

ZOOM TECHNOLOGIES INC
Form 10-Q
August 19, 2013

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTER ENDED June 30, 2013

OR

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 000-18672

ZOOM TECHNOLOGIES, INC.

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

51-0448969

(I.R.S. Employer Identification Number)

Headquarters:
Sanlitun SOHO, Building A, 11th Floor
No.8 Workers Stadium North Road
Chaoyang District, Beijing, China 100027

U.S. office:
c/o Ellenoff Grossman & Schole LLP

Edgar Filing: ZOOM TECHNOLOGIES INC - Form 10-Q

150 East 42nd Street, 11th Floor
New York, NY 10017

(Address of principal executive offices including zip code)

(845) 507-8200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report) Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Explanatory Note: Pursuant to Rule 405(a)(2) of Regulation S-T, the registrant is relying upon the applicable 30-day grace period for the initial filing of its first Interactive Data File required to contain detail-tagged footnotes or schedules. The registrant intends to file the required detail-tagged footnotes or schedules by the filing of an amendment to this Quarterly Report on Form 10-Q within the 30-day period.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Applicable only to corporate issuers:

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The number of shares of common stock, par value \$0.01, outstanding as of August 19, 2013 is 30,086,848.

Edgar Filing: ZOOM TECHNOLOGIES INC - Form 10-Q

Zoom Technologies, Inc.
Affiliates and Subsidiaries

FORM 10-Q

TABLE OF CONTENTS

| | | |
|-----------------|---|----|
| Part I. | Consolidated Financial Information | |
| Item 1. | Condensed Consolidated Financial Statements | 2 |
| | <u>Condensed Consolidated Balance Sheets</u> as of June 30, 2013 (Unaudited) and December 31, 2012 | 2 |
| | <u>Condensed Consolidated Statements of Operations</u> for The Three and Six Months ended June 30, 2013 and 2012 (Unaudited) | 3 |
| | <u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> for The Three and Six Months ended June 30, 2013 and 2012 (Unaudited) | 4 |
| | <u>Condensed Consolidated Statements of Cash Flows</u> for The Six Months ended June 30, 2013 and 2012 (Unaudited) | 5 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 6 |
| <u>Item 2.</u> | Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations | 34 |
| <u>Item 3.</u> | Quantitative and Qualitative Disclosures About Market Risk | 42 |
| <u>Item 4.</u> | Controls and Procedures | 42 |
| Part II. | Other Information | |
| <u>Item 1.</u> | Legal Proceedings | 43 |
| <u>Item 1A.</u> | Risk Factors | 43 |
| <u>Item 2.</u> | Unregistered Sales of Equity Securities and Use of Proceeds | 43 |
| <u>Item 3.</u> | Default Upon Senior Securities | 43 |
| <u>Item 4.</u> | Mine Safety Disclosures | 43 |
| <u>Item 5.</u> | | |

Other Information

43

Item 6.

Exhibits

44

Signatures

45

Exhibits

46

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | JUNE 30, 2013 (Unaudited) | DECEMBER 31, 2012 |
|---|---------------------------------|-----------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 748,788 | \$ 430,746 |
| Restricted cash | 19,438,865 | 19,044,294 |
| Accounts receivable, net | 3,344,299 | 3,246,247 |
| Inventories, net | 331,737 | 928,881 |
| Other receivables and prepaid expenses | 3,628,723 | 4,514,434 |
| Due from related parties | 21,026,927 | 20,964,025 |
| Current assets of discontinued operations, held for sale | 167,973,574 | 144,751,290 |
| Total current assets | 216,492,913 | 193,879,917 |
| Property, plant and equipment, net | 2,356,058 | 2,376,639 |
| Equipment deposit | 35,249 | 35,249 |
| Intangible assets | 474,189 | 480,690 |
| Long-term investments | 11,579,315 | 11,912,956 |
| Goodwill | 27,031,492 | 27,031,492 |
| TOTAL ASSETS | \$ 257,969,216 | \$ 235,716,943 |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term loans | 3,608,772 | 3,519,999 |
| Accounts payable | 4,411,938 | 6,409,278 |
| Accrued expenses and other payables | 3,481,463 | 3,814,647 |
| Purchase deposit from buyer | 8,240,490 | 8,740,490 |
| Taxes payable | 22,797 | 22,334 |
| Due to related parties | 9,260,021 | 9,889,037 |
| Warrant liability | 4 | 7,340 |
| Current liabilities of discontinued operations | 164,848,005 | 138,348,859 |
| Total current liabilities | 193,873,490 | 170,751,984 |
| Long-term loans | 1,708,928 | - |
| Long-term notes payables | 320,000 | 317,500 |
| TOTAL LIABILITIES | 195,902,418 | 171,069,484 |
| COMMITMENTS AND CONTINGENCIES | | |
| EQUITY | | |
| STOCKHOLDERS' EQUITY | | |
| 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; 29,526,848 shares issued and 29,525,168 shares outstanding at June 30, 2013; 29,320,848 shares issued and 29,319,168 shares outstanding at December 31, 2012. | 295,252 | 293,192 |
| Treasury shares: 1,680 shares at cost | (7,322) | (7,322) |
| Additional paid-in capital | 51,752,013 | 51,108,409 |
| Statutory surplus reserve | 737,623 | 702,539 |
| Accumulated other comprehensive income | 4,837,092 | 4,058,657 |
| Accumulated deficit | (8,325,691) | (4,098,798) |
| TOTAL STOCKHOLDERS' EQUITY | 49,288,967 | 52,056,677 |
| Non-controlling interest | 12,777,831 | 12,590,782 |
| TOTAL EQUITY | 62,066,798 | 64,647,459 |
| TOTAL LIABILITIES AND EQUITY | \$ 257,969,216 | \$ 235,716,943 |

