the Company will not be able to cure the deficiency, or if the Company is otherwise not eligible for such additional compliance period, Nasdaq will provide notice that the Company's common stock will be subject to delisting. The Company would have the right to appeal a determination to delist its common stock, and the common stock would remain listed on the Nasdaq Capital Market until the completion of the appeal process.

We cannot assure you that we will continue to be able to meet those listing requirements. If we fail to meet all applicable Nasdaq requirements and Nasdaq delists our securities from trading on its exchange, we expect our securities could be quoted on the Over- The-Counter Bulletin Board ("OTCBB") or the "pink sheets." If this were to occur, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- reduced liquidity for our securities;
- a determination that our Common Stock is "penny stock" which will require brokers trading in our Common Stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

Furthermore, The National Securities Markets Improvement Act of 1996 ("NSMIA"), which is a federal statute, prevents or preempts the states from regulating the sale of certain securities, which are referred to as "covered securities." Because our Common Stock is listed on Nasdaq, they are covered securities for the purpose of NSMIA. If our securities were no longer listed on Nasdaq and therefore not "covered securities", we would be subject to regulation in each state in which we offer our securities.

#### ITEM 1B - UNRESOLVED STAFF COMMENTS

None.

#### ITEM 2 - PROPERTIES

Our corporate headquarters are located at Sanlitun SOHO, Building A, 11th Floor, No.8 Workers Stadium North Road, Chaoyang District, Beijing 10027, China. This leased office space is about 1,800 square meters and the lease expires in July 2013.

Portables lease commitments are detailed in the Company's accompanying notes to the financial statements, Note 20 - Commitments.

#### ITEM 3 - LEGAL PROCEEDINGS

Leimone (Tianjin) Industrial Co., Ltd ("Leimone Tianjin"), a related party, is currently involved with a dispute with the construction company contracted to build our new manufacturing facility in Tianjin. On August 15, 2011, Leimone Tianjin filed a claim against Henan Urban Construction Group ("HUCG"). The claim is for the termination of the construction contract between Leimone Tianjin and HUCG and claims damages of approximately \$1.3 million (RMB 8,072,310) against HUCG. In Leimone Tianjin's court filing, it has accused HUCG of improper use of the funds paid to HUCG by Leimone Tianjin, as a result, construction project has been delayed. HUCG's has claimed as its defense that the delay in construction was a result of poor conditions at the construction site. The Mid-Level People's Court of Tianjin City has issued a decision in the last quarter of 2012 which is acceptable to the Company. HUCG is appealing the decision and the Company anticipates the outcome of the appeal should be determined by mid-year 2013.

Other than our dispute disclosed above we are not a party to any material legal proceedings nor are we aware of any circumstance that may reasonably lead a third party to initiate legal proceedings against us.

#### ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable

## PART II

#### ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq Capital Market under the symbol "ZOOM". The following table sets forth, for the periods indicated, the high and low sale prices per share of common stock, as reported by the Nasdaq Capital Market.

Year Ended December 31, 2012

High

Low

First Quarter

\$

1.64

\$

1.05

Second Quarter

\$

1.94

\$

1.02

Third Quarter

\$

1.12

\$

0.86

Fourth Quarter

\$

1.02

\$

0.54

Year Ended December 31, 2011

High

Low

First Quarter

\$

4.69

\$

3.28

Second Quarter

\$

5.08

\$

2.01

Third Quarter

\$

2.73



\$

1.50

Fourth Quarter

\$

2.50

\$

0.74

As of March 28, 2013 there are 29,525,168 shares of our common stock outstanding. There are 166 shareholders of record and we believe there are approximately 4,800 shareholders in street or broker name. As of March 28, 2013, the closing price of our stock was \$0.71.

### Recent Sales of Unregistered Securities

The Company did not sell unregistered securities during the year ended December 31, 2012.

### Dividend Policy

We have never declared or paid cash dividends on our capital stock and do not plan to pay any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance future growth.

### Repurchases by the Company

During 2012, we did not repurchase any shares of our common stock on our own behalf or for any affiliated purchaser.

### Equity Compensation Plan Information

The information required by this Item 5 regarding securities authorized for issuance under our equity compensation plans is set forth in Part III, Item 12 of this report.

### ITEM 6 - SELECTED FINANCIAL DATA

Not required.

### ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements. Forward looking statements are identified by words and phrases such as "anticipate", "intend", "expect", and words and phrases of similar import. We caution investors that forward-looking statements are only predictions based on our current expectations about future events and are not guarantees of future performance. Actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements due to risks, uncertainties and assumptions that are difficult to predict. We encourage you to read those risk factors carefully along with the other information provided in this proxy statement and in our other filings with the SEC before deciding to invest in our stock or to maintain or change your investment. We undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law.

You should read this Management's Discussion and Analysis in conjunction with the Consolidated Financial Statements and Related Notes.

On and around October 4, 2012, the Company settled the dispute with Portables Unlimited Inc. and all the parties to the dispute agreed that the Company's and Portables Unlimited, Inc.'s ownership interests in Portables will be 50.1% and 49.9%, respectively.

On December 31, 2012, the "Company entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. (the "Purchaser"), a PRC company that provides services to the telecommunication industry. Pursuant to the SPA, the Company agreed to sell (the "Subsidiary Sale") to the Purchaser all the equity interests the Company holds in its China based subsidiaries except for "SpreadZoom", which include 100% of the outstanding equity interest of Ever Elite and its wholly owned subsidiary Nollec Wireless, 80% of the outstanding equity interest of TCB Digital, 100% of the outstanding equity interest of Profit Harvest, and 100% of the outstanding equity interest of CDE. As consideration for the Subsidiary Sale, the Purchaser agreed to pay to the Company RMB 200 million (approximately US\$32 million) (the "Purchase Price"), subject to adjustment pending an

appraisal by an independent third party appraiser. The Purchaser has deposited the full amount of RMB 200 million into an escrow account, to be released to the Company upon the final closing of the Subsidiary Sale, which will be held 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale. The closing of the sale of Profit Harvest and CDE occurred on December 31, 2013; the closing of the sale of Ever Elite and Nollec occurred on April 5, 2013; and the sale of TCB Digital is scheduled to close in the second quarter of 2013.

The Company's ownership interest in SpreadZoom, which owns and operates mobile phone manufacturing facilities in Tianjin, is not part of the Subsidiary Sale. In addition, the Company will, through Portables Unlimited, LLC, its U.S. based subsidiary, continue to operate the exclusive wholesale distributor business for T-Mobile products and services in the United States. The Company may make contracts with the Purchaser for future businesses.

The Company intends to use the cash proceeds from the Subsidiary Sale to conduct acquisitions of similar businesses in North America that distribute consumer electronics including mobile handsets.

Zoom Group on a go forward basis will consist of Gold Lion, Jiangsu Leimone Electronics Co., Ltd., Silver Tech Enterprises, Ltd., Zoom USA Holdings, Portables Unlimited, LLC, and SpreadZoom Technologies, Inc.

#### Plan of Operation

During the next 12 months, Zoom, together with its subsidiaries, expects to take the following steps in connection with the development of our business and the implementation of our plan of operations:

- Zoom will continue to service and expand its licensed wholesale distribution service for T-Mobile USA.
- Zoom will be negotiating with North American and European companies that have potential synergies with Zoom's business activities for acquisition purposes.

#### Critical Accounting Policies and Estimates

The preparation of Zoom's consolidated financial statements in conformity with accounting principles generally accepted in the United States ("US GAAP") requires it to make estimates and judgments that affect its reported assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities. Zoom based its estimates and judgments on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Future events, however, may differ markedly from current expectations and assumptions. While there are a number of significant accounting policies affecting Zoom's consolidated financial statements, we believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments: allowance for doubtful accounts; income taxes; asset impairment.

#### Revenue Recognition

In accordance with US GAAP, revenue is recognized only when the price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed, and collection of the resulting receivable is reasonably assured. Noted below are brief descriptions of the product or service revenues that Zoom recognizes in the financial statements contained herein.

The Company recognizes sales in accordance with the U.S. Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition in Financial Statements" (FASB ASC Topic 605), "Revenue Recognition."

The Company recognizes revenue when the following criteria are met:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred or services were rendered;
- (iii) the price to the customer is fixed or determinable and,

(iv) collection of the resulting receivable is reasonably assured. Revenue is not recognized until title and risk of loss is transferred to the customer, which occurs upon delivery of goods, and objective evidence exists that customer acceptance provisions were met.

The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of specific transaction in each arrangement. Revenues represent the invoiced value of goods, net of value added tax ("VAT").

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers. Deposits or advance payments from customers prior to delivery of goods and passage of title of goods are recorded as advanced from customers.

Income is recognized as the percentage of estimated total income that incurred costs to date divided by estimated total costs after giving effect to estimates of costs to complete based on most recent information. Percentage of completion is based on labor hours incurred to date divided by total estimated labor hours for the contract.

Royalty income on sales of licensed products by its customers is recorded when the customers report sales to the Company. Royalty income is reported monthly and recorded in the period in which the product is sold. The Company has the right to audit the books of the licensees.

In our Portables operations, revenue from the sale of equipment is recognized upon shipment or when purchased at Company retail locations. Commission income is recognized upon activation of wireless communication services with T-Mobile.

#### Allowance for doubtful accounts

Zoom maintains an allowance for doubtful accounts to reduce amounts to their estimated realizable value. A considerable amount of judgment is required when Zoom assesses the realization of accounts receivables, including assessing the probability of collection and the current credit-worthiness of each customer. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional provision for doubtful accounts could be required. Zoom initially records a provision for doubtful accounts based on its historical experience, and then adjusts this provision at the end of each reporting period based on a detailed assessment of its accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, Zoom considers: (i) the aging of the accounts receivable; (ii) trends within and ratios involving the age of the accounts receivable; (iii) the customer mix in each of the aging categories and the nature of the receivable; (iv) its historical provision for doubtful accounts; (v) the credit worthiness of the customer; and (vi) the economic conditions of the customer's industry as well as general economic conditions, among other factors. Management regularly reviews outstanding receivables to determine their recoverability. Zoom regularly reviews the credit policies and procedures of its operating subsidiaries to ensure that procedures are appropriate to the Company's risk management approach as well as the general economic environment.

#### Income taxes

Zoom accounts for income taxes in accordance with SFAS No. 109 (ASC Topic 740), "Accounting for Income Taxes". Under this method, deferred income taxes are recognized for the estimated tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts and each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion; it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities. Zoom adopted FIN 48 (ASC Topic 740), Accounting for Uncertainty in Tax Positions. Zoom has engages tax preparers in all of the jurisdictions in which it operates to determine if the Company is both fully compliant with applicable tax laws and is lawfully maximizing tax benefits to the Company.

#### Asset Impairment

Zoom periodically evaluates the carrying value of other long-lived assets, including, but not limited to, property and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is less than its

carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Significant estimates are utilized to calculate expected future cash flows utilized in impairment analyses. Zoom also utilizes judgment to determine other factors within fair value analyses, including the applicable discount rate. As of December 31, 2012, the Company has completely written off goodwill resulting from its acquisitions of Jiangsu Leimone, Silver Tech and CDE.

#### Commitments

As detailed in Note 20 Mdash; Commitments of the accompanying notes to the financial statements, the Company had operating leases commitments for it leased facilities.

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Results of Operations for the years ended December 31, 2012 and 2011, not inclusive of activities of the subsidiaries sold pursuant to the SPA dated December 31, 2012

	2012	2011	Increase / (Decrease)	%
Net revenue	\$ 49,773,552	\$ 13,476,376	36,297,176	269.3 %
Cost of sales	(40,813,304 )	(11,185,774 )	29,627,530	264.9 %
Gross profit	8,960,248	2,290,602	6,669,646	291.2 %
Selling, general and administrative expenses	(10,088,605 )	(4,785,332 )	5,303,273	110.8 %
Non-cash equity-based compensation	(7,416,937 )	(2,413,992 )	5,002,945	207.2 %
Other income/(expenses)-net	(603,723 )	4,360,896	(4,964,619 )	-113.8 %
Loss before income taxes and non-controlling interest from continuing operations	(9,149,017 )	(547,826 )	8,601,191	1570.1 %
Income tax expense from continuing operations	(190,845 )	-	190,845	N/A
Non-controlling interest	424,047	313,002	111,045	35.5 %
Loss attributable to stockholders from continuing operations	(9,763,909 )	(860,828 )	8,903,081	1034.2 %
Income (loss) from discontinued operations, net of tax	(11,178,671 )	7,494,478	(18,673,149 )	-249.2 %
Loss on disposal, net of tax	11,860,025	-	(11,860,025 )	N/A
Non-controlling interest income (loss) from discontinued operations	(350,094 )	255,803	(605,897 )	-236.9 %
Net income (loss) attributable to stockholders	(32,452,511 )	6,377,847	(38,830,358 )	-608.8 %
Other comprehensive income to stockholders	1,977,228	1,117,223	860,005	77.0 %
Comprehensive income (loss) to stockholders	\$ (30,475,283 )	7,495,070	(37,970,353 )	-506.6 %
Other key indicators				

Years Ended December 31

(Percent of Net Sales)



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2012

2011

Change

Cost of sales

82.0

%

83.0

%

-1.2

%

Gross profit

18.0

%

17.0

%

5.9

%

Selling, general and administrative expenses

20.3

%

35.5

%

-42.8

%

Net loss margin from continuing operations

		-19.6
%		
		-6.4
%		
		206.5
%		
	14	

---

## Revenues

Zoom's revenues from continuing operations were \$49,773,552 for 2012, an increase of 269.3% or \$36,297,176 compared to \$13,476,376 for 2011. The increase in revenues as compared to 2011 was mainly due to inclusion of the full years of revenues from Portables. The Company only included revenues generated by Portables from the date acquisition, October 12, 2011 forward. 2012 sales of handsets and accessories contributed \$16,589,110 to revenues; commission from activation of services and residuals contributed \$33,184,442 to revenues.

## Cost of sales

For the year 2012, Zoom's cost of sales from continuing operations was \$40,813,304 or 82.0% of revenues as compared to \$11,185,774 or 83.0% for 2011. In 2012, the cost of sales as a percentage of revenues decreased by 1.2% as compared to 2011. As aforementioned the significant increase was related to the inclusion of the full year operating results from Portables as compared to the period from the date of acquisition to December 31, 2011. The cost of handsets and accessories as a portion of costs of sales was \$15,900,607; activation and residuals fees had an associated cost of \$24,912,697.

## Operating expenses

Operating expenses are comprised of sales and marketing expenses which represent the salaries of sales personnel, marketing, and transportation costs. General and administrative expenses primarily consisted of compensation for personnel, depreciation, travel expenses, rental, related to ordinary administration, and fees for professional services. Also including in operating expenses were non-cash equity-based compensation charges.

For 2012, selling, general and administrative expenses for continuing operations were \$10,088,605 or 20.3% of revenues compared to \$4,785,332 or 35.5% of revenues for 2011. The primary increase in such expenses for the year reflects the inclusion of Portables operating expenses for the entirety of 2012, as compared to the period from October 12, 2011 to December 31, 2011. Selling, general, and administrative expenses as percentage of revenues decreased because the overall amount of revenue for the 2012 as described above included full year results of Portables.

The non-cash equity-based compensation charges were due to common stock issued for services and charges calculated based on a Black-Scholes valuation model for stock options granted to employees, directors, vendors, and contractors. Non-cash equity-based compensation charges for 2012 and 2011 was \$7,416,937 and \$2,413,992, respectively. The increase of \$5,002,945, or 207.2%, was primarily related to issuance to consultants for the efforts to help the company identify new clientele and investment projects; however, those consultants were contracted to provide services to the Company's subsidiaries whom the Company subsequently resolved to discontinue and dispose, accordingly, stock compensation that is typically amortized over the length of service has been accelerated because of the triggering event of disposition of business units.

## Other income and (expenses) - net

Other income and (expenses) from continuing operations, net were (603,723) in 2012, a decrease of \$4,964,619 or -113.8% from \$4,360,896 in 2011. The decrease was primarily attributable to a smaller non cash gain from the change in fair value of warrants in the amount of \$843,501 for 2012 as compared to the restated amount of \$3,673,243 in 2011. See NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: Correction of Prior Period Financial Statements for detailed explanation regarding the Company's accounting for its outstanding warrants. Other income and (expenses) - included one-time forgiveness of debt by T-Mobile of \$853,788 in 2011 that did not reoccur in 2012. Also included in Other income and (expenses) - net was interest expense that the Company incurred for its loans, and such interest payments which increased dramatically year over year were \$986,427 and \$117,697 for 2012 and 2011, respectively.



#### Net loss

For 2012, Zoom's net loss was \$32,452,511 as compared to the restated net income of \$6,377,847 for 2011. Zoom experienced material one time losses as a result of its decision to discontinue and dispose of certain operations in the PRC and Hong Kong. The Company incurred a loss on disposal of \$11,860,025 for the disposition of Profit Harvest and CDE based on the allocated sales proceeds of \$23,000,000 million and net asset value of those entities at the date of disposition of \$34,860,025. The Company also wrote off certain long lived assets of the TCB Digital which has been accounted for as a discontinued operation held for sale. The write offs were approximately \$1.5 million. Also, related to the Company's decision to discontinue certain operations it wrote off all goodwill related to Jiangsu Leimone, Nollec, and CDE which was approximately \$9.0 million. Also, as mentioned above, the Company accelerated the recognition of stock compensation expense that would typically be amortized, but because such expenses were related to discontinued operations, the Company recognized those expense in their entirety in 2012.

#### Other comprehensive income

For 2012, our other comprehensive income was \$1,977,228 compared to \$1,117,223 for 2011. Other comprehensive income resulted from foreign currency exchange changes particularly the Renminbi's appreciation against the US dollar resulting from our conversion of RMB into US\$ for reporting; and we may report gain or loss depending on changes in the exchange rate.

#### Liquidity and Capital Resources

Zoom generally finances its operations from cash flow generated internally, equity fundraising and short-term loans from domestic banks due in less than one year and with interest rates between 5.3% and 8.4%. As of December 31, 2012, we had cash and equivalents of \$430,746, an increase of \$216,063 from \$214,683 as of December 31, 2011. We also had \$19,044,294 in restricted cash at the end of 2012; such restricted cash were funds held in escrow related to the disposition of certain discontinued operations. Upon closing of these sales transactions, the funds will be released to the Company for use without any further restrictions.

The net cash used in operating activities in 2012 was \$35,745,783, compared to the net cash used in operating activities for 2011 of \$1,967,962. The net cash outflow from operating activities in 2011 was mainly due to the increased losses for 2012 including non-controlling interest totaling \$9,339,862 in 2012 compared to \$547,826 in 2011. The uses of cash included an increase in prepaid and other assets of \$1,356,515. There was also a reduction of accounts payable of \$3,876,099 that decreased the Company's cash position. Cash used in operating activities also included significant loans to related parties including SpreadZoom, Tianjin Leimone, and Nollec Wireless ("a discontinued operation"), totaling \$29,561,132.