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|---------------------------|--------------------|-------------------------|---------------------|
| | JUNE 30, | | JUNE 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net revenues | \$ 6,764,881 | \$ 11,691,462 | \$ 14,130,111 | \$ 27,773,797 |
| Cost of sales | 4,448,240 | 9,432,110 | 10,341,986 | 22,770,558 |
| Gross profit | 2,316,641 | 2,259,352 | 3,788,125 | 5,003,239 |
| Operating expenses: | | | | |
| Selling, general, and administrative expenses | 1,987,113 | 2,242,562 | 4,085,279 | 4,713,466 |
| Non-cash equity-based compensation | 451,821 | 837,310 | 645,665 | 1,271,559 |
| Total operating expenses | 2,438,934 | 3,079,872 | 4,730,944 | 5,985,025 |
| Loss from operations | (122,293) | (820,520) | (942,819) | (981,786) |
| Other income and (expenses) | | | | |
| Interest income | - | 5 | - | 11 |
| Interest expense | (205,544) | (185,137) | (425,370) | (296,254) |
| Change in fair value of warrants | 13,711 | 350,323 | 7,336 | 233,370 |
| Investment loss | (81,053) | - | (333,641) | - |
| Other income, net | 315,224 | 16,427 | 323,098 | 20,518 |
| Other income (expense), net | 42,338 | 181,618 | (428,577) | (42,355) |
| Loss before income taxes and noncontrolling interest | (79,955) | (638,902) | (1,371,396) | (1,024,141) |
| Income taxes for continuing operations | 107,267 | - | 109,517 | - |
| Loss before noncontrolling interest from continuing operations | (187,222) | (638,902) | (1,480,913) | (1,024,141) |
| less: Income attributable to noncontrolling interest of continuing operations | 257,057 | 144,414 | 105,184 | 384,156 |
| Loss attributable to Zoom Technologies, Inc. from continuing operations | (444,279) | (783,316) | (1,586,097) | (1,408,297) |
| Discontinued Operations: | | | | |
| (Loss) income from discontinued operations, net of tax | (293,264) | 1,602,881 | (651,832) | 2,690,566 |
| less: (Loss) income attributable to noncontrolling interest from discontinued operations | (74,863) | 49,303 | (112,744) | (12,925) |
| | (218,401) | 1,553,578 | (539,088) | 2,703,491 |
| Loss on disposal, net tax | (2,066,624) | - | (2,066,624) | - |
| Net (loss) income attributable to Zoom Technologies, Inc. | \$ (2,729,304) | \$ 770,262 | \$ (4,191,809) | \$ 1,295,194 |
| Basic and diluted loss per common share from continuing operations: | | | | |
| Basic | \$ (0.02) | \$ (0.03) | \$ (0.05) | \$ (0.06) |
| Diluted | \$ (0.02) | \$ (0.03) | \$ (0.05) | \$ (0.06) |
| Basic and diluted (loss) income per common share from discontinued operations: | | | | |
| Basic | \$ (0.08) | \$ 0.06 | \$ (0.09) | \$ 0.11 |
| Diluted | \$ (0.08) | \$ 0.06 | \$ (0.09) | \$ 0.11 |
| Basic and diluted (loss) income per common share | | | | |
| Basic | \$ (0.09) | \$ 0.03 | \$ (0.14) | \$ 0.05 |
| Diluted | \$ (0.09) | \$ 0.03 | \$ (0.14) | \$ 0.05 |
| Weighted average common shares outstanding: | | | | |
| Basic | 29,525,168 | 26,191,186 | 29,496,715 | 25,075,087 |
| Diluted | 29,525,168 | 26,233,271 | 29,496,715 | 25,127,366 |