Net cash provided by investing activities was \$31,418,655 in 2012 which primarily consisted of funds received from the buyers of the Company's discontinued operations deposited into escrows as restricted cash account of \$31,740,490.

Net cash provided by financing activities was \$4,543,111 in 2012 which included increased borrowings from the bank and related parties of \$2,617,384 and \$2,542,596, respectively. The Company also repaid \$182,500 of the outstanding \$500,000 note payable due to CNCG related to the Company's acquisition of Portables in 2011.

On a going forward basis, over the next 12 months, Zoom intends to deploy the cash raised in the sales of discontinued operating units to funds its future investments. Operational cash needs are expected to be funded through short-term loans and profits generated from business operations. The Company may or may not raise funds from the equity market within the year of 2013.

#### Off balance sheet arrangements

As of December 31, 2012, Zoom had no off balance sheet arrangements.

ITEM 7A - Quantitative and Qualitative Disclosures About Market Risk

Not required

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ZOOM TECHNOLOGIES, INC.  
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ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	
None.	
ITEM 9A - CONTROLS AND PROCEDURES	

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company's reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, including, without limitation, that such information is accumulated and communicated to Company management, including the Company's principal executive and financial officer, as appropriate to allow timely decisions regarding required disclosures.

Limitations on the Effectiveness of Disclosure Controls.

In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Evaluation of Disclosure Controls and Procedures.

The Company's principal executive and financial officers have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) as of December 31, 2012, and based on this evaluation, the Company's principal executive and financial officers concluded the Company's disclosure controls and procedures were effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder. The Company's principal executive and financial officers conclusion regarding the Company's disclosure controls and procedures is based solely on management's conclusion that the Company's internal control over financial reporting ("ICFR") are effective.

Management's Report on Internal Controls Over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate ICFR, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to the company's 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.



An internal control material weakness is a significant deficiency, or aggregation of deficiencies in ICFR such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their work. A significant deficiency is a deficiency, or a combination of deficiencies, ICFR that is less severe than a material weakness, yet important enough to merit attention by the Company's management. The Company's management assessed the effectiveness of the Company's ICFR and has determined that no material weakness existed as of December 31, 2012.

In March 2012, the Company hired a financial executive to join the management team in co-operation with the Company's Chief Financial Officer who is trained with the appropriate knowledge, experience, and training in the selection, application and implementation of US GAAP as it relates to complex transactions and financial reporting requirements. Furthermore, as result of the knowledge accumulated by the Company's finance staff, as a result of the Company being subject to financial statement audit under standards promulgated by the PCAOB and reported under US GAAP for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, of our operating subsidiaries, namely TCB Digital, Jiangsu Leimone, Profit Harvest and Nollec Wireless, we have developed a familiarity with the required regular application of accounting standards. Our Portables operating subsidiary has sufficient staff trained in US GAAP to carry out the appropriate selection and application of accounting standards under US GAAP. Moreover, some comprehensive measures have been continually implemented during the course and subsequent to 2012.

Management will continue to evaluate our internal control system and implement directives to remedy any deficiency that may be discovered within the current internal control systems. In making its assessment of internal control over financial reporting management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Management believes that as of December 31, 2012, the company's ICFR was effective based on those criteria.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding ICFR pursuant to the exemption for smaller reporting companies under Item 308 of Regulation S-K.

There were no changes in our ICFR during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B - OTHER INFORMATION

Not applicable

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table and biographical descriptions set forth information regarding the current executive officers and members of the BOD.

DIRECTORS AND EXECUTIVE OFFICERS

Directors and Executive Officers	Age	Position / Title
Lei Gu	49	Chairman, Director and Chief Executive Officer

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Anthony K. Chan	58	Director and Chief Financial Officer
Augustine Lo	58	Director (1)
Chang Shan	53	Director (1)
Cheng Wang	57	Director (1)
Leo Li	55	Director

(1) Current members of the Audit and Compensation Committees.

Lei (Leo) Gu, Chairman of the Board, Director and Chief Executive Officer. Mr. Gu has served as the Chairman of the Board and CEO of the Company since May 2004 and as the Chairman of TCB Digital since July 2007. He worked for CEC Telecom Company Ltd. from 2000 to 2004, joining the Company among its first employees and became its COO. CEC Telecom was sold to Qiao Xing Mobile Communication which currently trades on NYSE under the symbol "QXM". From 1999 to 2000, Mr. Gu was the President of Xin Tian Di Technology Group Company, Ltd. Mr. Gu was Associate Professor at the Beihang University in Beijing, China from 1993 to 1999. He received his Ph.D. degree in engineering from the Beihang University in 1993. Based on Mr. Gu's management experience and expertise in engineering, we believe that Mr. Gu is well qualified to serve as our Chairman of the Board of Directors.

#### Anthony K. Chan, Chief Financial Officer

. Mr. Chan has served as the CFO of the Company since March 2009 and as a director since December 2010. From October 2005 to December of 2008, Mr. Chan was the CFO of HereUare, Inc., an internet software company in California. Mr. Chan was an expatriate managing the Beijing headquarters for the Eisenberg Group for four years from 1984. His corporate finance experience in the last 20 years included CEO and CFO positions of public companies in the U.S., and advisory positions of various Chinese entities in the areas of medical equipment, energy, dairy products, apparel, and building materials; some of these companies include Beijing Wandong Medical Equipment Company and Dehai Cashmere Company of Yinchuan. He holds both MBA and BA degrees from the University of California at Berkeley. Based on Mr. Chan's extensive experience with corporate finance, compliance issues, and working with Chinese companies, we believe that Mr. Chan is well qualified to serve on our Board.

#### Augustine Lo, Director

. Mr. Lo has been an independent director of the Company since January 2009 and he also serves as the Chairperson of the company's Audit and Compensation Committees. During the 1970s, Mr. Lo was the Controller of the Disk Drive Division for Qume Corporation. During the 1980s, Mr. Lo worked for Apple International Inc. as the Director of Finance & Administration, overseeing operations in Hong Kong and Japan. In 1989, Mr. Lo formed PacRim Technologies Ltd. with operations in Singapore, Taiwan and China distributing software products including Adobe, Macromedia, Handspring and Umax. PacRim merged into GrandTech of Taiwan in 1999 which later went public in 2001. He remained on GrandTech's board and headed up its operations in Hong Kong, China, Korea and the Philippines until 2005. Mr. Lo received his MBA and BS degrees from the University of California at Berkeley. Based on Mr. Lo's substantial experience in finance and operations of multi-national businesses, we believe that Mr. Lo is well qualified to serve on our Board.

#### Chang Shan, Director

. Mr. Shan has been an independent director of the Company since August 2008. Mr. Shan is currently the President of the China Institute of Geotechnical Investigation and Survey, at which he has been employed since 1998. He is the Chairman of the Board of Directors from 1999 to present, of the China Infrastructure Holdings Ltd., a company in the construction business with a particular emphasis on toll bridges, and has its shares listed on the Singaporean Stock Exchange. Mr. Shan is also a director of the Bank of Tianjin, China since 2007. Mr. Shan holds a Bachelor's degree in Engineering from the Shanghai Tong Ji University, a Master's degree in Engineering from the China Academy of Railway Sciences and an EMBA from the Tsinghua University. Based on Mr. Shan experience in corporate governance and leadership, we believe that Mr. Shan is well qualified to serve on our Board.

#### Cheng Wang, Director

. Mr. Wang has been an independent director since November 2009. Mr. Wang is currently a Senior Researcher, Professor and Deputy Director of the Institute of Economics at the Chinese Academy of Social Sciences (CASS), at which he has been employed since 1987. He is also the Co-Editor of the Economic Research Journal since 2005. Mr. Wang was a visiting scholar at the Dept of Economics of Brown University in the US from 2001 to 2002, a visiting research fellow at the University of London in the UK from 1997 to 1998, and a visiting researcher at Loughborough University in the UK from 1992 to 1993. In addition to the multiple awards he has received from CASS, he was also the recipient of the Honorable Academic Subsidy from the State Council of China in 2006. Among his many publications and translations are 20 books that he authored since 1987, with topics ranging from Keynesian Economics, the socialist market economy, the economic transformation of China, industrial reform, risk management, and income distribution in China. One of his books, Taiwan in the 21st Century, was published in the US in 2003. Mr. Wang received his PhD in Economics from CASS, and his Master and Bachelor degrees from Wuhan University. Based on Mr. Wang's experience, insight, and background in global economics and politics, we believe that Mr. Wang is well qualified to serve on our Board.

Leo Li, Director. Mr. Li has been an independent director since October 2011. Mr. Li has been a director of Spreadtrum since August 2009 and the Chairman of Spreadtrum's board of directors since August 2010, he served as Spreadtrum's President since October 2008 and CEO since February 2009. Dr. Li has more than 21 years of experience in the wireless communications industry. Before joining Spreadtrum, Dr. Li served as CEO of Magicomm Technology Inc., a cell phone product development company from 2005 to 2007. He was Senior Business Development Director at Broadcom responsible for baseband business from 2002 to 2005. From 1998 to 2002, Dr. Li served as General Manager of Mobile Phone Product and VP of Mobilink Telecom Inc., a GSM baseband start-up company sold to Broadcom in 2002. Prior to 1998, Dr. Li held various senior engineering and program management positions at Rockwell Semiconductors and Ericsson. Dr. Li holds 10 patents in wireless communication systems, RF IC system and circuit designs, and RFID applications. Dr. Li received a BS degree from the University of Science and Technology in Hefei, China; a MS degree from the Institute of Electronics, Chinese Academy of Sciences in Beijing, China; a Ph.D. degree in electrical engineering from the University of Maryland in College Park, Maryland, USA; and a MBA degree from National University in La Jolla, California, USA. We believe Mr. Li is qualified to serve on our Board based on his significant experience in both our industry and management of publicly listed companies.

None of our officers or directors is involved in any material legal proceedings.

#### Audit Committee and Compensation Committee.

Mr. Lo is currently the chairperson, and Messrs. Shan and Wang are currently the members of both the Audit and Compensation Committees. The BOD determined that Mr. Lo qualifies as an "audit committee financial expert" as defined by applicable SEC rules. The audit committee met four times in 2012.

#### Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, Zoom directors and officers, as well as any person holding more than 10% of Zoom's Common Stock, are required to report initial statements of ownership of Zoom's securities and any subsequent changes in such ownership to the Securities and Exchange Commission. Specific filing deadlines of these reports have been established and Zoom is required to disclose in this report any failure to file by these dates during 2011. Based on a review of such reports, and on written representations from reporting persons, Zoom believes that all Section 16(a) filing requirements were complied with during 2012.

#### Code of Ethics

Zoom has a Code of Ethics for Senior Financial Officers that applies to Zoom's principal executive officer and its principal financial officer, principal accounting officer and controller, and other persons performing similar functions. If Zoom makes any amendments to this Code of Ethics or grants any waiver, including any implicit waiver, from a provision of this Code of Ethics to such persons, Zoom will disclose the nature of such amendment or waiver, the name of the person to whom the waiver was granted and the date of waiver in a current report on Form 8-K.

#### ITEM 11 - EXECUTIVE COMPENSATION

##### Summary Compensation Table

The following Summary Compensation Table sets forth the total compensation paid or accrued for the fiscal years ended December 31, 2012 and 2011 for our principal executive officers.

##### Name and Principal Position

Year

Salary

Option or Stock  
Awards  
(3)(4)

All Other  
Compensation

Total

Lei Gu (1)(3)(4)(5)

2012

\$

279,000

\$

202,078

\$

0

\$

481,078

Chief Executive Officer

2011

\$

216,000

\$

107,524

\$

\$

323,524

Anthony K. Chan (2)(3)(4)(5)

2012

\$

219,000

\$

191,192

\$

0

\$

410,192

Chief Financial Officer

2011



\$

156,000

\$

123,475

\$

0

\$

279,475

---

(1) Leo Gu became Chief Executive Officer of the Company on September 22, 2009.

2009.

(2) Anthony K. Chan became Chief Financial Officer of the Company on September 22, 2009.

(3) The value of stock awards granted to Messrs. Gu and Chan in 2012 were based on the market value of the stock as of the date of grant in the year 2011 which was \$1.19 per share.

(4) Included were common stock granted to Messrs. Gu and Chan for their service as member of the Board of Directors; the value of such stock was based on the market price as of the date of grant which was \$1.34 per share.

(5) Included were common stock granted to Messrs. Gu and Chan as replacement for the cancellation of all of their stock options; the value of such stock was based on the value of the market price as of the date of grant less the Black Scholes value of the cancelled options, which difference was \$1.019 per share.

Outstanding Equity Interests

The following table sets forth information concerning outstanding stock options for each named executive officer as of December 31, 2012, after all options were cancelled in May 2012.

Outstanding Options Awards at Fiscal Year-End

Number of Securities  
Underlying Unexercised Options

Name

Exercisable  
Options

Unexercisable  
Options

Option  
Weighted  
Average  
Exercise  
Price

Option  
Expiration

Date

Lei Gu

0

0

\$

na

na

Anthony K. Chan

0

0

\$

na

na

The above two executives were not granted stock options during the year ended December 31, 2012.

Outstanding Common Stock Awards as of December 31, 2012

Lei Gu	168,071
Anthony K. Chan	159,786

Option Exercises

Other information regarding options, including expiration of unexercised stock options can be found in the accompany notes to the financial statements Note 15 - Stock Options.

Employment, Termination and Change of Control Agreements

The employment status of the Company's executives is "at-will" with no long-term employment agreement.

Director Compensation

The following table sets forth information concerning the compensation of our Non-Executive Directors for 2012.

Name	Fees Earned or Paid in Cash	Stock Awards (4)	All Other Compensation	Total
Augustine Lo (1)				
\$				0
				32,500
				0

\$

43,550

Chang Shan (1)

\$

0

27,500

0

\$

36,850

Cheng Wang (2)

\$

0

27,500

0

\$ 36,850

Leo Li (3)

\$ 0

27,500

0

\$ 36,850

---

(1) Appointed director on September 22, 2009.

(2) Appointed director on November 19, 2009.

(3) Appointed director on October 18, 2011.

(4) The values of stock awards granted to Messrs. Lo, Shan, Wang and Li are based on the value of the stock as of the date of grant.

In 2012, the Company's compensation policy for non-executive directors includes no cash compensation and an annual grant of stock for their services over the next 12 months. The chairperson of the sub-committees of the board was granted 32,500 shares of common stock and other non-executive directors were granted 27,500 shares of common stock.



ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We maintain equity compensation plans for employees, officers, directors and others whose efforts contribute to our success. The table below sets forth certain information as of December 31, 2012 regarding the shares of our common stock available for grant or granted under stock option plans that were approved by our stockholders. Upon the adoption of the Zoom 2009 Equity Incentive Compensation Plan (the "New Plan") on December 10, 2009, we had not issued any more equity-based awards from any of the previous plans that were approved and in place prior to the merger transaction with Gold Lion in September 2009.

Equity Compensation Plan Information

Plan Category

Number Of  
Securities  
To Be Issued Upon  
Exercise Of  
Outstanding  
Options

Weighted-Average  
Exercise  
Price Of Outstanding  
Options

Number Of  
Securities  
Remaining Available  
For  
Future Issuance  
Under Equity  
Compensation Plans

(excluding  
securities reflected  
in column (a))

(a)

(b)

(c)

Equity compensation plans approved by security holders(1)

0

\$

0.00

0

Equity compensation plans approved by security holders(2)

1,810,000

\$

1.69

3,190,000

**Total:**

1,810,000

\$

1.69

3,190,000

---

(1) Includes the following plans: 1990 Employee Stock Option Plan, 1991 Directors Stock Option Plan, 1998 Employee Equity Incentive Plan, each as amended.

(2) Includes 2009 Equity Incentive Compensation Plan.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information regarding beneficial ownership of Zoom's Common Stock as of March 28, 2013 by (i) each person who is known by Zoom to own beneficially more than five percent of Zoom's outstanding Common Stock, (ii) each of Zoom's Directors and named executive officers, as listed below in the Summary Compensation Table under the heading "Executive Compensation", and (iii) all of Zoom's current Directors and executive officers as a group.

On March 28, 2013 there were 29,526,848 issued and 29,525,168 outstanding shares of Zoom's Common Stock. Unless otherwise noted, each person identified below possesses sole voting and investment power with respect to the shares listed. The information contained in this table is based upon information received from or on behalf of the named individuals or from publicly available information and filings by or on behalf of those persons with the SEC.

Name and Address of Beneficial Owner (1)(2)

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Common stock beneficially owned

Number

Percent

Lei Gu

5,163,347

17.49

%

Anthony K. Chan

515,824

1.75

%

Augustine Lo

83,500

\*

%

Chang Shan

69,500

\*

%

Cheng Wang

69,500

\*

%

Leo Li

62

57,500

\*

%

Spreadtrum Communications, Inc.

1,676,300

5.68

%

All directors and executive officers as a group (of 5 persons)

7,635,471

25.86

%

---

\* Less than one percent of shares outstanding.

(1) Unless otherwise indicated, the address for each stockholder listed in the above table is c/o Zoom Technologies, Inc., Sanlitun SOHO, Building A, 11th Floor, No.8 Workers Stadium North Road, Chaoyang District, Beijing, China 100027.<

(2) Includes options exercisable within 60 days, which there are none.

## Securities authorized for issuance under equity compensation plans

On December 10, 2009, the Company's BOD approved and adopted the 2009 Equity Incentive Compensation Plan (the "New Plan"), with 2,500,000 options authorized for issuance. The shareholders approved of the plan on May 19, 2011. On December 16, 2011, the shareholders approved an amendment of the plan to increase the shares under the plan authorized for issuance to 5,000,000 shares.

## Change in control

Not applicable

## ITEM 13 - CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

## Certain Relationships and Related Transactions

Item 404(a) of Regulation S-K requires us to disclose in this report any transaction which exceeds the lesser of (i) \$120,000 or (ii) one percent of Zoom's average total assets at year end for the last two completed fiscal years, in which Zoom is a participant and in which any related person has or will have a direct or indirect material interest. A related person is any executive officer, Director, nominee for Director, or holder of 5% or more of our common stock, or an immediate family member of any of those persons.