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|---|---------------------|---------------------|---------------------|---------------------|
| | JUNE 30, | | JUNE 30, | |
| | 2013 (Unaudited) | 2012 (Unaudited) | 2013 (Unaudited) | 2012 (Unaudited) |
| Net (loss) income attributable to Zoom Technologies, Inc. | \$ (2,729,304) | \$ 770,262 | \$ (4,191,809) | \$ 1,295,194 |
| Net income (loss) attributable to noncontrolling interest | \$ 182,194 | \$ 193,717 | \$ (7,560) | \$ 371,231 |
| Other comprehensive income: | | | | |
| Foreign currency translation gain - Zoom Technologies, Inc. | 446,562 | 80,139 | 778,435 | 389,717 |
| Foreign currency translation gain - noncontrolling interest | 111,641 | 2,620 | 194,609 | 23,893 |
| Comprehensive (loss) income Zoom Technologies, Inc. | \$ (2,282,742) | \$ 850,401 | \$ (3,413,374) | \$ 1,684,911 |
| Comprehensive income noncontrolling interest | \$ 293,835 | \$ 196,337 | \$ 187,049 | \$ 395,124 |

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | SIX MONTHS ENDED | |
|--|-------------------------|--------------------|
| | JUNE 30, | |
| | 2013 | 2012 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities: | | |
| Net (loss) income attributable to Zoom Technologies, Inc. | \$ (4,191,809) | \$ 1,295,194 |
| Adjustments to reconcile net (loss) income attributable to Zoom Technologies, Inc. to cash provided by (used in) operating activities: | | |
| (Loss) income attributable to noncontrolling interest of continuing operations | 105,184 | 384,156 |
| Loss attributable to noncontrolling interest from discontinued operations | (112,744) | (12,925) |
| Income (loss) attributable to Zoom Technologies, Inc. from discontinued operations | 651,832 | (2,690,566) |
| Depreciation and amortization | 150,337 | 192,340 |
| Non-cash equity-based compensation | 645,665 | 1,271,559 |
| Provision on accounts receivable | 120,000 | 9,047 |
| Loss on disposal | 2,066,624 | - |
| Loss on investment in joint venture | 333,641 | - |
| Fair value adjustment on warrants | (7,336) | (233,370) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (218,052) | (1,236,873) |
| Inventories | 597,144 | (250,019) |
| Advances to suppliers | (8,111) | - |
| Prepaid expenses and other assets | 1,056,213 | 7,908 |
| Accounts payable | (1,708,143) | (3,758,700) |
| Related parties-net | (369,652) | 860,890 |
| Accrued expenses and other current liabilities | (494,775) | 1,845,579 |
| Net cash used in operating activities | (1,383,982) | (2,315,780) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment and other long-term assets | (123,256) | (150,417) |
| Net cash used in investing activities | (123,256) | (150,417) |
| Cash flows from financing activities: | | |
| Proceeds from loans | 2,500,000 | 2,043,055 |
| Repayment of loans | (702,299) | - |
| Receipt from related parties | 55,080 | 433,604 |
| Payments to related parties | (27,287) | (155,177) |
| Net cash provided by financing activities | 1,825,494 | 2,321,482 |
| Effect of exchange rate changes on cash & equivalents | (214) | 139,022 |
| Net increase (decrease) in cash and equivalents | 318,042 | (5,693) |
| Cash and equivalents, beginning of period | 430,746 | 214,684 |
| Cash and equivalents, end of period | \$ 748,788 | \$ 208,991 |
| SUPPLEMENTARY DISCLOSURES: | | |
| Interest paid | \$ 1,441,267 | \$ 929,846 |
| Income tax paid | \$ 109,517 | \$ 116,122 |

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS OPERATIONS

The Acquisition

Zoom Technologies, Inc. (the "Company") was incorporated in the state of Delaware on February 29, 2002. Until September 22, 2009, the Company was engaged in 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 incorporated in the British Virgin Islands ("BVI"), and its subsidiaries Jiangsu Leimone Electronics Co. Ltd ("Jiangsu Leimone"), Tianjin Tong Guang Group Digital Communication Co., Ltd ("TCB Digital") both incorporated in the (People's Republic of China, ("PRC")), and Profit Harvest Corporation Limited ("Profit Harvest") incorporated in Hong Kong. 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. The subsidiaries of Gold Lion were engaged in the manufacture design, sale and manufacture of mobile devices and handsets in China.

On June 1, 2010, Zoom pursuant to a share exchange agreement dated April 29, 2010, acquired 100% of the shares of Silver Tech Enterprises Ltd, incorporated in the BVI and its wholly owned subsidiaries Ever Elite Corporation Limited, incorporated in Hong Kong, and Nollec Wireless Company Ltd., ("Nollec Wireless"), incorporated in the PRC. Nollec Wireless is engaged in mobile phone and wireless communication device design.

On January 4, 2011, pursuant to a share exchange agreement, the Company via Profit Harvest acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in Hong Kong.

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. ("CNCNG") a 50% interest in Portables Unlimited LLC ("Portables"), one of the largest wholesale distributors and direct retailers of T-Mobile products in the United States. Subsequent to the purchase of the 50% stake in ownership from CNCNG, the Company increased its stake in Portables to 50.1% by injecting additional capital.

As of August 19, 2013, the Company is in default of the promissory note for \$2,000,000 owed to Portables Unlimited, Inc. The Company is working with Portables Unlimited, Inc. to cure its default. If the Company is not able to cure the default, the Company's ownership interest could pass to Portables Unlimited, Inc.

Disposition

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 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 remitted the entire amount of RMB 200 million to the Company. A portion of the funds, approximately RMB 80 million, was released to the Company to use; accordingly, in the normal course of business, the Company deployed those funds to SpreadZoom and Tianjian Leimone as detailed in "Note 11 - Related Party Transactions". The RMB 80 million released from escrow was a negotiated amount between the Company and the Purchaser. Upon the final closing of the Subsidiary Sale, which will occur 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale, the balance of the escrowed funds will be released to the Company.

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

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

Principles of Consolidation

The Company's accompanying condensed consolidated balance sheet at June 30, 2012, include the accounts of Gold Lion Holding Ltd and its wholly owned subsidiary Jiangsu Leimone, its 100%-owned subsidiary Silver Tech, and its specifically formed, wholly owned subsidiary, Zoom Sub which accounted for its ownership of Portables as 50.1%, as continuing operations. The Company's condensed consolidated balance sheet also included the accounts of TCB Digital for which the Company owns 80% indirectly held through Jiangsu Leimone which has been classified as discontinued operations held for sale.

The Company's accompanying condensed consolidated balance sheet at December 31, 2012, include the accounts of Gold Lion Holding Ltd and its wholly owned subsidiary Jiangsu Leimone, its 100%-owned subsidiary Silver Tech, and its specifically formed, wholly owned subsidiary, Zoom Sub which accounted for its ownership of Portables as 50.1%, as continuing operations. The Company's condensed consolidated balance sheet also included the accounts of TCB Digital for which the Company owns 80% indirectly held through Jiangsu Leimone, 100% of Ever Elite which wholly owns Nollec Wireless, indirectly held through Silver Tech, all of which have been classified as discontinued operations held for sale.

The Company's condensed consolidated results of operations for the six months ended June 30, 2013 from continuing operations included the results of Gold Lion, Silver Tech, Jiangsu Leimone, Zoom Sub, and Portables; results of operations from Ever Elite and Nollec Wireless, up to the date of their disposition, and TCB Digital have been presented as discontinued operations. The Company's condensed consolidated results of operations for the three months ended June 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 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). Refer to "Note 22 - 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 June 30, 2013 (See "Note 21 - Commitments" 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 condensed 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.

The interim condensed consolidated financial information as of June 30, 2013 and for the three and six months ended June 30, 2013 and 2012 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, have been omitted pursuant to those rules and regulations. The interim consolidated financial information should be read in conjunction with the financial statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of June 30, 2013, its consolidated results of operations for the three and six months ended June 30, 2013 and 2012, and its consolidated cash flows for the six months ended June 30, 2013 and 2012, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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, Hong Kong and the United States. Cash accounts in China and Hong Kong 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 June 30, 2013, 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. See "Note 8 - Property, Plant and Equipment" for details.

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 material amounts of capitalized interest for the three and six months ended June 30, 2013.

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 last 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. The Company has determined there have not been any triggering events during the six months ended June 30, 2013 that would require the Company to perform review for impairment of its long lived assets.

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.