## Related Party Transactions

Due from related parties

As of December 31, 2012 and 2011, due from related parties were:

Due from related parties - short term	December 31, 2012	December 31, 2011
Beijing Leimone Shengtong Wireless Technology Co., Ltd.	\$ 91,571	\$ 167,172
Leimone (Tianjin) Industrial Co., Ltd.	11,034,982	7,242,536
Shenzhen Leimone	355,564	408,831
Raja R Amar - Chief Executive Officer of Portables	429,877	429,877
Spreadzoom	9,046,038	-
Others	5,993	495,119
<b>Total due from related parties</b>	<b>\$ 20,964,025</b>	<b>\$ 8,743,535</b>

Beijing Leimone Shengtong Wireless Technology Co., Ltd. ("Beijing Leimone") was founded by Gu, the largest shareholder of the Company. Beijing Leimone borrows money from the Company. The borrowings bore no interest and had a maturity of 12 months. The balances are neither collateralized nor personally guaranteed by Gu.

Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") was controlled by Gu, the largest shareholder of the Company. Tianjin Leimone sells raw materials to the Company. For the year ended December 31, 2012 and 2011, the Company recorded total purchases from Tianjin Leimone of \$138,791,684 and \$93,076,912 respectively. As of December 31, 2012 and December 31, 2011, the amounts due from Tianjin Leimone of \$11,034,982 and \$7,242,536 represented advances for purchases arising in the normal course of business. Upon the completion of the sale of the discontinued operations, such related party transaction for the purchase of components or goods will significantly diminish and most likely cease. The Company also sold certain products to Tianjin Leimone of \$14,493,905. In addition, Tianjin Leimone borrowed money from the Company and these borrowings bore no interest. As of December 31, 2012 and 2011, the balance of such loans was \$11,495,490 and \$6,765,308 respectively.

Shenzhen Leimone Company, Ltd., formed by individuals including our Chairman, Mr. Gu, is set up with the intention of providing manufacturing services to our Company particularly for exports. \$355,564 and \$408,831 as of December 31, 2012 and December 31, 2011 was a loan to Shenzhen Leimone for setup costs. Our Chairman, Mr. Gu,



plans to personally fund the cost of equipment as his investment into Shenzhen Leimone and become the controlling shareholder of Shenzhen Leimone. In addition, for the year ended December 31, 2012 and 2011, the Company recorded revenues from sales to Shenzhen Leimone of \$18,799 and \$20,339 respectively. For the three months ended December 31, 2012 and 2011, the Company recorded total revenue from sales to Shenzhen Leimone of nil and \$153,695 respectively.

The amounts due from Raja R Amar are related to loans made to Raja R Amar by Portables prior to its acquisition by Zoom. The loans are interest free and are unsecured. The Company recorded \$429,877 due from Raja R. Amar at December 31, 2012.

The balance due from SpreadZoom represents an advance to SpreadZoom for it to purchase components to manufacture handsets in the normal course of business. The advance bears no interest, and is uncollateralized. Such advances are only expected to occur during these early setup stages of the business because once the company becomes fully capitalized it will have sufficient working capital to procure components, and advances will be reimbursed in to the Company.

### Due to related parties

As of December 31, 2012 and 2011, due to related parties were:

<b>Due to related parties</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Mr. Lei Gu	\$ 2,901,283	\$ 2,788,635
Anthony Chan	358,814	-
Beijing Leimone Shengtong Cultural Development Co., Ltd.	102,500	-
Wireless Holdings of Northeast	117,600	117,600
Portables Unlimited International	3,779,864	2,633,147
Portables Unlimited Inc.	2,559,112	650,000
AUM Realty, Inc.	69,864	269,049
Others	-	283,942
<b>Total due to related parties</b>	<b>\$ 9,889,037</b>	<b>\$ 6,742,373</b>

Mr. Gu provides fund to the Company with no interest and are due on demand. As of December 31, 2012 and 2011, the balances of funds provided by Gu was \$2,901,283 and \$2,788,635 respectively.

Mr. Chan provides fund to the Company with no interest and are due on demand. As of December 31, 2012 and 2011, the balances of funds provided by Chan was \$358,814 and nil, respectively.

In January 2011, the Portables entered into a line of credit agreement with a Portables Unlimited International for a total of \$5,000,000. Interest on the line is due and payable on demand at 5.6%. The unpaid balance as of December 31, 2012 and December 31, 2011 was \$3,779,864 and \$2,633,147 respectively.

Portables received advances from one of its non-controlling owner, Portables Unlimited, Inc., totaling \$2,559,112. The advance has an interest rate of 12% per annum and is due on demand.

AUM Realty, Inc. is controlled by certain member of Portables. The outstanding balance represents outstanding rent owed to AUM. The amounts are due upon demand. Refer to "Note 20 - Commitments" for more details.

### Policies and Procedures Regarding Review, Approval or Ratification of Related Person Transactions

In accordance with our Audit Committee charter, our Audit Committee is responsible for reviewing and approving the terms of any related party transactions. Therefore, any material financial transaction between Zoom and any related person would need to be approved by our Audit Committee prior to us entering into such transaction. Notwithstanding the foregoing, related party transactions made by Gold Lion prior to September 22, 2009, the date that Zoom acquired Gold Lion via share exchange, were not approved by our audit committee.

Board Independence

The BOD has reviewed the qualifications of Messrs. Lo, Shan, Wang and Li and has determined that each individual is "independent" as such term is defined under the current listing standards of the Nasdaq Stock Market. In addition, each member of the Audit Committee is independent as required under Section 10A (m) (3) of the Securities Exchange Act of 1934, as amended. Messrs. Lo, Wang and Shan are the members of each of the Audit Committee and the Compensation Committee.

ITEM 14 - PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table summarizes the fees for audit services and for other services billed by Zoom's principal accountants and independent registered public accounting firm, Marcum Bernstein & Pinchuk LLP ("Marcum BP") and Goldman Kurland Mohidin LLP ("GKM"), for fiscal years 2012 and 2011, respectively.

FEE CATEGORY

Marcum BP, LLP  
2012

GKM, LLP  
2012

GKM, LLP  
2011

Audit fees

(1)

\$  
320,000

\$  
100,000

	\$
	508,000
Audit-related fees	
(2)	
	0
	0
Tax fees	
(3)	
	0
	0
All other fees	
(4)	
	68

	0
	0
Total fees	\$ 320,000
	\$ 100,000
	\$ 508,000

---

(1) *Audit Fees.* Consists of fees billed for professional services rendered for the audit of Zoom's consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory filings and engagements.

(2) *Audit-Related Fees.* Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Zoom's consolidated financial statements and are not reported under "Audit Fees".

(3) *Tax Fees.* Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services were comprised primarily of services for federal, state and international tax compliance.

(4) *All Other Fees*. Consists of fees for products and services other than the services reported above.

&nbsp;

&nbsp;

PART IV

ITEM 15 - EXHIBITS AND FINANCIAL STATEMENT SCHEDULES \*

- (a) Financial Statements, Schedules and Exhibits:
- (1),(2) The consolidated financial statements and required schedules are indexed on page F- 1.
  - (3) Exhibits required by the Exhibit Table of Item 601 of SEC Regulation S-K. (Exhibit numbers refer to numbers in the Exhibit Table of Item 601.)
    - 2.1 Share Exchange Agreement dated January 28, 2009, filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on February 3, 2009.
    - 2.2 Amendment to Share Exchange Agreement by and among Zoom, ZTI, Gu, Du, Gold Lion and TCB Digital dated May 12, 2009 (incorporated by reference to annex A-1 of the preliminary proxy statement filed May 13, 2009)
    - 3.1 Certificate of Incorporation, filed as Exhibit 3.1 to Zoom Technologies, Inc. Current Report on Form 8-K dated February 28, 2002, filed with the Commission on March 4, 2002 (the "March 2002 Form 8-K"). \*
    - 3.2 Certificate of Amendment to Certificate of Incorporation, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on August 12, 2008.\*
    - 3.3 By-Laws of Zoom Technologies, Inc., filed as Exhibit 3.2 to the March 2002 Form 8-K. \*
    - 4.1 Form of Series A Warrant, filed with the Current Report on form 8-K, October 21, 2009.
    - 4.2 Form of Series B Warrant, filed with the Current Report on form 8-K, October 21, 2009.
    - 4.3 Form of Series C Warrant, filed with the Current Report on form 8-K, October 21, 2009.
    - 4.4 Form of Series D Warrant, filed with the Current Report on form 8-K, October 21, 2009.
    - 4.5 Form of Series E Warrant, filed with the Current Report on form 8-K, October 21, 2009.
    - 4.6 Form of Series G Warrant, filed with the Current Report on form 8-K, November 17, 2010.
    - 10.1 Securities Purchase Agreement, dated October 15, 2009, between the Company and certain accredited investors, filed with the Current Report on form 8-K, October 21, 2009.
    - 10.2 Share Exchange Agreement, dated April 28, 2010, between the Company and Silver Tech Enterprises Limited, filed with the Current Report on form 8-K, April 30, 2010.

- 10.3 Securities Purchase Agreement, dated November 15, 2010, between the Company and certain accredited investors, filed with the Current Report on form 8-K, November 17, 2010.
- 10.4 Securities Purchase Agreement, dated October 12, 2011, between the Company and Portables Unlimited LLC, filed with the Current Report on form 8-K, October 18, 2011.



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10.5	Common Stock Purchase Agreement, dated October 18, 2011, between the Company and Spreadtrum Communications, Inc., filed with the Quarterly Report on form 10-Q for the period ended September 31, 2011, filed with the SEC on November 15, 2011.
10.6	Order Approving Stipulation for Settlement of Claim by the Circuit Court of the Eleventh District in Miami-Dade County, Florida, filed with the Current Report on form 8-K, November 7, 2011.
10.7	Share Purchase Agreement dated December 31, 2012 between the Company and Beijing Zhumu Culture Communication Company, Ltd.
<u>21.1</u>	List of Subsidiaries
<u>23.1</u>	Consent of Independent Registered Public Accounting Firm.
<u>23.2</u>	Consent of Independent Registered Public Accounting Firm.
<u>31.1</u>	CEO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	CEO Certification, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	CFO Certification, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Definition Linkbase Document

101.DEF\*

XBRL Definition Linkbase Document

\*

XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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.

ZOOM TECHNOLOGIES, INC.

(Registrant)

Date: April 15, 2013

By:

/s/ Lei (Leo) Gu

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Lei Gu  
Chairman and CEO

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Lei (Leo) Gu</u> Lei Gu	Chief Executive Officer and Chairman	April 15, 2013
<u>/s/ Anthony K. Chan</u> Anthony K. Chan	Chief Financial Officer and Director	April 15, 2013

(Principal Financial Officer and Principal  
Accounting Officer)

<u>/s/ Augustine Lo</u>	Director	April 15, 2013
Augustine Lo		
<u>/s/ Chang Shan</u>	Director	April 15, 2013
Chang Shan		
<u>/s/ Cheng Wang</u>	Director	April 15, 2013
Cheng Wang		
<u>/s/ Leo Li</u>	Director	April 15, 2013
Leo Li		

ZOOM TECHNOLOGIES, INC.  
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Consolidated Statements of Operations for the years ended December 31, 2012 and 2011

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Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012 and 2011

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Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012 and 2011

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Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011

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Report of Independent Registered Public Accounting Firm

To the Audit Committee of the  
Board of Directors and Shareholders of  
Zoom Technologies, Inc.

We have audited the accompanying consolidated balance sheet of Zoom Technologies, Inc. Affiliates and Subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of operations and comprehensive income/(loss), stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zoom Technologies, Inc. Affiliates and Subsidiaries, as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum Bernstein Pinchuk, LLP  
Marcum Bernstein Pinchuk, LLP  
New York, New York  
April 15, 2013

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders of  
Zoom Technologies, Inc., Affiliates & Subsidiaries

We have audited the accompanying consolidated balance sheets of Zoom Technologies, Inc., Affiliates and Subsidiaries as of December 31, 2011 and the related consolidated statements of income and other comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zoom Technologies, Inc., Affiliates and Subsidiaries as of December 31, 2011 and the combined consolidated results of their operations and their consolidated cash flows for the year ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements referred to above were combined and consolidated as described in Note 1 to the financial statements.

As discussed in Note 25 to the financial statements certain amounts have been restated.

/s/ Goldman Kurland and Mohidin, LLP  
Goldman Kurland and Mohidin, LLP  
Encino, California

April 16, 2012, except for Note 25, for which the date is April 14, 2013

ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	<b>AS OF DECEMBER 31,</b>	
	<b>2012</b>	<b>2011</b>
		(Restated)
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 430,746	\$ 214,683
Restricted cash	19,044,294	-
Accounts receivable, net	3,246,247	3,377,491
Inventories, net	928,881	700,488
Other receivables and prepaid expenses	4,514,434	327,952
Due from related parties	20,964,025	8,743,535
Current assets of discontinued operations, held for sale	144,751,290	115,142,591
Total current assets	193,879,917	128,506,740
Property, plant and equipment, net	2,376,639	3,110,802
Equipment deposit	35,249	101,859
Intangible assets	480,690	370,995
Long-term investments	11,912,956	-
Goodwill	27,031,492	36,332,497
Non-current assets of discontinued operations, held for sale	-	13,722,214
<b>TOTAL ASSETS</b>	<b>\$ 235,716,943</b>	<b>\$ 182,145,107</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Short-term loans	\$ 3,519,999	\$ 902,614
Accounts payable	6,409,278	9,994,990
Accrued expenses and other payables	3,814,647	4,822,050
Purchase deposit from buyer	8,740,490	-
Taxes payable	22,334	22,113
Due to related parties	9,889,037	6,742,373
Warrant liability	7,340	850,841
Current liabilities of discontinued operations	138,348,859	70,725,238
Total current liabilities	170,751,984	94,060,219
Long-term payables	-	145,000
Long-term notes payables	317,500	500,000
Non-current liabilities of discontinued operations	-	10,458
<b>TOTAL LIABILITIES</b>	<b>171,069,484</b>	<b>94,715,677</b>
COMMITMENTS AND CONTINGENCIES		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock: authorized 1,000,000 shares, par value \$0.01 none issued and outstanding	-	-
Common stock: authorized 60,000,000 shares, par value \$0.01, 29,320,848 shares issued and 29,319,168 shares outstanding at December 31, 2012; 23,865,723 shares issued and 23,864,043 shares outstanding at December 31, 2011.	293,192	238,640
Treasury shares: 1,680 shares at cost	(7,322)	(7,322)
Shares to be issued	-	1,000
Additional paid-in capital	51,108,409	44,557,801
Statutory surplus reserve	702,539	682,528
Accumulated other comprehensive income	4,058,657	2,081,429
Retained earnings (deficit)	(4,098,798)	28,373,724
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>52,056,677</b>	<b>75,927,800</b>
Non-controlling interest	12,590,782	11,501,630
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 235,716,943</b>	<b>\$ 182,145,107</b>

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





ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	<b>FOR THE YEARS ENDED</b>	
	<b>DECEMBER 31,</b>	
	<b>2012</b>	<b>2011</b>
		(Restated)
<b>Net revenues</b>	\$ 49,773,552	\$ 13,476,376
Cost of sales	40,813,304	11,185,774
<b>Gross profit</b>	8,960,248	2,290,602
Operating expenses:		
Selling, general, and administrative expenses	10,088,605	4,785,332
Non-cash equity-based compensation	7,416,937	2,413,992
Total operating expenses	17,505,542	7,199,324
Loss from operations	(8,545,294)	(4,908,722)
<b>Other income and (expenses)</b>		
Interest income	-	51
Interest expense	(986,427)	(117,697)
Change in fair value of warrants	843,501	3,673,243
Investment loss	(429,586)	-
Other income (expense), net	(31,211)	805,299
	(603,723)	4,360,896
<b>Loss before income taxes and non-controlling interest</b>	(9,149,017)	(547,826)
Income taxes for continuing operations	190,845	-
<b>Loss before non-controlling interest from continuing operations</b>	(9,339,862)	(547,826)
<i>less:</i> Income attributable to non-controlling interest of continuing operations	424,047	313,002
<b>Loss attributable to Zoom Technologies, Inc. from continuing operations</b>	(9,763,909)	(860,828)
<b>Discontinued Operations:</b>		
Income (loss) from discontinued operations, net of tax	(11,178,671)	7,494,478
Loss on disposal, net tax	(11,860,025)	-
<i>less:</i> Income (loss) attributable to non-controlling interest from discontinued operations	(350,094)	255,803
<b>Income (loss) attributable to Zoom Technologies, Inc. from discontinued operations</b>	(22,688,602)	7,238,675
<b>Net income (loss) attributable to Zoom Technologies, Inc.</b>	\$ (32,452,511)	\$ 6,377,847
<b>Basic and diluted loss per common share from continuing operations:</b>		
Basic	\$ (0.36)	\$ (0.05)
Diluted	\$ (0.36)	\$ (0.05)
<b>Basic and diluted income (loss) per common share from discontinued operations:</b>		
Basic	\$ (0.84)	\$ 0.42
Diluted	\$ (0.84)	\$ 0.36
<b>Basic and diluted income (loss) per common share</b>		
Basic	\$ (1.20)	\$ 0.37
Diluted	\$ (1.20)	\$ 0.32
<b>Weighted average common shares outstanding:</b>		
Basic	27,144,705	17,156,446

Diluted

27,144,705 20,110,099

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

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ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER  
 31,

	2012	2011
Net income (loss) attributable to Zoom Technologies, Inc.	\$ (32,452,511)	\$ 6,377,847
Net income attributable to non-controlling interest	\$ 73,953	\$ 568,805
Other comprehensive income:		
Foreign currency translation gain - Zoom Technologies, Inc.	1,977,228	1,117,223
Foreign currency translation gain - non-controlling interest	26,540	27,289
Comprehensive income (loss) Zoom Technologies, Inc.	\$ (30,475,283)	\$ 7,495,070
Comprehensive income non-controlling interest	\$ 100,493	\$ 596,094

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

ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011  
(Restated)

	Preferred		Common	Treasury	Shares	Additional	Statutory	Accumulated	Retained		
	Shares	stock	stock	stock	to be	paid in	surplus	other	earnings	To	
		Shares			issued	capital	reserve	comprehensive	(deficit)	Total	
Balance											
December 31, 2010	-	-	15,273,892	152,739	(7,322)	557	37,915,977	682,528	964,206	19,030,933	58,7
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Adjustment for derivative accounting of warrants							(7,176,026)		2,651,942		(4,5
Issuance of shares for services			200,000	2,000	300	430,158					4
Issuance for shares to be issued			85,665	857	(857)						
Exercise of stock options			41,200	412			198,162				1
Exercise of warrant			1,000	10			3,730				
Issuance of shares for cash			1,691,300	16,913			2,883,237				2,9
Acquisition of CDE			484,800	4,848			1,813,152				1,8
Acquisition of 55% equity of Portables			1,494,688	14,947			3,291,224				3,3
Issuance of shares for acquisition related expenses			583,333	5,833			746,667				7
Issuance of shares for payment to T-mobiles			2,978,165	29,781			2,536,503				2,5
Issuance of shares for bonus to management			1,030,000	10,300	1,000	(11,300)					
Expenses overrecorded							165,057				1
Stock options expense				-			1,229,033				1,2
Foreign currency translation								1,117,223			1,1
Interest paid on behalf of TCB by related party							532,227				5
Net income										6,690,849	6,6
Balance	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$
December 31, 2011	-	-	23,864,043	238,640	(7,322)	1,000	44,557,801	682,528	2,081,429	28,373,724	75,9