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 June 30, 2013.

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 (Loss) Per Share

The Company reports earnings (loss) 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 June 30, 2013 and December 31, 2012 are as follows:

| | Carrying Value 2013 | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|---------------------------|--|---|--|
| Cash and cash equivalents | \$ 748,788 | \$ 748,788 | \$ - | \$ - |
| Restricted cash | \$ 19,438,865 | \$ 19,438,865 | \$ - | \$ - |
| Warrants | \$ 4 | \$ - | \$ 4 | \$ - |

| | Carrying Value 2012 | Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|---------------------------|--|---|--|
| Cash and cash equivalents | \$ 430,746 | \$ 430,746 | \$ - | \$ - |
| Restricted cash | \$ 19,044,294 | \$ 19,044,294 | \$ - | \$ - |
| Warrants | \$ 7,340 | \$ - | \$ 7,340 | \$ - |

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. 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 June 30, 2013 and December 31, 2012, 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 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. The Company will adopt these amendments in the fourth quarter of 2013.

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The Company will adopt these amendments in 2014. The Company has not yet determined if there will be material impacts on its financial statements upon adoption.

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 liabilities of CDE were \$43,409. The purchase consideration was \$1,818,000 which resulted in goodwill of \$1,861,409. 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 Company acquired 55% ownership of Portables on October 11, 2011. As of October 11, 2011, Portables' liabilities exceeded its assets by \$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 Company is currently in default of a loan with Portables Unlimited, Inc. and its ownership of Portables could be transferred to Portables Unlimited, Inc. if the default is not cured.

The following table summarizes goodwill as of June 30, 2013 and December 31, 2012 resulting from the acquisitions of Jiangsu Leimone, Silver Tech, and CDE:

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|-----------------------|--|------------------------------|
| Jiangsu Leimone | \$ 103,057 | \$ 103,057 |
| Silver Tech | 8,395,840 | 8,395,840 |
| CDE | 1,861,409 | 1,861,409 |
| Portables | 27,031,492 | 27,031,492 |
| Total | 37,391,798 | 37,391,798 |
| Less: Impairment | (10,360,306) | (10,360,306) |
| Total goodwill | \$ 27,031,492 | \$ 27,031,492 |

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.

NOTE 4 - RESTRICTED CASH

Restricted cash was part of the funds deposited with the Company for sale to Beijing Zhumu Culture Communication Company, Ltd. 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 June 30, 2013 and December 31, 2012, the Company's accounts receivable consisted of the following:

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|--|--|------------------------------|
| Accounts receivable | \$ 4,265,942 | \$ 4,032,656 |
| <i>less: Allowance for doubtful accounts</i> | <i>(921,643)</i> | <i>(786,409)</i> |
| Accountants receivable, net | \$ 3,344,299 | \$ 3,246,247 |

NOTE 6 - INVENTORIES

Inventories, by major categories, as of June 30, 2013 and December 31, 2012 were as follows:

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|--|--|------------------------------|
| Finished goods | \$ 331,737 | \$ 928,881 |
| <i>less: Write down for obsolete inventories</i> | <i>-</i> | <i>-</i> |
| Inventories, net | \$ 331,737 | \$ 928,881 |

NOTE 7 - OTHER RECEIVABLES AND PREPAID EXPENSES

As of June 30, 2013 and December 31, 2012, the Company's other receivables and prepaid expenses consisted of the following:

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|--|------------------------------|
| Deposit | \$ 93,694 | \$ 90,091 |
| Advance to employees | 8,164 | - |
| Prepaid expenses | 192,253 | 116,381 |
| Others | 3,334,612 | 4,307,962 |
| Total other receivables and prepaid expenses | \$ 3,628,723 | \$ 4,514,434 |

The balances of \$3,334,612 and \$4,307,962 labeled as "Others" as of June 30, 2013 and December 31, 2012 were primarily comprised of receivables of \$3,334,612 and \$4,297,253 owed to the Company by Profit Harvest that arose in the normal course of business where the Company paid for expenses and professional fees on behalf of Profit Harvest. Profit Harvest was previously a subsidiary of the Company. In 2012, it was 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 June 30, 2013 and December 31, 2012 consisted of the following:

| | Estimated Useful Lives | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|---------------------------|---------------------------------|----------------------|
| Machinery and equipment | 4-6 years | \$ 1,109,206 | \$ 1,103,169 |
| Electronic equipment | 4-6 years | 90,138 | 89,645 |
| Transportation equipment | 4-6 years | 50,525 | 50,248 |
| Leasehold improvements | 5 years | 2,897,972 | 2,791,278 |
| Computer equipment | 4-6 years | 255,406 | 255,406 |
| Office equipment | 4-6 years | 273,502 | 256,828 |
| Total | | 4,676,749 | 4,546,574 |
| <i>less: Accumulated depreciation</i> | | (2,320,691) | (2,169,935) |
| Property, plant and equipment, net | | \$ 2,356,058 | \$ 2,376,639 |

Depreciation expense for the three ended June 30, 2013 and 2012 was \$72,063 and \$94,793, respectively.

Depreciation expense for the six months ended June 30, 2013 and 2012 was \$143,836 and \$185,839 respectively.

NOTE 9 - INTANGIBLE ASSETS

As of June 30, 2013 and December 31, 2012, the Company's intangible assets were summarized as follows:

| | Estimated Useful Life | June 30, 2013 (Unaudited) | December 31, 2012 |
|---------------------------------------|--------------------------|---------------------------------|----------------------|
| 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 |
| <i>less: Accumulated amortization</i> | | (1,144,827) | (1,138,326) |
| Intangible assets, net | | \$ 474,189 | \$ 480,690 |

Intangible assets are stated at cost less accumulated amortization. The Company acquired domain name "zoom.com" and related logo and 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 three ended June 30, 2013 and 2012 was \$3,251 and \$3,251, respectively. The amortization of intangible assets for the six months ended June 30, 2013 and 2012 was \$6,501 and \$6,501 respectively. The estimated amortization for the next five years as of June 30, 2013 and thereafter is expected to be as follows by years:

| | | | |
|-------------------|------|----|---------|
| Remainder of 2013 | | \$ | 3,659 |
| | 2014 | | 8,739 |
| | 2015 | | 8,739 |
| | 2016 | | 8,739 |
| | 2017 | | 8,739 |
| Thereafter | | | 87,395 |
| Total | | \$ | 126,010 |

NOTE 10 - SHORT-TERM LOANS

Short-term loans are due to various financial institutions which are normally due within one year. As of June 30, 2013 and December 31, 2012, the Company's short term loans consisted of the following:

| | June 30, 2013 (Unaudited) | December 31, 2012 |
|--|--|------------------------------|
| 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%. | \$ 2,488,424 | \$ 2,994,999 |
| SKAVYNIA HOLDINGS LTD | 525,000 | 525,000 |
| M&T Bank short term portion of \$2.5 million loan at 1-month LIBOR plus 3.50% due in 4 years from February 5, 2013, amortizing monthly. | 595,348 | - |
| Total | \$ 3,608,772 | \$ 3,519,999 |

NOTE 11 - RELATED PARTY TRANSACTIONS

Due from related parties

As of June 30, 2013 and December 31, 2012, due from related parties were:

| Due from related parties | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|--|------------------------------|
| Beijing Leimone Shengtong Wireless Technology Co., Ltd. | \$ 54,267 | \$ 91,571 |
| Leimone (Tianjin) Industrial Co., Ltd. | 11,179,724 | 11,034,982 |
| Shenzhen Leimone | 336,319 | 355,564 |
| Raja R Amar - Chief Executive Officer of Portables | 410,577 | 429,877 |
| Spreadzoom | 9,046,040 | 9,046,038 |
| Others | - | 5,993 |
| Total due from related parties | \$ 21,026,927 | \$ 20,964,025 |

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. The balance is expected to be repaid in full by December 31, 2013.

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. As of June 30, 2013 and December 31, 2012, the amounts due from Tianjin Leimone of \$11,179,724 and \$11,034,982 represented advances for purchases arising in the normal course of business for transactions prior to December 31, 2012. The difference in balances between June 30, 2013 and December 31, 2012, represents the fluctuation of exchange rates between the functional and reporting currency. The outstanding balance is expected to begin to reduce materially when the Company has completed its sale of TCB Digital.

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. \$336,319 and \$355,564 as of June 30, 2013 and December 31, 2012 was a loan to Shenzhen Leimone for setup costs. The balance is expected to be repaid in full by December 31, 2013.

The amount of \$410,577 and \$429,877 due from Raja R Amar at June 30, 2013 and December 31, 2012, is 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 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. The difference in balances between June 30, 2013 and December 31, 2012, represents the fluctuation of exchange rates between the functional and reporting currency. Such advances occurred during the early stages of the business. The SpreadZoom has not yet been fully capitalized. Upon completion of the sale of TCB Digital, the Company expects to be repaid these advances.