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Balance December 31, 2011	-	-	23,864,043	238,640	(7,322)	1,000	44,557,801	682,528	2,081,429	28,373,724	75,9
	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$
Issuance of shares for services			4,907,200	49,072		726	6,432,653				6,4
Shares issued to replace cancelled options			302,800	3,028			140,378				1
Foreign currency translation									1,977,228		1,9
Shares issued against shares to be issued			172,625	1,726		(1,726)					
Shares issued to employees			72,500	726							
Stock option expense							790,355				7
Appropriations to statutory surplus reserves								20,011		(20,011)	
Adjustment of ownership in Portables							(812,778)				(8
Net loss										(32,452,511)	(32,4
Balance December 31, 2012	-	-	29,319,168	293,192	(7,322)	-	51,108,409	702,539	4,058,657	(4,098,798)	52,0
	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$

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

ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<b>FOR THE YEARS ENDED DECEMBER</b>	
	<b>2012</b>	<b>31,</b>
		<b>2011</b>
		(Restated)
Cash flows from operating activities:		
Loss including non-controlling interest	\$ (9,339,862)	\$ (547,826)
Adjustments to reconcile loss including non-controlling interest to cash provided by (used in) operating activities:		
Depreciation and amortization	1,209,846	108,222
Non-cash equity-based compensation	7,416,927	2,413,992
Provision for doubtful accounts	686,141	-
Loss on investment in joint venture	429,586	-
Fair value adjustment on warrants	(843,501)	(3,673,243)
Changes in operating assets and liabilities:		
Accounts receivable	(554,897)	3,396,543
Inventories	(194,108)	310,705
Prepaid expenses and other assets	(1,356,515)	2,788,595
Accounts payable	(3,876,099)	(5,251,766)
Related parties-net	(29,561,132)	(464,441)
Accrued expenses and other current liabilities	237,831	(1,048,743)
Net cash used in operating activities	(35,745,783)	(1,967,962)
Cash flows from investing activities:		
Purchase of property and equipment and other long-term assets	(321,835)	(58,105)
Cash received for the sale of disposed units	31,740,490	-
Net cash provided by (used in) investing activities	31,418,655	(58,105)
Cash flows from financing activities:		
Issuance of shares for cash	-	3,102,464
Proceeds from short-term loans	2,617,384	(449,947)
Repayment on notes payable	(182,500)	(1,023,673)
Receipts from (payments to) related parties	2,542,596	-
Repayment on borrowing from related parties	(434,369)	(25,499)
Net cash provided by financing activities	4,543,111	1,603,345
Effect of exchange rate changes on cash & equivalents	80	417
Net increase (decrease) in cash and equivalents	216,063	(422,305)
Cash and equivalents, beginning balance	214,683	636,988
<b>Cash and equivalents, ending balance</b>	<b>\$ 430,746</b>	<b>\$ 214,683</b>
<b>SUPPLEMENTARY DISCLOSURES:</b>		
Interest paid	\$ 2,654,364	\$ 1,324,331
Income tax paid	\$ 2,802,488	\$ 2,812,248

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
ZOOM TECHNOLOGIES, INC., AFFILIATES AND SUBSIDIARIES  
DECEMBER 31, 2012 AND 2011

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS OPERATIONS

The Acquisition

On September 22, 2009, Zoom Technologies, Inc. ("Zoom", "us", "we", or the "Company"), pursuant to the share exchange agreement ("SEA") dated January 28, 2009, (amended May 12, 2009) acquired all the outstanding shares of Gold Lion Holding Limited ("Gold Lion"), a company organized and existing under the laws of the British Virgin Islands ("BVI") (the "Merger"). In connection with the SEA, the Company spun off its then-existing business to its stockholders, by distributing all assets and liabilities of the subsidiary and issuing shares of its then operating subsidiary as a dividend to its stockholders.

The parties to the SEA were: (1) Zoom Technologies, Inc., (2) Tianjin Tong Guang Group Digital Communication Co., Ltd., ("TCB Digital") a company organized under the laws of the People's Republic of China, ("PRC"); (3) Zoom Telephonics, Inc., or Zoom Telephonics, a wholly owned subsidiary of Zoom; (4) Gold Lion, (5) Lei (Leo) Gu, a citizen of the PRC; and (6) Songtao Du, a citizen of the PRC.

Gold Lion owns 100% of the outstanding stock of Jiangsu Leimone Electronics Co., Ltd., ("Jiangsu Leimone"), a foreign investment enterprise organized under the laws of the PRC that engages in the manufacturing, R&D, and sales of electronic components for 3rd generation mobile phones, wireless communication circuitry, GPS equipment, and related software products. Jiangsu Leimone owned 51.03% of the outstanding stock of TCB Digital.

Gold Lion had previously owned 100% of Profit Harvest Corporation Ltd, ("Profit Harvest"), a marketing and sales company organized and existing under the laws of Hong Kong. As disclosed in the Company's 8K filing on January 7, 2013, the Company entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. whereby its subsidiary, Gold Lion, on December 31, 2012, sold 100% of its interest in Profit Harvest for cash consideration of \$23 million.

As of the date of the Merger, Mr. Gu owned 70.6% of the outstanding capital stock of Gold Lion. Mr. Du owned 29.4% of the outstanding capital stock of Gold Lion, which was pledged to Mr. Wei Cao.

On September 22, 2009, pursuant to the SEA and approval of the majority of the stockholders of the Company, the Company acquired from the Gold Lion shareholders 100% of Gold Lion's outstanding equity for 4,225,219 shares of the Company's common stock. As a result of this issuance, the former Gold Lion shareholders owned 69.3% of the outstanding stock of the Company and the transaction was recorded as a reverse acquisition. Prior to the Merger, the Company had 1,980,978 shares outstanding which were recapitalized as part of the Merger. The Company, which had an option to acquire an additional 29.0% of the outstanding capital stock of TCB Digital, pursuant to the SEA and the approval of the majority of the stockholders of the Company, agreed to provide the Company the option in exchange for the 2,402,576 shares of the Company's common stock. As of March 31, 2010, Mr. Gu exercised this option (See details in Section entitled "The Subsidiaries" below). As also disclosed in the Company's 8K filing dated January 7, 2013, as part of the Share Purchase Agreement with Beijing Zhumu Culture Communication Company, Ltd., the Company has agreed to sell TCB Digital for cash consideration of approximately \$8.2 million. As of the issuance of these financial statements the closing of the sale of TCB Digital is still pending. Accordingly, as of December 31, 2012, the Company has accounted for TCB Digital as discontinued operations held for sale.



Simultaneous with the closing of the Merger, the Company issued a dividend of 100% of the issued and outstanding stock of Zoom Telephonics to the Company's stockholders of record immediately prior to the closing which is referred to herein as the "spin-off"). In connection with the spin-off, the Company distributed all assets and liabilities related to the Company to Zoom Telephonics, subject to certain licensing rights discussed below. Zoom's stockholders immediately prior to the closing of the Merger retained their existing shares in Zoom and also received an equal number of new shares in Zoom Telephonics. After the Merger and the spin-off, the Company and Zoom Telephonics became independent companies.

TCB Digital and Zoom Telephonics entered into a license agreement which granted TCB Digital rights to the "Zoom" and "Hayes" trademarks for certain products and geographic regions. Zoom and Zoom Telephonics also entered into a separation and distribution agreement that allocates responsibility for obligations arising before and after the spin-off, including, among others, obligations relating to taxes.

Our former directors, entered into founder lock-up agreements pursuant to which they agreed that during the one-year period commencing on the date of closing of the Merger each will not sell, transfer, assign, pledge or hypothecate, in any calendar month, greater than 3% of the aggregate amount of shares of the Company's common stock sold in the previous four calendar weeks.

On June 1, 2010, Zoom pursuant to a share exchange agreement (the "Agreement") dated April 29, 2010, acquired 100% of the shares of Nollec Wireless Company Ltd., ("Nollec Wireless") a mobile phone and wireless communication design company in Beijing, China (the "Acquisition").

The parties to the Agreement include: (1) Zoom Technologies, Inc.; (2) Silver Tech Enterprises, Ltd. ("Silver Tech"), a holding company founded in July 2005, organized and existing under the laws of the BVI, which owned 100% of Ever Elite Corporation, Ltd. ("Ever Elite"); (3) Ever Elite, a holding company founded in June 2007, organized under the laws of Hong Kong, or HK, which owned 100% of Nollec Wireless; (4) Nollec Wireless, the operating company founded in June 2007, organized under the laws of the PRC; (5) Key Network Holdings, Ltd. ("KNH"), a BVI company, then owner of 76.8% of the outstanding stock of Silver Tech; and (6) Better Day Finance, Ltd. ("BDF"), a BVI company, then owner of 23.2% of the outstanding stock of Silver Tech.

Pursuant to the terms of the Agreement, the Company purchased 100% of the outstanding stock of Silver Tech from KNH and BDF, the existing shareholders of Silver Tech, for \$10.96 million, comprised of \$1.37 million in cash and 1,342,599 newly issued unregistered shares of common stock of Zoom valued at \$9.59 million at the weighted average closing price of shares for 10 days prior and leading up to the Agreement date. At the closing of the Acquisition on May 31, 2010, the Company issued 1,342,599 shares of its common stock and paid \$500,000; the balance of \$870,000 in cash will be paid in six equal installments over a period of three years. As of September 30, 2011, the Company owed three remaining payments of \$145,000 each. The Company paid \$145,000 in year 2012, \$275,000 in year 2011, and \$137,500 in 2010 and as of December 31, 2012, \$290,000 was included in other payables. After the closing of the Acquisition on June 1, 2010, Silver Tech, Ever Elite and Nollec Wireless became wholly owned subsidiaries of Zoom. The Company determined the Acquisition did not require the preparation and filing of audited financial statements of Silver Tech under Rule 3-05(b)(2)(i) of Regulation S-X. As disclosed in the Company's 8K filing dated January 7, 2013, the Company has agreed to sell Ever Elite and Nollec Wireless for cash consideration of \$0.5 million. As of the issuance of these financial statements the sale of Ever Elite, and its wholly owned subsidiary Nollec has been completed. Accordingly, as of December 31, 2012, the Company has accounted for Ever Elite as discontinued operations held for sale.

On January 4, 2011, pursuant to a share exchange agreement (the "Share Exchange Agreement") the Company acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in HK. The consideration was \$1,818,000 in shares of common stock of the Company; the number of shares was calculated by dividing \$1,818,000 by the higher of i) \$3.75 per share or ii) the Volume Weighted Average Closing Price of the Company's shares for the 10 consecutive trading days leading up to the day before the date of the Share Exchange Agreement which was December 20, 2010. This resulted in the issuance of 484,800 shares of the Company's common stock to acquire CDE. CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. The Company acquired CDE through its wholly owned HK subsidiary, Profit Harvest. As disclosed above, the Company disposed of Profit Harvest on December 31, 2012, as CDE was wholly owned subsidiary of Profit Harvest, CDE was included as part of the disposition of Profit Harvest.

On October 11, 2011, the Company and Zoom USA Holdings, Inc., a newly formed wholly-owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement ("Securities Purchase Agreement") to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), an exclusive wholesale distributor of T-Mobile products in the United States. As consideration of the 50% interest in Portables, the Company (i) issued 1,494,688 shares of Zoom common stock (the "Equity Consideration") to the principals of CNCG and (ii) through Zoom Sub, issued a promissory note of \$500,000 payable to CNCG. The promissory note accrues interest at 2% and matures three years from the date of issuance. The Equity Consideration was to be held in escrow until the date that Portables provided to the Company financial statements for Portables' third quarter ended September 30, 2011. The financial statements were provided in January 2012 and the stock certificates were released from escrow. In addition, Zoom Sub purchased an additional 5% interest in Portables for \$750,000, to be paid within 30 days of the closing date, which is currently outstanding. Further, in connection with the transaction, the Company assumed the responsibility for repaying certain indebtedness owed by Portables to T-Mobile USA, Inc. in the amount of \$4,757,187 (the "T-Mobile Indebtedness"), and agreed to arrange for a \$500,000 letter of credit in the name of Portables to secure obligations of Portables to T-Mobile. The T-Mobile Indebtedness was payable under the following schedule: \$2,500,000 was due on November 10, 2011 (the "Initial Payment"), \$1,400,000 was due on December 10, 2011 (the "Second Payment"), and the remaining \$853,788 was due on December 20, 2011 (the "Final Payment"). The Initial Payment and Second Payment were made in a timely manner, and pursuant to an agreement with T-Mobile the Final Payment was waived. The waiver of the final payment was recognized as other income in 2011 because this settlement was not a required condition in the Company's acquisition of Portables. Additionally, the Company agreed to pay other outstanding indebtedness of Portables in the amount of \$4,500,000, less the amount of T-Mobile Indebtedness paid off.

The Company had previously recognized acquisition payables to Portables in the amount of \$1,350,000 and the need to arrange a \$500,000 Letter of Credit in Portables' name to secure obligations to T-Mobile. On April 13, 2012, the Company received notice that it was in default on the Securities Purchase Agreement. The Securities Purchase Agreement provides that if the Company was in default, the Company's ownership of Portables will be reduced and CNCG will be entitled to enforce certain rescission rights against the Company, as more fully described in the Securities Purchase Agreement. Also, in case of a default, Portables, CNCG and the other member of Portables may bring claims for indemnification against the Company for a breach under the Securities Purchase Agreement, as more fully described in the Securities Purchase Agreement. The Company's non-payment to Portables has reduced its percentage of ownership from 55.0% to 50.5%. Portables Unlimited Inc. owns 49.5% of Portables. As of June 30, 2012, the Company was in dispute with Portables Unlimited Inc. over the Company's percentage of ownership of Portables. The Company derecognized the \$1,350,000 acquisition payable and does not expect to make payment for that liability. In the event that the Company is not able to maintain its majority ownership of Portables, the Company would account for its investment in Portables using the equity method of accounting. The Company was advised that on or about August 14, Portables Unlimited Inc., both individually and derivatively, filed an action in the Supreme Court of the State of New York, County of Nassau against the Company, its US subsidiary, and two officers of the Company. The Complaint seeks damages up to an aggregate amount of \$5 million for breach of contract, and a declaration as to the percentage interest the Company retains in Portables Unlimited, Inc. equal to 46%. On and

around October 4, 2012, the Company settled its dispute with Portables Unlimited Inc. and all the parties to the dispute agreed that the Company's and Portables Unlimited, Inc.'s ownership interests in Portables will be 50.1% and 49.9%, respectively.

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On October 26, 2011, the Company closed the sale of 1,676,300 shares of common stock to Spreadtrum Communications, Inc., ("Spreadtrum") pursuant to the Common Stock Purchase Agreement (the "Purchase Agreement") entered into by and among the Company, Spreadtrum and Leo (Lei) Gu (the "Key Stockholder"). In consideration, Spreadtrum paid \$2,900,000. The Company, Key Stockholder and Spreadtrum executed the Purchase Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations promulgated by the Securities and Exchange Commission under Section 4(2) of the Securities Act of 1933, as amended. Spreadtrum did not receive any registration rights and no warrants were issued pursuant to the Agreement. Pursuant to the Purchase Agreement, the Company also agreed to design and develop all applicable Company products to integrate and operate solely with Spreadtrum's products, and to not design and develop any Company products to integrate or operate with any Spreadtrum's competitive products for a term of three years from the Purchase Agreement. Also pursuant to the Agreement, Spreadtrum shall have the right to nominate one nominee to the board of directors of the Company (the "Nomination Right"), subject to approval of the Company's independent directors, as required under Nasdaq Rule 5605(e)-Independent Director Oversight of Director Nominations. Spreadtrum's Nomination Right shall continue until such time that Spreadtrum owns not less than 838,150 shares of the Company's outstanding common stock. In accordance to the Purchase Agreement, Dr. Leo Li, Chairman and Chief Executive Officer of Spreadtrum Communications Inc., was added to our Board of Directors.

On December 31, 2012, Zoom Technologies, Inc. ("Zoom" or the "Company") entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. (the "Purchaser"), a PRC company that provides services to the telecommunication industry. Pursuant to the SPA, the Company agreed to sell (the "Subsidiary Sale") to the Purchaser all the equity interests the Company holds in its China based subsidiaries (except for SpreadZoom Technologies Co., Ltd. ("SpreadZoom") as mentioned below), which include 100% of the outstanding equity interest of Ever Elite Corporation Limited, an intermediary holding company incorporated in Hong Kong, and its wholly owned subsidiary, Beijing Nollec Wireless Company ("Nollec"), 80% of the outstanding equity interest of Tianjin Tongguang Group Digital Communication Company, Ltd. ("TCBD"), 100% of the outstanding equity interest of Profit Harvest Corporation, Ltd. ("Profit Harvest"), and 100% of the outstanding equity interest of Celestial Digital Entertainment, Ltd. ("CDE"). As consideration for the Subsidiary Sale, the Purchaser agreed to pay to the Company RMB 200 million (approximately US\$31.7 million) (the "Purchase Price"), subject to adjustment pending an appraisal by an independent third party appraiser. The Company on October 24, 2012 received approximately \$12.6 million (RMB 80 million) less transaction fees and bank charges; the Company on November 5, 2012, received \$19.1 million (RMB 120 million) less transaction fees and bank charges. As of the date of this current report, the Purchaser has deposited the full amount of RMB 200 million into an escrow account, to be released to the Company upon the final closing of the Subsidiary Sale, which will be held 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale.

The Company's ownership interest in SpreadZoom, which owns and operates mobile phone manufacturing facilities in Tianjin, is not part of the Subsidiary Sale. In addition, the Company will, through Portables Unlimited, LLC, its U.S. based subsidiary, continue to operate the wholesale distributor business for T-Mobile products and services in the United States. The Company may make contracts with the Purchaser for future businesses.

The closing of the sale of Profit Harvest and CDE occurred on December 31, 2012; the closing of the sale of Ever Elite and Nollec occurred on April 5, 2013; the sale of TCBD is schedule to close in the second quarter of 2013. Results of operations from discontinued operations will accrue to the buyer beginning January 1, 2013.

### The Subsidiaries

Gold Lion was founded by Mr. Lei Gu ("Gu") in September 2002 in the BVI. Pursuant to an agreement dated June 30, 2007, Mr. Wei Cao ("Cao"), purchased from Gu 29.4% of then outstanding shares of the Company. Through a resolution of the Company on November 26, 2008, the Company's issued 705 shares to Gu and 294 shares to Mr. Songtao Du ("Du"), resulting in 1,000 issued and outstanding shares of common stock. Pursuant to a pledge agreement dated November 26, 2008, Du pledged his 294 shares to Cao, including all rights to such shares. As such,

Gu and Cao jointly controlled 100% of Gold Lion.