Due to related parties

As of June 30, 2013 and December 31, 2012, due to related parties were:

| Due to related parties | June 30, 2013 (Unaudited) | December 31, 2012 |
|--|---------------------------------|----------------------|
| Mr. Lei Gu | \$ 2,863,500 | \$ 2,901,283 |
| Anthony Chan | 475,603 | 358,814 |
| Beijing Leimone Shengtong Cultural Development Co., Ltd. | 102,500 | 102,500 |
| Wireless Holdings of Northeast | - | 117,600 |
| Portables Unlimited International | 1,490,228 | 3,779,864 |
| Portables Unlimited, Inc. | 4,328,190 | 2,559,112 |
| AUM Realty, Inc. | - | 69,864 |
| Total due to related parties | \$ 9,260,021 | \$ 9,889,037 |

Mr. Gu provides funds to the Company with no interest and are due on demand. As of June 30, 2013 and December 31, 2012, the balances of funds provided by Gu was \$2,863,500 and \$2,901,283 respectively.

Mr. Anthony Chan provides funds to the Company with no interest and are due on demand. As of June 30, 2013 and December 31, 2012, the balances of funds provided by Chan and certain accrued compensation for services rendered were \$475,603 and \$358,814, respectively.

In January 2011, 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 June 30, 2013 and December 31, 2012 was \$1,304,864 and \$3,779,864 respectively.

Portables received advances from its non-controlling owner, Portables Unlimited, Inc., totaling \$2,328,190 and \$2,559,112 at June 30, 2013 and December 31, 2012. The Company owes a promissory note of \$2 million to Portables Unlimited, Inc. that is secured by its ownership interest in Portables. The note carries an annual interest rate of 12%. The Company is currently in default of the note and is making its best efforts to cure the default. If in the event the default is not cured, the Company's ownership interest in Portables will transfer to Portables Unlimited, Inc.

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 21 - Commitments" for more details.

NOTE 12 - LONG-TERM NOTES PAYABLE

The note was issued to CNCG as part of its acquisition of Portables, with an original face amount of \$500,000, term from October 11, 2011 to October 11, 2014, and annual interest rate of 2.0%. On October 5, 2012, the Company repaid \$180,000 of the outstanding principle and the interest rate was adjusted to 14.0%.

NOTE 13 - LONG-TERM LOANS

On February 5, 2013, Portables entered into a loan agreement with M&T Bank for a monthly amortizing loan for \$2,500,000 with an interest rate of 1-month LIBOR plus 3.50%. The loan matures in four years from date of inception.

As of June 30, 2013, the outstanding balance of the loan is \$2,304,276 of which \$595,348 has been classified as short term and \$1,708,928 has been classified as long term.

NOTE 14 - STOCKHOLDERS' EQUITY

COMMON STOCK

On January 25, 2013 the Company issued 186,000 shares of its common stock to its Board of Directors for the service period from January 1, 2013 to December 31, 2013. These shares were valued at \$0.65 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$49,725 and \$79,950 for the three and six months ended June 30, 2013 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$40,950.

On January 25, 2013 the Company issued 20,000 shares of its common stock to consultants for the service period from January 1, 2013 to December 31, 2013. These shares were valued at \$0.65 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$3,250 and \$6,500 for the three and six months ended June 30, 2013 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$6,500.

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 \$20,000 and \$40,000 for the three and six months ended June 30, 2013 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$26,667.

On October 8, 2012, the Company issued 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 \$6,750 and \$13,500 for the three and six months ended June 30, 2013 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$6,750.

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 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 \$317,050 and \$396,100 for the three and six months ended June 30, 2013, respectively. The Company recorded non-cash compensation expense of \$96,050 and \$192,100 for the three and six months ended June 30, 2012 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$315,350.

On November 29, 2011, the Board of Directors 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 three and six months ended June 30, 2013 and 2012, the Company recorded non-cash compensation expense of \$19,750 and \$19,750 and \$39,500 and \$39,500 respectively. At June 30, 2013, the balance of unamortized stock compensation expense to be recognized in future periods related to such shares issuances was \$32,917.

NOTE 15 - 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

: 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.

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 three months ended June 30, 2013:

| | Number of Warrants | Weighted- Average Exercise Price | Aggregate Intrinsic Value |
|----------------------------|-----------------------|---|---------------------------------|
| Balance, December 31, 2012 | 8,638,604 | \$ 2.30 | \$ - |
| Granted | - | - | |
| Lapsed | - | - | |
| Exercised | - | - | |
| Cancelled | - | - | |
| Balance, June 30, 2013 | 8,638,604 | \$ 2.30 | \$ - |

The following presents warrants summary as of June 30, 2013:

| | Warrants Outstanding | | | Warrants Exercisable | |
|----------|-----------------------|---|---|-----------------------|---|
| | Number Outstanding | Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Number Exercisable | Weighted- Average Exercise Price |
| Warrants | 8,638,604 | 1.60 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. 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 16 - 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.