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On August 2, 2007, Gu founded Profit Harvest in Hong Kong, and in December 2008, 100% ownership of Profit Harvest was transferred to Gold Lion. Profit Harvest serves two purposes: i) to facilitate the export of the Company's finished goods to international markets, and ii) trading of components and chipsets for a profit.

Pursuant to the capital injection agreement ("the CIA") by and among Tianjin Communication and Broadcasting Group Co., Ltd. ("TCBGCL"), TCBGCL Labor Union, HebeiLeimone Science and Technology Co., Ltd. ("HebeiLeimone"), Tianjin 712 Communication and Broadcasting Co., Ltd. ("712"), Beijing Depu Investment Co., Ltd. ("Beijing Depu") and other natural person shareholders on May 8, 2007 and a resolution of the shareholder's meeting on June 30, 2007, HebeiLeimone, a company controlled by Gu, acquired 25.1% of TCB Digital from TCBGCL Labour Union and various natural person shareholders for RMB9,000,000, equivalent to USD \$1,286,000. Pursuant to this CIA, HebeiLeimone and Beijing Depu, the companies controlled by Gu and Cao, were to invest RMB15,928,700 and RMB10,377,600 respectively in TCB Digital, bringing the total investment from HebeiLeimone and Beijing Depu to USD \$4,679,111 (RMB35,306,300). After this investment was made as of June 30, 2007, HebeiLeimone and Beijing Depu held 36.0% and 15.0% respectively of TCB Digital, or 51.0% aggregate ownership in TCB Digital. Pursuant to an agreement dated June 30, 2007, Cao irrevocably pledged his 15.0% interest in TCB Digital through his ownership in Beijing Depu to Gu for a 29.4% stake in Gold Lion. As of March 31, 2010, Gu exercised his option to transfer an additional 29.0% of TCB Digital to the Company. The Company issued 2,402,576 common shares to Mr. Gu and his assignees as purchase consideration and 60,000 common shares to an investment banker as compensation for this transaction. The Company's ownership interest in TCB Digital was increased to 80% as of March 31, 2010. This transaction was recorded under *SFAS No. 160 (Included in ASC 810 "Consolidation") "Noncontrolling Interests in Consolidated Financial Statements", an amendment of ARB No. 51*, with the excess of fair value of shares over the carrying value of minority interests charged to additional paid in capital. During the three months ended June 30, 2010, the Company issued 2,462,576 shares.

On November 30, 2007, Gold Lion and GD Industrial Company signed a share transfer agreement, pursuant to which, GD Industrial Company transferred to the Company 60% interest of Nantong Zong Yi Kechuang Digital Camera Technology Co., Ltd. ("Nantong Zong Yi") for \$10,273. In July 2008, Nantong Zong Yi changed its name to Jiangsu Leimone Electronic Co., Ltd. ("Jiangsu Leimone"). Before the acquisition, Jiangsu Leimone had no operating activities. In January 2008, the Company invested \$5,074,226 (HK\$38,800,000) in Jiangsu Leimone to increase the Company's ownership in Jiangsu Leimone to 80%. Pursuant to the share transfer agreement by and between Gold Lion and Nantong Zong Yi Investment Co., Ltd. dated November 26, 2008, the Company acquired the remaining 20% of Jiangsu Leimone from Nantong Zong Yi Investment Co., Ltd. for \$103,214 (HK\$800,000). After this transaction, the Company owned 100% of Jiangsu Leimone.

Pursuant to the share transfer agreement by and among HebeiLeimone, Beijing Depu Investment Co., Ltd and Jiangsu Leimone, dated December 15, 2008, HebeiLeimone and Beijing Depu Investment Co., Ltd. transferred their 51.03% ownership of TCB Digital to Jiangsu Leimone on December 30, 2008.

Because TCB Digital and Profit Harvest were under common control with the Company since July 2007 and August 2007, respectively, the Company historically consolidated their financials at historical cost with the Company from the dates the Company acquired control.

TCB Digital is a high technology company engaged in electronic and telecommunication product design, development, and manufacturing for OEM customers and for our own products under the brand name of "Leimone". TCB Digital started its business in 1999 and was originally established as an Electronic Manufacturing Service ("EMS") factory for mobile phone vendors. TCB Digital was Motorola's first independent outsource manufacturing vendor responsible for producing Motorola mobile phones in China. Moreover, TCB Digital was the first EMS factory in China to receive Motorola's International Quality Product and Qualification certificate. Since 2004, TCB Digital developed and produced GSM and CDMA mobile phones, wireless data modules and GPS equipment. Beginning in 2009, TCB Digital started to manufacture and market mobile phones under its own brand name of "Leimone"; and in 2010, its product line also included 3G mobile handsets. TCB Digital is headquartered in Tianjin, China. TCB

Digital's two main business operations are EMS for Original Equipment Manufacturer (OEM) customers and the design, production and sale of its own brand mobile phone products.

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TCB Digital offers high quality and comprehensive EMS to both domestic and global customers, including, Samsung, Tianyu, CECT, Danahar and Spreadtrum. TCB Digital's primary products include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-top boxes and GPS equipment. In addition, TCB Digital has developed various state-of-the-art mobile phones and Smartphones based on both of the main network technologies: Global System for Mobile Communications, or GSM, and Code Division Multiple Access, or CDMA, and beginning in 2010 also 3G capable products. Presently, TCB Digital markets its mobile phone products through distributors in China and also supplies GSM, CDMA and 3G mobile phones to major customers, including China Mobile Communications Corporation, or CMCC, China UNICOM and China Telecom.

Nollec Wireless primarily focuses on R&D of mobile phones, and hardware and software solutions for domestic Chinese and overseas customers. Its design team includes experienced engineers in the core technologies of wireless communication and mobile phone development. Nollec provides state of the art industrial, user inter-phase, mechanical and engineering designs and software and hardware integration. Its clients include certain domestic and international mobile phone manufacturers including Philips, Lenovo, Sonim, Gionee and Borqs.

CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. CDE has developed over 40 titles for the Apple iPhone and is one of the largest developers of iPhone applications in Asia.

On September 19, 2011, the Company incorporated Zoom USA Holdings, Inc. ("Zoom Sub"), to acquire Portables Unlimited.

On October 12, 2011, the Company acquired 55% of Portables Unlimited LLC ("Portables"), one of the largest exclusive wholesale distributors of T-Mobile products in the United States. Portables has direct access to more than 1,000 retail locations across twenty U.S. States selling T-Mobile products, including approximately 100 exclusive T-Mobile carrier locations. The Company's percentage of ownership has been subsequently adjusted down to 50.1%. Please see above paragraph regarding the acquisition of Portables.

On December 31, 2012, the Company accounted for the Share Purchase Agreement with Beijing Zhumu Culture Communication Company, Ltd. by classifying the assets and liabilities of TCBD, Ever Elite, and Nollec as current assets and current liabilities for discontinued operations held for sale on the Company's balance sheet for December 31, 2012. The Company has reclassified the assets and liabilities of TCBD, Ever Elite, Nollec, Profit Harvest and CDE at December 31, 2011 from detailed classifications to current and non-current assets and liabilities of discontinued operations held for sale. The Company's results of the years ended December 31, 2012 and 2011 include the profit and losses resulting from the business operations of TCBD, Ever Elite, Nollec, Profit Harvest, and CDE as Income (loss) from discontinued operations, net of tax. Results of operations attributable to the discontinued operations listed above have been reclassified from results from continuing operations to results of discontinued operations for comparative purposes. Please refer to "Note 23 - Discontinued Operations" for further details. The sale of Profit Harvest and CDE closed on December 31, 2012.

## NOTE 2 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The Company's accompanying consolidated balance sheet at December 31, 2011 includes the accounts of Gold Lion Holding Ltd, and its 100%-owned subsidiary Silver Tech, and its specifically formed wholly owned Zoom Sub which accounted for its ownership of Portables as 55.0% as continuing operations. The Company's consolidated balance sheet also included the accounts of Profit Harvest which wholly owns Celestial Digital Entertainment, indirectly held through Gold Lion, TCB Digital for which the Company owns 80% indirectly through Jiangsu Leimone, 100% of Ever Elite which wholly owns Nollec Wireless, indirectly held through Silver Tech, all as discontinued operations held for sale. The Company's consolidated results of operations for the year ended December 31, 2011 from



continuing operations included the results of Gold Lion, Silver Tech, Jiangsu Leimone, Zoom Sub, and Portables; results of operations from Profit Harvest, CDE, Ever Elite, Nollec Wireless, and TCB Digital have been presented as discontinued operations.

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The Company's accompanying consolidated balance sheet at December 31, 2012 includes the accounts of Gold Lion Holding Ltd, and its 100%-owned subsidiary Silver Tech, and its specifically formed wholly owned Zoom Sub which accounted for its ownership of Portables as 50.1% (reduced from 55.0%), as continuing operations. The Company's consolidated balance sheet also included the accounts of TCB Digital for which the Company owns 80% indirectly through Jiangsu Leimone, 100% of Ever Elite which wholly owns Nollec Wireless, indirectly held through Silver Tech, all as discontinued operations held for sale. The Company's consolidated results of operations for the year ended December 31, 2012 from continuing operations included the results of Gold Lion, Silver Tech, Jiangsu Leimone, Zoom Sub, and Portables; results of operations from Profit Harvest, CDE, Ever Elite, Nollec Wireless, and TCB Digital have been presented as discontinued operations.

#### Equity Method Accounting

In May 2012, the Company invested \$12.3 million to establish a new joint venture named SpreadZoom Technologies Co. Ltd., ("SpreadZoom"). The Company owns 47.4% of SpreadZoom and accounted for this investment under the equity method of accounting (ASC 323-30). The Company recorded a loss on investment in SpreadZoom for \$429,586 for the year ended December 31, 2012. Refer to "Note 21 - Equity Method Investee: SpreadZoom" for details.

#### Exclusion of Related Party Lessor from Consolidation

Portables commencing in January 2009, subleased its principal facility from one of its noncontrolling member. The member began leasing the facility in December 2005 from a related party, AUM Realty, LLC ("AUM"). The Company's management has assessed whether AUM should be consolidated pursuant to FASB ASC 810 Consolidations. ASC 810 is not a "rules based" standard and thereby includes limited circumstances under which it can be conclusively determined whether an entity should be consolidated. Management believes that AUM is not a variable interest entity ("VIE") as defined in ASC 810 because AUM was adequately capitalized. Equity contributions from AUM's owners exceeded 20% of the acquisition costs of the property. Management believes that this is, according to ASC 810 criteria, "sufficient to permit the entity to finance its activities without additional subordinated financial support." Management believes that the same is true at December 31, 2012 (See Note 20 for details).

Based on this assessment, management believes that AUM is not a VIE because the Company does not make decisions that have significant impact on the performance of AUM; therefore, it is not consolidated as a component of these consolidated financial statements. If the matter were to be assessed differently, these consolidated financial statements would have included AUM's assets (principally land and building), liabilities (principally loan payable) and expenses, with the excess of AUM's assets over liabilities shown as a "non-controlling interest". AUM guarantees \$1.7 million of the \$3 million line of credit with M&T Bank for Portables Unlimited, LLC.

#### Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). The functional currency of the Company's continuing operation Jiangsu Leimone and its equity investment SpreadZoom is the Chinese Renminbi ("RMB"). The functional currency of the Company's continuing operations Portables and Zoom Sub is United States Dollars ("USD" or "\$"). The functional currency of the Company's discontinued operations, TCB Digital and Nollec Wireless is the RMB. The functional currency of the Company's discontinued operations Ever Elite and CDE is Hong Kong Dollars ("HKD"). The accompanying consolidated financial statements are translated and presented in the reporting currency of USD.

## Use of Estimates

The preparation of condensed consolidated financial statements in conformity with US GAAP 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 dates of the consolidated financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those results.

## Risks and Uncertainties

The Company is subject to substantial risks from, among other things, intense competition associated with the industry in general, other risks associated with financing, liquidity requirements, rapidly changing customer requirements, limited operating history, foreign currency exchange rates and the volatility of public markets.

## Comprehensive Income

The Company follows the provisions of ASC 220 "Reporting Comprehensive Income", establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements.

ASC 220 defines comprehensive income is comprised of net income and all changes to the statements of stockholders' equity, except those due to investments by stockholders, changes in paid-in capital and distributions to stockholders, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities.

## Foreign Currency Translation

The accounts of the Company's Chinese subsidiaries are maintained in the RMB and the accounts of the U.S. parent company are maintained in the USD. The accounts of the Chinese subsidiaries were translated into USD in accordance with Financial Accounting Standards ("FASB") Accounting Standards Codification ("ASC") Topic 810 with the RMB as the functional currency for the Chinese subsidiaries. According to ASC 810, all assets and liabilities were translated at the exchange rate at the date of the balance sheet; stockholders' equity is translated at historical rates; the line items on the statement of operations are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with FASB ASC Topic 220. Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the income statement.

## Cash and Equivalents

For Statement of Cash Flows purposes, the Company considers all cash on hand and in banks, including accounts in book overdraft positions, certificates of deposit and other highly-liquid investments with maturities of three months or less, when purchased, to be cash and cash equivalents. The Company maintains cash with various banks and trust companies located in China. Cash accounts are not insured or otherwise protected. Should any bank or trust company holding cash deposits become insolvent, or if the Company is otherwise unable to withdraw funds, the Company would lose the cash on deposit with that particular bank or trust company.

### Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Accounts are written off against the allowance when it becomes evident collection will not occur. For the contracted manufacturing activities, our standard terms for accounts receivable from our customers are between 60 to 75 days from close of the billing cycle; and for sales of own brand phones our terms include prepaid arrangements and extending receivable to customers up to 60 days. We also offer credit terms of up to 150 days in our trading activities to a certain customers. As of December 31, 2012, management concluded that the allowance for doubtful accounts, as disclosed in "Note 5 - Accounts Receivable," was adequate to cover any potential unrecoverable balances as a result of delinquency.

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a weighted average basis and includes all expenditures incurred in bringing the goods to the point of sale and putting them in a saleable condition. In assessing the ultimate realization of inventories, the management makes judgments as to future demand requirements compared to current or committed inventory levels. Our reserve requirements generally increase as our projected demand requires; or decrease due to market conditions and product life cycle changes. The Company estimates the demand requirements based on market conditions, forecasts prepared by its customers, sales contracts and orders in hand.

In addition, the Company estimates net realizable value based on intended use, current market value and inventory ageing analyses. The Company writes down inventories for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventories and their estimated market value based upon assumptions about future demand and market conditions.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Gains or losses on disposals are reflected as gain or loss in the year of disposal. All ordinary repair and maintenance costs are expensed as incurred. Expenditures for maintenance and repairs are expensed as incurred. Major renewals and betterments are charged to the property accounts while replacements, maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed in the current period.

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of assets.

### Capitalized Interest

Interest associated with major development and construction projects is capitalized and included in the cost of the project. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using weighted-average cost of the Company's outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or development activity is suspended for more than a brief period. There have not been materials amount of capitalized interest for the year ended December 31, 2012 and 2011.

## Impairment of Long-lived Assets

In accordance with ASC 360, "Property, Plant and Equipment", the Company reviews the carrying values of long-lived assets, including property, plant and equipment and other intangible assets, whenever facts and circumstances indicate that the assets may be impaired. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs of disposal. The Company performed annual reviews of its long-lived assets at December 31, 2012 and 2011. In 2012, the Company determined that certain fixed assets and goodwill were impaired based on the disposal of certain operations.

## Goodwill

The Company recognizes goodwill for the excess of the purchase price over the fair value of the identifiable net assets of the business acquired. ASC 350 "Intangible Assets-Goodwill and Other", an impairment test for goodwill is undertaken by the Company at the reporting unit level annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The Company recorded impairment of goodwill related to the following subsidiaries: Jiangsu Leimone, CDE and Silver Tech. See "Note 3 - Merger and Acquisitions" for details.

## Revenue Recognition

The Company recognizes sales in accordance with FASB ASC Topic 605, "Revenue Recognition."

The Company recognizes revenue when the following criteria are met:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred or services were rendered;
- (iii) the price to the customer is fixed or determinable and,
- (iv) collection of the resulting receivable is reasonably assured. Revenue is not recognized until title and risk of loss is transferred to the customer, which occurs upon delivery of goods, and objective evidence exists that customer acceptance provisions were met.

The Company bases its estimates on historical experience taking into consideration the type of products sold, the type of customer, and the type of specific transaction in each arrangement. Revenues represent the invoiced value of goods, net of value added tax ("VAT").

The Company does not offer promotional payments, customer coupons, rebates or other cash redemption offers to its customers. Deposits or advance payments from customers prior to delivery of goods and passage of title of goods are recorded as advanced from customers.

The Company's discontinued operation, Nollec Wireless is in the mobile phone design, software integration and mobile solution R&D business, Nollec Wireless, recognizes revenue under the percentage of completion method ASC Topic 605- 35-25 (Construction - Type and Production - Type Contracts) when reasonably dependable estimates can be made and all the following conditions exist:

- a. Contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding goods or services to be provided and received by the parties, the consideration to be exchanged, and

the manner and terms of settlement.

- b. The buyer can be expected to satisfy all obligations under the contract.
- c. The contractor can be expected to perform all contractual obligations.

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Estimates of cost to complete is reviewed periodically and revised as appropriate to reflect new information. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made.

Income is recognized as the percentage of estimated total income, and is determined by dividing incurred costs to date by estimated total costs after giving effect to adjustments, if any, in estimates of costs to completion based upon the most recent information. Percentage of completion is based on labor hours incurred to date divided by total estimated labor hours for the contract.

Royalty income on sales of licensed products by its customers is recorded when the customers report sales to the Company. Royalty income is reported monthly and recorded in the period in which the product is sold. The Company has the right to audit the books of the licensees.

The Company's discontinued operation CDE is in the business of video games and applications for mobile phones and mobile platforms development. Revenue is recognized in accordance with ASC 985-605-55-125. Cost of Software Development Revenue is accounted for under ASC 985-20 to be sold, leased or otherwise marketed.

CDE capitalizes cost of development of software for hosting purpose in accordance with ASC subtopic 350-40 ("ASC 350-40"), Intangibles-Goodwill and Other: Internal-Use. As such, CDE expenses all costs that are incurred in connection with the planning and implementation phases of development and costs that are associated with repair or maintenance. Costs incurred in the development phase are capitalized and amortized over the estimated product life. Since the inception of CDE, the amount of costs qualifying for capitalization has been insignificant and as a result all internally used software development costs have been expensed as incurred.

The Company's subsidiary, Portables is in the business of distribution of mobile phone and provision of wireless service. Revenue from the sale of equipment is recognized upon shipment or when purchased at Portables retail locations. Commission income is recognized upon activation of wireless communication services with T-Mobile.

### Income Taxes

The Company accounts for income taxes in accordance with ASC 740 "Income Taxes", previously SFAS No. 109. Under this method, deferred income taxes are recognized for the estimated tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts and each year-end based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in management's opinion; it is more likely than not that some portion of the deferred tax assets will not be realized. The provision for income taxes represents current taxes payable net of the change during the period in deferred tax assets and liabilities.

### Uncertain tax positions

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that 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 that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized and recorded as necessary in the provision for income taxes. There were no uncertain tax positions in 2012 and 2011. The Company's evaluation of uncertain tax positions was performed for the tax years ended December 31, 2009 and forward, the tax years which remain subject to examination as of December 31, 2012.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company that do not meet the capitalization criteria of ASC 840 "Leases", are accounted for as operating leases. Rental payables under operating leases are expensed on the straight-line basis over the lease term.

Research and Development Costs

Research and development costs are related primarily to the development of cell phone technology, video games and applications for mobile phones and mobile platforms development. Research and development costs are expensed as incurred.



## Earnings Per Share

The Company reports earnings per share in accordance with the provisions of ASC 260 "Earnings Per Share". ASC 260 requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock using the treasury method.

Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation dates. When the Company's results from operations are a net loss, dilutive securities are not included in diluted loss per share because they would be considered anti-dilutive.

Fair Values of Financial Instruments

ASC 820 "Fair Value Measurements and Disclosures", defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for current receivables and payables qualify as financial instruments. Management concluded the carrying values are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and if applicable, their stated interest rate approximates current rates available. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instruments.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of December 31, 2012 and 2011 are as follows:

	<b>Carrying Value</b>	<b>Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs</b>
	<b>2012</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Cash and cash equivalents	\$ 3,803,966	\$ 430,746	\$ -	\$ -
Restricted cash	\$ 16,410,824	\$ 19,044,294	\$ -	\$ -
Warrants	\$ 327,763	\$ -	\$ 7,340	\$ -

	<b>Carrying Value</b>	<b>Active Markets for Identical Assets</b>	<b>Significant Other Observable Inputs</b>	<b>Significant Unobservable Inputs</b>
	<b>2011</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Cash and cash equivalents	\$ 1,131,109	\$ 214,683	\$ -	\$ -
Restricted cash	\$ 15,507,408	\$ -	\$ -	\$ -
Warrants	\$ 850,841	\$ -	\$ 850,841	\$ -



The Company's financial instruments include cash and equivalents, restricted cash, accounts receivable, notes receivables, other receivables, accounts payable, notes payable, and warrants. Cash and cash equivalents consist primarily of high rated money market funds at a variety of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account to secure short-term bank loans and notes payable (Note 14). Management estimates the carrying amounts of the non-related party financial instruments approximate their fair values due to their short-term nature.

#### Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents and trade and bills receivables. As of December 31, 2012 and December 31, 2011, substantially all of the Company's cash and equivalents and restricted cash were held by major financial institutions located in the PRC, Hong Kong and the United States, which management believes are of high credit quality. With respect to trade and notes receivables, the Company extends credit based on an evaluation of the customer's financial condition. The Company generally does not require collateral for trade receivables and maintains an allowance for doubtful accounts of trade receivables.

Notes receivable are undertaken by the banks to honor the payments at maturity and the customers are required to place deposits with the banks equivalent to certain percentage of the notes amount as collateral. These notes receivable can be sold to any third party at a discount before maturity. The Company does not maintain an allowance for notes receivable in the absence of bad debt experience and the payments are undertaken by the banks.

#### Non-controlling Interests

The Company follows ASC 810 for reporting non-controlling interest ("NCI") in a subsidiary. As a result, the Company reports NCI as a separate component of Equity in the Consolidated Balance Sheet. Additionally, the Company reports the portion of net income and comprehensive income attributed to the Company and NCI separately in the Consolidated Statement of Income.

#### Statement of Cash Flows

In accordance with ASC 230, "Statement of Cash Flows", cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows may not necessarily agree with changes in the corresponding balances on the balance sheet.

#### Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Intangibles-Goodwill and Other (Topic 350) - Testing Indefinite-Lived Intangible Assets for Impairment. The ASU provides entities with an option to first assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is more than 50% likely that an indefinite-lived intangible asset is not impaired, no further analysis is required. However, if an entity concludes otherwise, it would be required to determine the FV of the indefinite-lived intangible asset to measure the amount of actual impairment, if any, as currently required under US GAAP. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The adoption of this pronouncement will not have a material impact on its financial statements.

Except for the ASU above, as of November 17, 2012, the FASB has issued ASU No. 2012-01 through ASU 2012-07, which is not expected to have a material impact on the consolidated financial statements upon adoption.

The following is a summary of certain accounting pronouncements with application to our consolidated financial statements in future periods.

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In February 2013, the Financial Accounting Standards Board ("FASB") issued amendments under ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220). The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt these amendments in the fourth quarter of 2013.

### NOTE 3 - MERGER AND ACQUISITIONS

The Company acquired 100% equity in Silver Tech on May 31, 2010. As of May 31, 2010, the net assets of Silver Tech were \$2,564,160. The purchase consideration was \$10,960,000 which resulted in goodwill of \$8,395,840. As of December 31, 2012, the Company has taken action to dispose of Silver Tech's operating subsidiaries Ever Elite and Nollec, accordingly, all goodwill related to Silver Tech has been written off.

The Company acquired 100% ownership of CDE on January 4, 2011. As of January 4, 2011, the net assets of CDE were \$(43,409). The purchase consideration was \$1,818,000 which resulted in goodwill of \$1,861,409. The Company acquired CDE to broaden and deepen its knowledge base towards software solutions for mobile handsets. CDE has designed games for iOS and Android platforms for several years. The accumulated knowledge and source codes can be useful to the Company in integrating and testing operating systems with the hardware that the Company produces. As of December 31, 2012, as part of the Company's disposal of Profit Harvest the Company has indirectly disposed of CDE, accordingly, all of the goodwill related to CDE has been written off.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed from CDE as of the date of acquisition on January 4, 2011.

Cash	\$	235,112
Other receivables		5,895
Prepaid expenses		3,259
Accounts receivable		8,413
Fixed assets		6,565
Goodwill		1,861,409
Short-term loan		(20,075)
Accounts payable		(990)
MPF payable		(1,758)
Due to related party		(277,774)
Accrued expenses		(2,056)
<b>Purchase price</b>	<b>\$</b>	<b>1,818,000</b>

The Company acquired 55% ownership of Portables on October 11, 2011. As of October 11, 2011, Portables had the financial position of a net liability of \$9,290,241. The purchase consideration was \$9,851,486 which resulted in goodwill of \$27,005,953. The Company acquired Portables for two reasons; (a) to diversify its revenue sources, and (b) to gain access to the most mature mobile handset market in the world. The Company's ownership in Portables has been reduced to 50.1% as of December 31, 2012.

The following table summarizes the fair market values assigned to the assets acquired and liabilities assumed from Portables as of October 11, 2011:

Cash	\$	81,048
Other receivables		4,054,550
Prepaid expenses		255,816
Accounts receivable		3,896,008
Inventory		1,045,478
Due from related parties		3,813,514
Fixed assets		2,216,272
Equipment deposit		103,602
Intangible assets		223,557
Goodwill		27,031,493
Short-term loan		(1,352,562)
Notes payable		(4,757,186)
Accounts payable		(10,717,533)
Accrued expenses		(2,749,780)
Due to related party		(2,818,775)
Other payables		(2,584,250)
Valuation of non-controlling interest		(8,852,885)
<b>Purchase price</b>	<b>\$</b>	<b>8,888,367</b>

The following table summarizes goodwill as of December 31, 2012 and December 31, 2011 resulting from the acquisitions of Jiangsu Leimone, Silver Tech, CDE, and Portables:

	December 31, 2010			December 31, 2011			December 31, 2012		
		Additions	Impairment		Adjustment	Impairment			
Jiangsu Leimone	\$ 103,057	\$ -	\$ (103,057)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Silver Tech	8,395,840	-	-	8,395,840	-	(8,395,840)	-	-	-
CDE	-	1,861,409	(930,705)	930,704	-	(930,704)	-	-	-
Portables	-	27,005,953	-	27,005,953	25,539	-	27,031,492	-	-
	\$ 8,498,897	\$ 28,867,362	\$ (1,033,762)	\$ 36,332,497	\$ 25,539	\$ (9,326,544)	\$ 27,031,492		

During the year ended December 31, 2012, after considering markets conditions and the performance of those subsidiaries listed above, and the decision to dispose of certain operations, the Company wrote off all the goodwill associated with Jiangsu Leimone, Silver Tech, and CDE. The Company also performed a cash flow analysis of its investment in Portables and determined that no impairment was necessary as of December 31, 2012. The Company continues to closely monitor its subsidiaries when major events occur that may cause the carrying value of the goodwill associated with the above subsidiaries to be impaired.

#### Pro-forma results of operations reflecting acquisitions made in 2011

The net revenue and net loss arising from acquisitions made in 2011 that are included in the Company's consolidated income statement for the year ended December 31, 2011 are \$13,476,376 and \$695,559, respectively. The following summary of the audited consolidated results of operations and the unaudited pro forma results of operations of the Company for the years ended December 31, 2012 and 2011 is presented using the assumption that the acquisitions made in 2011 were completed as of January 1, 2010. These pro-forma results of the Group have been prepared for comparative purposes only and do not purport to be indicative of the results of operations which would have resulted had the significant acquisitions occurred as of January 1, 2010, nor is it indicative of future operating results.

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The unaudited pro forma financial information shown below does not attempt to project the future results of operations of the combined entity.

	For the Years Ended December 31,					
	2012			2011		
	Consolidated Results of Operations		Proforma Combined Results of Operations			
	ZOOM (Historical) (Audited)	ZOOM (Historical) (Audited)	Portables (Historical) (Unaudited)	Note	Proforma Adjustments (Unaudited)	Proforma Combined (Unaudited)
Net revenues	\$ 49,773,552	\$ -	\$ 79,379,429		\$ -	\$ 79,379,429
Cost of sales	40,813,304	-	67,870,728			67,870,728
Gross profit	8,960,248	-	11,508,701			11,508,701
Operating expenses:						
Selling, general, and administrative expenses	10,088,605	2,454,199	10,841,571	(a) (b)	3,100,000	16,395,770
Non-cash equity-based compensation	7,416,937	2,413,992	-			2,413,992
Total operating expenses	17,505,542	4,868,191	10,841,571			18,809,762
Income (loss) from operations	(8,545,294)	(4,868,191)	667,130			(7,301,061)
Other income and (expenses)						
Interest income	-	51	-			51
Interest expense	(986,427)	-	(810,920)			(810,920)
Change in fair value of warrants	843,501	3,673,243	-			3,673,243
Investment loss	(429,586)	-	-			-
Other income (expense), net	(31,211)	(48,488)	868,908			820,420
	(603,723)	3,624,755	57,988			3,682,743
Income (loss) before income taxes and non-controlling interest	(9,149,017)	(1,243,436)	725,118			(3,618,318)
Income taxes for continuing operations	190,845	-	-			-
Income (loss) before non-controlling interest from continuing operations	(9,339,862)	(1,243,436)	725,118			(3,618,318)
less: Income attributable to non-controlling interest of continuing operations	424,047	-	-	(c)	326,303	326,303
Income (loss) attributable to Zoom Technologies, Inc. from continuing operations	\$ (9,763,909)	\$ (1,243,436)	\$ 725,118		\$ (326,303)	\$ (3,944,621)
<b>Basic and diluted loss per common share from continuing operations:</b>						
Basic	\$ (0.36)					\$ (0.23)
Diluted	\$ (0.36)					\$ (0.23)
<b>Weighted average common shares outstanding:</b>						
Basic	27,144,705					17,156,446
Diluted	27,144,705					17,156,446

Note:

(a) \$2,400,000 employment retention bonus of key officers of Portables

(b) \$700,000 of merger and acquisitions related costs including but not limited to legal and professional fees

(c) Apportionment of income based on non-controlling interest equity interest of 45% for 2011





**NOTE 4 - RESTRICTED CASH**

Restricted cash was part of the funds deposited with the Company for the sale of Profit Harvest, CDE, Ever Elite, Nollec Wireless, and TCB Digital. The funds become unrestricted upon closing of the disposition transaction.

**NOTE 5 - ACCOUNTS RECEIVABLE**

As of December 31, 2012 and 2011, the Company's accounts receivable consisted of the following:

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Accounts receivable	\$ 4,032,656	\$ 4,205,447
less: Allowance for doubtful accounts	(786,409)	(827,956)
<b>Accountants receivable, net</b>	<b>\$ 3,246,247</b>	<b>\$ 3,377,491</b>

**NOTE 6 - INVENTORIES**

Inventories, by major categories, as of December 31, 2012 and 2011 were as follows:

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Finished goods	\$ 928,881	\$ 700,488
	928,881	700,488
less: Write down for obsolete inventories	-	-
<b>Inventories, net</b>	<b>\$ 928,881</b>	<b>\$ 700,488</b>

**NOTE 7 - OTHER RECEIVABLES AND PREPAID EXPENSES**

As of December 31, 2012 and 2011, the Company's other receivables and prepaid expenses consisted of the following:

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Deposit	\$ 90,091	\$ 94,809
Prepaid expenses	116,381	233,143
Other	4,307,962	-
<b>Total other receivables and prepaid expenses</b>	<b>\$ 4,514,434</b>	<b>\$ 327,952</b>

The balance of \$4,307,962 labeled as "Other" is primarily comprised of receivables of \$4,297,253 and \$10,323 owed to the Company by Profit Harvest and CDE, respectively. These balances arose in the normal course of business where the Company paid for expenses and professional fees on behalf of Profit Harvest and CDE. Profit Harvest and CDE were previously subsidiaries of the Company. As of December 31, 2012, they have been sold to Beijing Zhumu Culture Communication Company, Ltd. These amounts are expected to be recovered by the Company.

## NOTE 8 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of December 31, 2012 and 2011 consisted of the following:

	Estimated Useful Lives	December 31, 2012	December 31, 2011
Machinery and equipment	4-6 years	\$ 1,103,169	\$ 1,260,286
Electronic equipment	4-6 years	89,645	88,749
Transportation equipment	4-6 years	50,248	49,746
Leasehold improvements	5 years	2,791,278	2,414,701
Computer equipment	4-6 years	255,406	262,807
Office equipment	4-6 years	256,828	237,358
Total		4,546,574	4,313,647
less: Accumulated depreciation		(2,169,935)	(1,202,845)
<b>Property, plant and equipment, net</b>		<b>\$ 2,376,639</b>	<b>\$ 3,110,802</b>

Depreciation for the year ended December 31, 2012 and 2011 was \$1,079,888 and \$139,361 respectively.

The Company signed an agreement with Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") to construct a manufacturing plant on June 26, 2010 for \$15,063,000 (RMB 99,591,000). The contract included land use rights for 46,021 square meters and space of 21,029 square meters. At December 31, 2011, the Company had paid to Tianjin Leimone \$10,170,809 (RMB 64,734,150). During the year ended Dec 31, 2012, the Company incorporated a new joint venture, SpreadZoom Technologies Co., Ltd., that will be the entity to legally hold title to the Company's new factory. The Company believes the valuation of the assets and economic benefits derived from the Company's ownership via the newly formed entity remained unchanged. See Note 27 - SpreadZoom Investment for details. The deposit paid to Tianjin Leimone was repaid to the Company and immediately used to capitalize SpreadZoom and then subsequently paid back to Tianjin Leimone for the factory that will be owned by SpreadZoom. As disclosed in Note 27, SpreadZoom began operations. The Company recorded a loss on investment of \$429,586 for the year ended December 31, 2012.

Leimone (Tianjin) Industrial Co., Ltd ("Leimone Tianjin"), a related party, is currently involved with a dispute with the construction company contracted to build our new manufacturing facility in Tianjin. On August 15, 2011, Leimone Tianjin filed a claim against Henan Urban Construction Group ("HUCG"). The claim is for the termination of the construction contract between Leimone Tianjin and HUCG and claims damages of approximately \$1.3 million (RMB 8,072,310) against HUCG. In Leimone Tianjin's court filing, it has accused HUCG of improper use of the funds paid to HUCG by Leimone Tianjin, as a result, construction project has been delayed. HUCG's has claimed as its defense that the delay in construction was a result of poor conditions at the construction site. The outcome of the dispute is still pending decision from the courts from the 2<sup>nd</sup> Mid-Level People's Court of Tianjin City. The Company is currently unable to determine the probability that it will be successful in this claim. During the quarter ended December 31, 2012, the Company received notice from the courts in Tianjin that it had made a ruling; however, the counterparty has appealed the Court's ruling. As of December 31, 2012, further judgment on the counterparty's appeal is still pending.

## NOTE 9 - INTANGIBLE ASSETS

As of December 31, 2012 and 2011, the Company's intangible assets were summarized as follows:

	Estimated Useful life	December 31, 2012	December 31, 2011
Domain name, logo and trade mark	Indefinite	\$ 349,600	\$ 349,600
Customer list	15 years	1,269,416	1,269,416
Total cost		1,619,016	1,619,016
less: Accumulated amortization		(1,138,326)	(1,248,021)
<b>Intangible assets, net</b>		<b>\$ 480,690</b>	<b>\$ 370,995</b>

Intangible assets are stated at cost less accumulated amortization. The Company acquired domain name "zoom.com" and related logo & trade name for 80,000 shares of common stock valued \$349,600 as of the date of purchase. The domain name, logo and trademark have indefinite lives and no amortization was recorded. The amortization of intangible assets for the year ended December, 2012 and 2011 was \$129,958 and \$63,546 respectively. The estimated amortization for the next five years as of December 31, 2012 and thereafter is expected to be as follows by years:

2013	\$	8,739
2014		8,739
2015		8,739
2016		8,739
2017		8,739
Thereafter		87,395
Total	\$	131,090

**NOTE 10 - SHORT-TERM LOANS**

Short-term loans are due to various financial institutions which are normally due within one year. As of December 31, 2012 and 2011, the Company's short term loans consisted of the following:

	December 31, 2012	December 31, 2011
M&T Bank line of credit for up to \$3.0 million is collateralized by real property, a certificate of deposit, and guarantees of Portables Unlimited, Inc. (the 49.9% owner of Portables); at 1 month LIBOR plus 3.00%.	\$ 2,994,999	\$ -
SKAVYNIA HOLDINGS LTD	525,000	854,469
DYNACOM LLC	-	48,145
	\$ 3,519,999	\$ 902,614

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## NOTE 11 - RELATED PARTY TRANSACTIONS

Due from related parties

As of December 31, 2012 and 2011, due from related parties were:

<b>Due from related parties - short term</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Beijing Leimone Shengtong Wireless Technology Co., Ltd.	\$ 91,571	\$ 167,172
Leimone (Tianjin) Industrial Co., Ltd.	11,034,982	7,242,536
Shenzhen Leimone	355,564	408,831
Raja R Amar - Chief Executive Officer of Portables	429,877	429,877
Spreadzoom	9,046,038	-
Others	5,993	495,119
<b>Total due from related parties</b>	<b>\$ 20,964,025</b>	<b>\$ 8,743,535</b>

Beijing Leimone Shengtong Wireless Technology Co., Ltd. ("Beijing Leimone") was founded by Gu, the largest shareholder of the Company. Beijing Leimone borrows money from the Company. The borrowings bore no interest and had a maturity of 12 months. The balances are neither collateralized nor personally guaranteed by Gu.

Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") was controlled by Gu, the largest shareholder of the Company. Tianjin Leimone sells raw materials to the Company. For the year ended December 31, 2012 and 2011, the Company recorded total purchases from Tianjin Leimone of \$138,791,684 and \$93,076,912 respectively. As of December 31, 2012 and December 31, 2011, the amounts due from Tianjin Leimone of \$11,034,982 and \$7,242,536 represented advances for purchases arising in the normal course of business. Upon the completion of the sale of the discontinued operations, such related party transaction for the purchase of components or goods will significantly diminish and most likely cease. The Company also sold certain products to Tianjin Leimone of \$14,493,905. In addition, Tianjin Leimone borrowed money from the Company and these borrowings bore no interest. As of December 31, 2012 and 2011, the balance of such loans was \$11,495,490 and \$6,765,308 respectively.

Shenzhen Leimone Company, Ltd., formed by individuals including our Chairman, Mr. Gu, is set up with the intention of providing manufacturing services to our Company particularly for exports. \$355,564 and \$408,831 as of December 31, 2012 and December 31, 2011 was a loan to Shenzhen Leimone for setup costs. Our Chairman, Mr. Gu, plans to personally fund the cost of equipment as his investment into Shenzhen Leimone and become the controlling shareholder of Shenzhen Leimone. In addition, for the year ended December 31, 2012 and 2011, the Company recorded revenues from sales to Shenzhen Leimone of \$18,799 and \$20,339 respectively. For the three months ended December 31, 2012 and 2011, the Company recorded total revenue from sales to Shenzhen Leimone of nil and \$153,695 respectively.

The amounts due from Raja R Amar are related to loans made to Raja R Amar by Portables prior to its acquisition by Zoom. The loans are interest free and are unsecured. The Company recorded \$429,877 due from Raja R. Amar at December 31, 2012.

The balance due from SpreadZoom represents an advance to SpreadZoom for it to purchase components to manufacture handsets in the normal course of business. The advance bears no interest, and is uncollateralized. Such advances are only expected to occur during these early setup stages of the business because once the company becomes fully capitalized it will have sufficient working capital to procure components, and advances will be reimbursed in to the Company.

## Due to related parties

As of December 31, 2012 and 2011, due to related parties were:

<b>Due to related parties</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Mr. Lei Gu	\$ 2,901,283	\$ 2,788,635
Anthony Chan	358,814	-
Beijing Leimone Shengtong Cultural Development Co., Ltd.	102,500	-
Wireless Holdings of Northeast	117,600	117,600
Portables Unlimited International	3,779,864	2,633,147
Portables Unlimited Inc.	2,559,112	650,000
AUM Realty, Inc.	69,864	269,049
Others	-	283,942
<b>Total due to related parties</b>	<b>\$ 9,889,037</b>	<b>\$ 6,742,373</b>

Mr. Gu provides fund to the Company with no interest and are due on demand. As of December 31, 2012 and 2011, the balances of funds provided by Gu was \$2,901,283 and \$2,788,635 respectively.

Mr. Chan provides fund to the Company with no interest and are due on demand. As of December 31, 2012 and 2011, the balances of funds provided by Chan was \$358,814 and nil, respectively.

In January 2011, the Portables entered into a line of credit agreement with a Portables Unlimited International for a total of \$5,000,000. Interest on the line is due and payable on demand at 5.6%. The unpaid balance as of December 31, 2012 and December 31, 2011 was \$3,779,864 and \$2,633,147 respectively.

Portables received advances from one of its non-controlling owner, Portables Unlimited, Inc., totaling \$2,559,112. The advance has an interest rate of 12% per annum and is due on demand.

AUM Realty, Inc. is controlled by certain member of Portables. The outstanding balance represents outstanding rent owed to AUM. The amounts are due upon demand. Refer to "Note 20 - Commitments" for more details.

**NOTE 12 - LONG-TERM NOTES PAYABLE**

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
CNCG, as part of the consideration payable to the sellers in our acquisition of Portables, from October 11, 2011 to October 11, 2014 with interest at 2%	\$ 317,500	\$ 500,000

The Company repaid \$182,500 of the outstanding note payable to CNCG on October 5, 2012.

## NOTE 13 - STOCKHOLDERS' EQUITY

## COMMON STOCK

On November 12, 2012, the Company issued 100,000 shares of its common stock to consultants for the service period from November 1, 2012 to October 31, 2013. These shares were valued at \$0.80 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$13,333 for the year ended December 31, 2012, and the balance of deferred expenses related to such shares at December 31, 2012 was \$66,667 for these issuances.

On October 8, 2012, the Company issued 10,000 and 30,000 shares of its common stock to legal counsel for services rendered and a consultant for the service period from October 1, 2012 to September 30, 2013, respectively. These shares were valued at \$0.90 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$9,000 and \$6,750 for the year ended December 31, 2012, and the balance of deferred expenses related to such shares at December 31, 2012 was \$0 and \$20,250 for these issuances, respectively.

On September 6, 2012 and July 2, 2012, the Company issued 72,500 shares and 137,625 shares, respectively, of its common stock to the employees of its Nollec Wireless subsidiary in lieu of cash salaries. The 72,500 shares were valued at \$0.98 per share, the closing price on the date of Board Approval, and were issued for services from September 2012 onwards for 3 years. The 137,625 shares were valued at \$1.03 per share, the closing price on the date of Board Approval, and were issued for services within the second quarter of 2012. The Company recorded non-cash compensation expense of \$7,894 for the year ended December 31, 2012, for these issuances.

On June 25, 2012, the Company issued 35,000 shares of its common stock to a consultant for services from June 2012 onwards for 1 year. These shares were valued at \$1.07 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$21,846 for the year ended December 31, 2012 for this issuance, and the balance of deferred expenses related to such shares at December 31, 2012 was \$15,604.

On May 22, 2012, the Company issued 302,800 shares of its common stock to its employees, consultants and directors in replacement for cancelling 1,339,000 outstanding options that were held by the same recipients. The shares have the same vesting schedule as the options and were valued at \$1.12 per share, the closing price on the date of Board Approval. Based on the difference between the market value of the shares and the Black-Scholes value of the cancelled options as of May 22, 2012, there is an incremental non-cash compensation expense of \$308,553 to be recorded over the service period.

On May 22, 2012, the Company issued 4,497,200 shares of its common stock to consultants for their services over the next four years beginning with the second quarter of 2012. The shares were valued at \$1.12 per share, the closing price on the date of Board Approval. The projects these consultants are pursuing include but are not limited to marketing our ODM business to large Southeast Asian customers, sales of our own brand and ODM products to private companies and government supported programs in China aimed at various demographic sectors of the domestic mobile market, and other cooperative ventures with the three mobile operators of the PRC. The Company recorded \$944,412 of non-cash compensation expense for this issuance for the quarter ended December 31, 2012; and the outstanding deferred expenses related to such shares at December 31, 2012 was \$4,092,452.

On February 28, 2012, the Company issued to members of the Board of Directors a total of 170,000 shares of its common stock at a then fair value of \$1.34. The Company recorded \$227,800 of non-cash compensation expense for this issuance for the quarter ended December 31, 2012. The outstanding deferred expense related to such shares at December 31, 2012 was \$0.



On October 4, 2011, the Board of Directors approved a grant of 1,130,000 shares of common stock to members of management for their services over the next three and a half years. The shares were valued at \$1.19 per share, the closing price on the date of Board approval. As of December 31, 2011, 100,000 of such shares were recorded as shares to be issued; the shares were subsequently issued on February 28, 2012. The Company recorded non-cash compensation expense of \$384,200 for the year ended December 31, 2012. The outstanding deferred expense related to such shares at December 31, 2012 was \$864,450.

On November 29, 2011, the BOD approved a grant of 200,000 shares of common stock to management and one consultant for their services over the next two years. The shares were valued at \$0.79 per share, the closing price on the date of Board Approval. For the year ended December 31, 2012, we recorded non-cash compensation expense of \$79,000 and deferred expenses of \$72,417.

As result of the disposition of certain business operations, the Company accelerated the amortization for certain non-cash stock based compensation expenses related to stock awards issued to certain consultants for services rendered to the Company's disposed business operations. The accelerated recognition resulted in the Company fully recognizing the unamortized balance related to those awards. The Company recorded an additional expense of \$4,324,212 during the year ended December 31, 2012 related to the accelerated amortization of these stock awards.

#### NOTE 14 - WARRANTS

The Company granted Series A, B, C, D and E warrants to the accredited investors as part of its private placement offering on October 16, 2009 and November 18, 2009.

Following is the brief description of warrants:

##### Series A Warrants

: The Series A warrants have an exercise price of \$6.00 and a term of 5 years from the issue date subject to the Exchange Cap (as defined in the agreement).

##### Series B Warrants

: The Series B warrants have an exercise price of \$0.01 and a term of three (3) months from the issue date provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap Limitation (as defined in the agreement) until the warrant can be exercised in full by the holder thereof without breaching the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap Limitation (as defined in the agreement). All B Warrants were exercised in December 2009.

##### Series C Warrants

: The Series C warrants shall be exercisable only upon the exercise of the Series B warrants. The Series C warrants shall have an exercise price of \$6.00 and a term of 5 years from the issue date.

##### Series D Warrants

: The Series D warrants shall be exercisable if the Company fails to meet certain performance criteria for the year 2009. The Series D warrant shall have an exercise price of \$0.01 and a term of exercise equal to three (3) months from the date the Maximum Eligibility Date (as defined in the agreement); provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap (as defined in the agreement) until the warrant can be exercised in full by the holder without breaching the Beneficial Ownership Limitation (as defined in the agreement) or the Exchange Cap Limitation (as defined in the agreement). Due to the Net Income of Zoom as reported in the Company's annual report for the year 2009 exceeding the eligibility threshold pursuant to the agreement, the Series D Warrants became ineligible for exercise.

##### Series E Warrants



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: The Series E warrants shall be exercisable if the Company fails to meet certain performance criteria for the year 2010. The Series E warrants shall have an exercise price of \$0.01 and a term of three (3) months from the date the Maximum Eligibility Date (as defined in the agreement); provided, however, that such date shall be extended indefinitely if the warrant cannot be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) until the Warrant can be exercised in full by the holder thereof without breaching the Beneficial Ownership Limitation (as defined in the agreement). Due to the Net Income of Zoom as reported in the Company's annual report for the year 2010 exceeding the eligibility threshold pursuant to the agreement, the Series E Warrants became ineligible for exercise.

The Company granted on May 6, 2010, Series F warrants to the above investors for their temporary forfeiture of their right to participate in the Company's future financings.

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Series F Warrants: The Series F warrants have an exercise price of \$6.00 and a term of 5 years from the issue date. The Company issued 375,000 Series F warrants to investors who participated in private placement transaction pursuant to the Securities Purchase Agreement dated October 15, 2009, to temporarily waive their right for a period of eight months to participate in a future offering of the Company. The investors originally have a period of twenty-four months ("Rights Period") in which they have the right to participate, and for providing a temporary waiver, an eight-month duration is added to the original expiration of the Rights Period.

The Company granted Series G warrants to the accredited investors as part of its private place offering on November 15, 2010.

### Series G Warrants

: The Series G warrants shall have an exercise price of \$4.71 and a term of 5 years from the issue date.

Anti-dilution Adjustments for Certain Warrants: Since the private placement in November 2010 involved sales of the Company's stock at a price that activated anti-dilution provisions in the Series A, C, F and certain placement agent warrants, the exercise price of these warrants is adjusted to \$3.74 per share and the number of warrants eligible is multiplied by a factor of  $6 / 3.74$  or 1.60 with fractional shares rounding up.

The following summary represents warrants activity during the year ended December 31, 2012:

	Number of Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	8,638,604	\$ 2.30	\$ -
Granted	-	-	-
Lapsed	-	-	-
Exercised	-	-	-
Cancelled	-	-	-
Balance, December 31, 2012	8,638,604	\$ 2.30	\$ -

The following presents warrants summary as of December 31, 2012:

	Warrants Outstanding		Warrants Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable
Warrants	8,638,604	2.09 years	\$ 2.30	8,638,604
				\$ 2.30

The Company has accounted for all of the outstanding Series A, C, F, G, and related placement warrants as liabilities. See Note 2 for details. The Company assessed the value of these warrants by using the binomial lattice model. When the Company valued the warrants it used the following assumptions as part of inputs into the valuation model. US treasury rates as measure of the risk free rate of return. The Company also used the mean of the annualized standard deviation of the log normal returns of comparable companies in the same line of business as measure of volatility. The Company controls whether dilution may occur, so it did not add additional assumptions regarding dilutive events into the future discrete outcomes found in the model. The warrants values were adjusted for the dilutive effect as ratio of the outstanding common stock at the time of measurement. In determining the probabilities of an up movement or down movement in the discrete outcomes, as well as the related magnitude of such up or down movements, the Company used a Cox-Ross-Rubenstein approach in applying the binomial lattice model.

## NOTE 15 - STOCK OPTIONS

## Previous Plan

Prior to the acquisition of Gold Lion, the Company issued stock options to its previous employees, officers and directors. Pursuant to terms of the SEA, outstanding stock options at the closing of the acquisition remained valid for the full life of the options regardless if the employee, officer and director remained in any capacity with the Company. There were 423,100 options outstanding as of September 22, 2009, the effective date of the reverse merger between Zoom and Gold Lion, with expiration in 3 years from the date of grant and in various stages of vesting. The non-cash compensation charges of these stock options were recorded by the spun-off subsidiary, Zoom Telephonics, and were expensed by the Company.

On the closing of the Merger, 30,000 stock options were granted to four exiting directors of the Company, for their anticipated cooperation with Post-Merger management, including the provision of any historical information about the Company that may be needed in future activities. Such options are exercisable at \$10.14 per share, vest in six months from the date of grant and expired two years later. The non-cash compensation charges of these 30,000 shares of options will be expensed by the Company. All such options have expired or were exercised.

There was no options activity for the year ended December 31, 2012 under the previous plan.

## STOCK OPTIONS - The 2009 Equity Incentive Compensation Plan

On October 11, 2011, the Company's BOD approved of the granting of 1,500,000 options to employees and executives of Portables Unlimited LLC, the Company's newly acquired subsidiary, with the exercise prices of \$1.83 and \$3.75 per share, with 25% of the options vesting immediately and the balance equally per quarter over three years. These options expire in four years.

On October 8, 2012, the Company's BOD approved of the re-pricing of 1,200,000 out of the above-mentioned 1,500,000 options from the exercise price of \$3.75 to \$1.83 per share.

On October 26, 2011, the Company's BOD approved of the granting of 10,000 options to its new independent director, with the exercise price of \$2.04 per share, vesting over one year and expiring in two years.

On November 29, 2011, the Company's BOD approved of the granting of 300,000 options to a consultant, with the exercise price of \$1.00 per share, with 1/3 vesting immediately and the balance equally over two quarters. These options expire in two years.

On May 22, 2012, the Company issued 302,800 shares of its common stock to its employees, and directors in replacement for cancelling 1,339,000 outstanding options that were held by the same recipients. The shares have the same vesting schedule as the options and were valued at \$1.12 per share, the closing price on the date of Board Approval, which is considered the market price at that time. Based on the difference between the market value of the shares and the Black-Scholes value of the cancelled options as of May 22, 2012, there is an extra non-cash compensation expense of \$159,715 for the quarter ended December 31, 2012.

The following summary represents options activity during the year ended December 31, 2012 under the New Plan.

	Under Previous Plan	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	129,350	\$ 1.80	\$ -
Granted	-	-	
Lapsed	(129,350)	-	

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Exercised	-		-		
Cancelled	-		-		
Balance, December 31, 2012	-	\$	n.a.	\$	-

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The following represents options summary as of December 31, 2012 under the New Plan.

	<b>Under Previous Plan</b>		<b>Weighted Average Exercise Price</b>		<b>Aggregate Intrinsic Value</b>
Balance, December 31, 2011	3,557,000	\$	3.02	\$	-
Granted	-		-		
Lapsed	(408,000)		3.02		
Exercised	-		-		
Cancelled	(1,339,000)		3.02		
Balance, December 31, 2012	1,810,000	\$	1.69	\$	-

	<b>Number Outstanding</b>	<b>Options Outstanding Weighted Average Remaining Contractual Life</b>	<b>Weighted Average Exercise Price</b>	<b>Number Exercisable</b>	<b>Options Exercisable Weighted Average Exercise Price</b>
Options	1,810,000	2.46 years	\$ 1.69	1,060,000	\$ 1.60

The Company determined the grant date fair value of 865,000 options of \$1.80 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$6.18 per share, exercise price of \$6.18 per share, expected life of 3.25 years, volatility of 39.18% and discount rate of 1.26%.

For the re-pricing of the above 865,000 options on November 28, 2010, from the exercise price of \$6.18 to \$3.75 per share, the Company determined the incremental fair value of \$0.48 per share which was calculated by taking the difference between the Black Scholes values of the new exercise price and that of the old exercise price. Other data used in the calculations include: the stock market price of \$3.54, expected life of 2.28 years, volatility of 33.59% and discount rate of 0.78%.

The Company determined the grant date fair value of 235,000 options of \$1.20 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$6.18 per share, exercise price of \$6.18 per share, expected life of 1.5 years, volatility of 39.18% and discount rate of 0.78%.

For the re-pricing of the above 235,000 options on November 28, 2010, from the exercise price of \$6.18 to \$3.75 per share, the Company determined the incremental fair value of \$0.26 per share which was calculated by taking the difference between the Black Scholes values of the new exercise price and that of the old exercise price. Other data used in the calculations include: the stock market price of \$3.54, expected of 0.53 years, volatility of 33.59% and discount rate of 0.28%.

The Company determined the grant date fair value of 677,000 options of \$0.74 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$3.45 per share, exercise price of \$3.75 per share, expected life of 3.25 years, volatility of 33.42% and discount rate of 0.84%.

For the re-pricing of the 1,200,000 options on October 8, 2012, from the exercise price of \$3.75 to \$1.83 per share, the Company determined the incremental fair value of \$0.058 per share which was calculated by taking the difference between the Black Scholes values of the new exercise price and that of the old exercise price. Other data used in the calculations include: the stock market price of \$0.90, expected life of 3 years, volatility of 39.22% and discount rate of 0.35%.

The Company recorded \$950,623 of non-cash compensation expense related to stock options for the year ended December 31, 2012. As of December 31, 2012, there was \$563,302 of non-cash compensation to be recorded up to 2014 based on options valued at grant date.

As result of the disposition of certain business operations, the Company accelerated the amortization for certain non-cash stock option based compensation expenses for grants issued to employees at those disposed business

operations. The accelerated recognition resulted in the Company fully recognizing the unamortized balance related to those grants. The Company recorded an additional expense of \$292,384 during the year ended December 31, 2012 related to the accelerated amortization of these stock option grants.

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NOTE 16 - INCOME TAX

The Company is subject to income taxes by entity on income arising in or derived from the tax jurisdiction in which each entity is domiciled.

Zoom Technologies Inc., the parent company was incorporated in the U.S. and has net operating losses ("NOL") for income tax purposes, which can be carried forward for up to 20 years from the year the loss is incurred. Zoom has NOL carry forwards for income taxes of approximately \$1.38 million at December 31, 2012, which may be available to reduce future years' taxable income. Management believes the realization of benefits from these losses remains uncertain due to Zoom's limited operating history and continuing losses. Accordingly, a 100% deferred tax asset valuation allowance has been provided.

The discontinued operations of TCB Digital and Nollec Wireless, and the continuing operation of Jiangsu Leimone are governed by the Income Tax Law of the PRC concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

Jiangsu Leimone is exempt from income tax in PRC for two years starting from the first profitable year or the year 2008, whichever is earlier, and is subject to a 50% exemption on normal income tax rate for the following three years. 2012, is the last year that Jiangsu Leimone will afforded the 50% exemption from PRC incomes taxes.

SpreadZoom in subject to the Income Tax Law of the PRC concerning the private-run enterprises, which are generally subject to tax at a statutory rate of 25% on profit that is reported in the statutory financial statements after appropriate tax adjustments.

Nollec Wireless is exempt from income tax in PRC for two years starting from 2008, and is subject to a 50% exemption on normal income tax rate for three years starting from 2010 and is subject to normal income tax rate from 2013.

Since Nollec has pre-tax loss for the year period ended December 31, 2012, the Company's net income and earnings per share had no effect due to its income tax exemption.

The discontinued and disposed operations Profit Harvest and CDE are governed by the Income Tax Law of Hong Kong, which is generally subject to tax at a statutory rate of 16.5% on income reported in the statutory financial statements after appropriate tax adjustments.

Portables is governed by the Income Tax Law of United States; however, because Portables is a pass through entity for tax purposes, tax liabilities are the responsibility of its members. Therefore, Zoom Sub, which is responsible to report and make payments on its portion of income generated by Portables is subject to a graduated statutory tax rate of 34%.

TCB Digital had pre-tax losses of \$1,576,014 and \$99,012 for the years ended December 31, 2012 and 2011 respectively, while Jiangsu Leimone had pre-tax losses of \$950,231 and \$835,956 for the year ended December 31, 2012 and 2011 respectively, while Profit Harvest had pre-tax profit of \$243,801 and \$13,014,499 for the years ended December 31, 2012 and 2011 respectively, while Nollec Wireless had pre-tax losses of \$1,389,389 and \$1,853,953 for the year ended December 31, 2012 and 2011, respectively, while CDE had pre-tax profit of \$354,299 and pre-tax loss of \$202,424 for the year ended December 31, 2012 and 2011, respectively, while Portables had pre-tax profit of \$849,793 and \$695,559 for the years ended December 31, 2012 and 2011, respectively.

U.S. NOL carry forwards are only those arising after September 22, 2009, which was the date when a more-than-50% ownership change occurred.





The following table summarizes the temporary differences which result in deferred tax assets and liabilities as at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Deferred tax assets:		
Net operating loss	\$ 511,035	\$ -
less: Valuation allowance	(511,035)	-
Total deferred tax assets	-	-
Deferred tax liabilities:	-	-
Deferred tax assets, net	\$ -	\$ -

The following table reconciles the U.S. statutory rates to the Company's effective tax rates for the years ended December 31, 2012 and 2011:

	For the Years Ended December 31,	
	2012	2011
US statutory rates	34.00%	34.00%
Tax rate difference	-2.09%	-9.65%
Valuation allowance	-38.74%	-67.52%
State taxes	-4.51%	0.00%
Non-taxable income of pass through entity	6.82%	43.17%
<b>Tax per financial statements</b>	<b>-4.52%</b>	<b>0.00%</b>

**NOTE 17 - STATUTORY RESERVES**

As stipulated by the Company Law of the PRC, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i) Making up cumulative prior years' losses, if any;
- ii) Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii) Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and Statutory common welfare fund is no longer required per the new cooperation law executed in 2006.
- iv) Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

In accordance with Chinese Company Law, the Company allocated 10% of its net income to surplus. For the year ended December 31, 2012 and 2011, the Company appropriated \$20,011 and \$0 to statutory surplus reserve respectively. As of December 31, 2012 and December 31, 2011, the Company's statutory surplus reserve was \$702,539 and \$682,528 respectively.

NOTE 18 - CONCENTRATION DISCLOSURE

- a. During the reporting periods, the customers accounting for 10% or more of the Company's consolidated sales was T Mobile USA.
- b. During the reporting periods, the suppliers accounting for 10% or more of the Company's consolidated purchases from continuing operations was T-Mobile USA.

NOTE 19 - OPERATING RISK

- Industry risk

The industry in which we compete is a rapidly evolving, highly competitive and fragmented market driven by consumer preferences and quickly evolving technology. Increased competition may result in price reductions, reduced gross margin and loss of market share. Failure to compete successfully against current or future competitors could have a material adverse effect on the Company's business, operating results and financial condition.

- Exchange risk

The Company cannot guarantee the Renminbi and USD exchange rate will remain steady; therefore, the Company could post the same profit for two comparable periods and post higher or lower profit depending on exchange rate of Renminbi and USD. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

- Political risk

Currently, PRC is in a period of growth and is openly promoting business development in order to bring more business into PRC. Additionally PRC currently allows a Chinese corporation to be owned by a United States corporation. If the laws or regulations relating to ownership of a Chinese corporation are changed by the PRC government, the Company's ability to operate the PRC subsidiaries could be affected.

- Interest risk

The Company is exposed to interest rate risk arising from short-term variable rate borrowings from time to time. The Company's future interest expense will fluctuate in line with any change in borrowing rates.

The Company had outstanding warrants that are accounted for as derivative securities. Their values are re-measured at each reporting period. The quoted U.S. treasury rates with the maturities similar to those of the warrants are used as inputs in calculating their value; accordingly, the value of the warrants, are subject to fluctuations interest rates.

## NOTE 20 - COMMITMENTS

Operating lease commitments

On July 7, 2005, a related party, AUM Realty, LLC ("AUM"), purchased real property consisting of a building and parking lot located in Nanuet, New York for \$2,050,000. A member of the Company, entered into a sublease agreement with AUM for the same period as the lease agreement, expiring in July 2015, which requires minimum monthly rent payments and all operating expenses and Real Estate Property Tax payments. In addition, AUM borrowed \$1,628,000 from a bank secured by a first mortgage on the property. This loan is guaranteed by the Company's member. As of March 27, 2012 the Chase Mortgage was paid in full in order for the property to be used as collateral in the amount of \$1.7M for a Line of Credit for the Company. The mortgage balance that resulted in this transaction is now due to Portables Unlimited, LLC in the amount of \$885,000. AUM continues to pay down this balance at \$15,000 per month as per the agreement.

Beginning January 1, 2009, the Company entered into a sublease agreement with its member on a month-to-month basis for this property.

The Company also leases two other warehouses and 13 retail stores and kiosks. These leases require monthly payments and expire at various dates through 2017. The Company has operating agreements in place with the all of the retail stores and kiosks whereby independent third parties (the "operators") operate the retail locations and provide specific services as outlined in the operating agreements. The leases for these locations remain in the name of the Company but are subleased by the operators of the locations. Rent expense is being recorded using the straight-line basis over the term of the leases.

The future minimum annual rental commitments as of December 31 are as follows:

**Operatings Leases**

<b>Year</b>	
2013	1,108,958
2014	602,966
2015	225,255
<b>Total minimum lease payments</b>	<b>\$ 1,937,179</b>

**NOTE 21 - EQUITY METHOD INVESTEE: SPREADZOOM**

On May 10, 2012, the Company along with Spreadtrum Communications (Tianjin) Co., Ltd, Tianjin Baoshui District Investment Co, Ltd, and Han & Qin International (BVI) Limited invested in the joint venture SpreadZoom Technologies, Inc ("SpreadZoom"). SpreadZoom is domiciled in Tianjin, China with a registered capital of \$47,352,700 (RMB 300,000,000). As of December 31, 2012, \$17,520,500 (RMB 111,000,000) in capital had been contributed to SpreadZoom; the Company contributed \$12,342,358 (RMB 78,000,000). The Company has committed to invest an additional 10,117,700 (RMB 64,100,000) in SpreadZoom. The Company's capital contribution to SpreadZoom of \$11,912,956 was primarily comprised of rights to the deposits made for the construction of the new factory in Tianjin that as of December 31, 2011, was valued at \$10,170,809. The balance of \$1,742,147 was a refund of a prepayment for the purchase raw material in the ordinary course of business made to Leimone (Tianjin) Industrial Co., Ltd., a related party who is also the general contractor for the construction of the new factory. See details described in Note 11 Construction in Progress - Related Party. SpreadZoom is still in the initial phases of setup and registration. Management and control of the business have not been fully determined. As of December 31, 2012, the Company has used the equity method to account for its investment in SpreadZoom and has recorded and loss from investment of \$423,586.

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<b>Financial Position of SpreadZoom</b>	<b>December 31, 2012</b>	
Current assets	\$	42,772,581
Non-current assets		1,775,661
Total assets	\$	44,548,242
Current liabilities	\$	27,839,474
Non-current liabilities		-
Total liabilities	\$	27,839,474
Net asset value	\$	16,708,768

<b>Results of Operations of SpreadZoom</b>	<b>For the Year Ended December 31, 2012</b>	
Net revenues	\$	46,025,192
Cost of goods sold		45,859,806
Gross profit		165,386
Operating expenses		1,327,593
Operating loss		(1,162,207)
Other income (expenses), net		255,721
Income (loss) before taxes		(906,486)
less: Provision for income taxes		-
<b>Net loss</b>	\$	(906,486)
Investment loss attributable to Zoom Technologies, Inc.	\$	(429,586)

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## NOTE 22 - OTHER INCOME (EXPENSE)

Other income and expense is comprised of the following:

	For the Years Ended December 31,	
	2012	2011
Forgiveness of debt by creditor	\$ -	\$ 853,787
Other expense	31,211	(48,488)
	\$ 31,211	\$ 805,299

NOTE 23 - DISCONTINUED OPERATIONS

On December 31, 2012, the Company announced its plan to dispose of certain assets in order to raise cash, and redeploy cash for investment in North America.

**Results of Operations of Discontinued Operations**

	For the Years Ended December 31,	
	2012	2011
Net revenues	\$ 329,099,574	\$ 292,898,012
Cost of goods sold	313,699,749	269,993,629
Gross profit	15,399,825	22,904,383
Operating expenses	24,463,419	11,138,484
Operating income (loss)	(9,063,594)	11,765,899
Other income (expenses), net	(1,936,953)	(1,963,851)
Income (loss) before taxes from discontinued operations	(11,000,547)	9,802,048
less: Provision for income taxes	178,124	2,307,570
<b>Income (loss) from discontinued operations, net of tax</b>	<b>\$ (11,178,671)</b>	<b>\$ 7,494,478</b>
Basic and diluted income (loss) per common share from discontinued operations:		
Basic	\$ (0.84)	\$ 0.42
Diluted	\$ (0.84)	\$ 0.36

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<b>Financial Position of Discontinued Operations</b>	<b>December 31, 2012</b>	<b>December 31, 2011</b>
<b>Assets of Discontinued Operations</b>		
Current assets of discontinued operations, held for sale		
Cash and equivalents	\$ 3,245,529	\$ 916,426
Restricted cash	64,467,142	15,507,408
Accounts receivable, <i>net</i>	35,642,961	46,022,936
Inventories, <i>net</i>	7,059,829	2,369,513
Purchase deposit	-	8,549,315
Other receivables and prepaid expenses	10,580,693	9,456,086
Advance to suppliers	3,004,016	9,833,984
Notes receivable	548,218	1,086,606
Due from related parties	18,322,784	21,252,288
Costs in excess of revenue - R&D contracts	-	91,880
Deferred tax assets, <i>net</i>		56,149
Property, plant and equipment, <i>net</i>	1,293,689	-
Construction in progress deposit - related parties	243,747	-
Intangible assets	342,682	-
	144,751,290	115,142,591
Non-current assets of discontinued operations, held for sale		
Property, plant and equipment, <i>net</i>	-	3,149,872
Construction in progress deposit - related parties	-	10,170,809
Intangible assets	-	401,533
	-	13,722,214
<b>Total Assets of Discontinued Operations</b>	<b>\$ 144,751,290</b>	<b>\$ 128,864,805</b>
<b>Liabilities</b>		
Current liabilities of discontinued operations		
Short-term loans	\$ 21,187,680	\$ 25,502,729
Notes payable	28,156,022	29,443,650
Accounts payable	16,255,076	9,082,972
Accrued expenses and other payables	1,013,986	610,583
Advances from customers	1,039,775	1,112,180
Taxes payable	(2,341,883)	4,265,196
Interest payable	110,835	85,323
Dividends payable	628,890	622,605
Due to related parties	72,298,478	-
	138,348,859	70,725,238
Non-current liabilities of discontinued operations		
Long-term loan	-	10,458
<b>Total Liabilities of Discontinued Operations</b>	<b>138,348,859</b>	<b>70,735,696</b>
<b>Net Assets of Discontinued Operations</b>	<b>\$ 6,402,431</b>	<b>\$ 58,129,109</b>

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**Calculation of Loss on Disposition Operating Units**

Sales proceeds	\$	23,000,000
less: Net asset value		34,860,025
Loss on disposal		11,860,025
Tax effect		-
Loss on disposal, net tax	\$	11,860,025

<b>Financial Position of Disposed Operating Units</b>	<b>December 31, 2012</b>		
	<b>Profit Harvest</b>	<b>CDE</b>	<b>Total</b>
Current assets	\$ 63,926,764	\$ 106,781	\$ 64,033,545
Non-current assets	1,818,000	18,684	1,836,684
Total assets	65,744,764	125,465	65,870,229
Current liabilities	30,992,395	17,809	31,010,204
Non-current liabilities	-	-	-
Total liabilities	30,992,395	17,809	31,010,204
Net asset value	\$ 34,752,369	\$ 107,656	\$ 34,860,025

The sale of all of the business operations to Beijing Zhumu Culture Communication Company, Ltd. covered in the Share Purchase Agreement as described in "Note 1 - Organization and Nature of Business Operations" was for approximately \$31.7 million (RMB 200 million) in sales proceeds. The Share Purchase Agreement covers the sale of several business operations in different jurisdictions, with differing regulatory requirements regarding the purchase and sale of businesses. The table of above details the portion of the transaction related to the sale of Profit Harvest and CDE, which closed on December 31, 2012, for proceeds of \$23.0 million. The portion of the sale covered in the Share Purchase Agreement for Ever Elite and Nollec Wireless generated proceeds of \$500,000. This sales transaction closed on April 5, 2012. For details refer to "Note 24 - Subsequent Event". The balance of the sales proceeds, approximately \$8.2 million will be allocated to TCB Digital upon the closing of that transaction, which is expected in the second quarter of 2013.

**NOTE 24 - SUBSEQUENT EVENT**

The sale of Ever Elite and Nollec Wireless closed on April 5, 2013. The sales proceed for the disposition of Ever Elite and Nollec Wireless was \$500,000. The results of operations for Ever Elite and Nollec Wireless will accrue to the buyer beginning January 1, 2013.

The sale of TCBD is scheduled to close in the second quarter of 2013.

## NOTE 25 - CORRECTION OF ERROR FOR ACCOUNTING OF WARRANTS AS DERIVATIVE SECURITIES

Zoom management discovered during the quarter ended September 30, 2012 that in accordance with ASC 815 (formerly EITF 07-5) the Company had incorrectly accounted for warrants issued in the years 2009 and 2010 as equity. Series A, C, F, and related placement agent warrants contained anti-dilution provision that according to the above guidance required that these derivative securities be accounted for as liabilities and marked to market at each reporting period. The Series G, and related placement agent warrants contained change of control provisions that required that the warrants be accounted for as liabilities because the securities were no longer indexed to the Company's stock; rather there were characteristics that required them to be accounted for as standalone securities that are considered liabilities to the Company. As a result the financial statements for 2011 have been restated as follows:

	As Previously Reported	December 31, 2011 Adjustment	As Currently Reported
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities			
Warrant liability	\$ -	\$ 850,841	\$ 850,841
Total current liabilities	93,209,378	850,841	94,060,219
<b>TOTAL LIABILITIES</b>	<b>93,864,836</b>	<b>850,841</b>	<b>94,715,677</b>
<b>STOCKHOLDERS' EQUITY</b>			
Additional paid-in capital	53,133,895	(7,176,026)	45,957,869
Retained earnings	22,048,539	6,325,185	28,373,724
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$ 76,778,641</b>	<b>\$ (850,841)</b>	<b>\$ 75,927,800</b>

	For the Year Ended December 31, 2011
Net income attributable to Zoom Technologies, Inc. (As Previously Reported)	\$ 3,017,606
Change in warrant liability - (Restated)	3,673,243
less: Income attributable to noncontrolling interest of continuing operations	313,002
Net income attributable to Zoom Technologies, Inc., (As Restated and Reported)	\$ 6,377,847

The Company assessed the value of these warrants by using the binomial lattice model. When the Company valued the warrants it used the following assumptions as part of inputs into the valuation model: US treasury rate of 0.34% as a measure of the risk free rate of return. The Company also used the mean of the annualized standard deviation of the log normal returns of comparable companies in the same line of business as measure of volatility which was 43.74% at December 31, 2011. The Company controls whether dilution may occur, so it did not add additional assumptions regarding dilutive events into the future discrete outcomes found in the model. The warrants values were adjusted for the dilutive effect as ratio of the outstanding common stock at the time of measurement. In determining the probabilities of an up movement or down movement in the discrete outcomes, as well as the related magnitude of such up or down movements, the Company used a Cox-Ross-Rubenstein approach in applying the binomial lattice model.

These corrections will be made to applicable prior period financial information in future filings with the SEC including this filing.