Edgar Filing: ZOOM TECHNOLOGIES INC - Form 10-Q

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 was no extra non-cash compensation expense for the three months ended June 30, 2013.

The following summary represents options activity during the three months ended June 30, 2013 under the New Plan.

| | Under New Plan | Weighted- Average Exercise Price | Aggregate Intrinsic Value |
|----------------------------|-------------------------------|---|--|
| Balance, December 31, 2012 | 1,810,000 | \$ 1.69 | \$ - |
| Granted | 100,000 | 0.65 | |
| Lapsed | - | - | |
| Exercised | - | - | |
| Cancelled | - | - | |
| Balance, June 30, 2013 | 1,910,000 | \$ 1.64 | \$ - |

The following represents options summary as of June 30, 2013 under the New Plan.

| | Number Outstanding | Options Outstanding Weighted- Average Remaining Contractual Life | Weighted- Average Exercise Price | Options Exercisable Number Exercisable | Weighted- Average Exercise Price |
|---------|-------------------------------|---|---|---|---|
| Options | 1,910,000 | 2.05 years | \$ 1.64 | 1,071,111 | \$ 1.59 |

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%.

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 February 14, 2013, the Company's BOD approved of the granting of 100,000 options to an employee with an exercise price of \$0.65, with monthly vesting beginning in February 2013. The options expire four years from the date of grant. The Company determined the grant date fair value of 100,000 options of \$0.17 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of \$0.65 per share, exercise price of \$0.65 per share, expected life of 4.00 years, volatility of 32.48% and discount rate of 0.64%.

The Company recorded \$35,296 of non-cash compensation expense related to stock options for the three months ended June 30, 2013. As of June 30, 2013, there was \$211,778 of non-cash compensation to be recorded up to 2014 based on options valued at grant date.

NOTE 17 - 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 \$2.20 million and \$1.38 million at June 30, 2013 and 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 is 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.

Nollec had pre-tax loss for the three months ended June 30, 2013. 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%.

U.S. NOL carryforwards 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 June 30, 2013 and December 31, 2012:

| | June 30, 2013 | December 31, 2012 |
|---------------------------|--------------------------|------------------------------|
| Deferred tax assets: | | |
| Net operating loss | \$ 466,275 | \$ 511,035 |
| less: Valuation allowance | (466,275) | (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 June 30, 2013 and 2012:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|--------------|--------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| US statutory rates | 34.00% | 34.00% | 34.00% | 34.00% |
| Tax rate difference | -4.06% | -0.69% | -0.44% | -1.13% |
| Valuation allowance | -243.33% | -44.68% | -54.72% | -53.85% |
| State taxes | -139.83% | 0.00% | 7.95% | 0.00% |
| Non-taxable income of pass through entity | 219.06% | 11.37% | 5.23% | 20.98% |
| Tax per financial statements | -134.16% | 0.00% | -7.99% | 0.00% |

NOTE 18 - 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.

As of June 30, 2013 and December 31, 2012, the Company's statutory surplus reserve was \$737,623 and \$702,539 respectively.

NOTE 19 - 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 20 - 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 s

• **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 21 - 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 June 30, 2013 are as follows:

| | | |
|-------------------|----|-----------|
| Year | | |
| Remainder of 2013 | \$ | 554,479 |
| 2014 | | 602,966 |
| 2015 | | 225,255 |
| Total | \$ | 1,382,700 |
| | | 28 |

NOTE 22 - 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 June 30, 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. Management and control of the business have not been fully determined. The Company has used the equity method to account for its investment in SpreadZoom and has recorded a loss from investment of \$81,053 and \$333,641 for the three and six months ended June 30, 2013 respectively.

| | June 30, 2013 (Unaudited) | |
|---|---|---|
| Financial Position of SpreadZoom | | |
| Current assets | \$ 34,783,363 | |
| Non-current assets | 3,466,061 | |
| Total assets | 38,249,424 | |
| Current liabilities | 21,906,369 | |
| Non-current liabilities | - | |
| Total liabilities | 21,906,369 | |
| Net asset value | \$ 16,343,055 | |
| | | |
| | Three Months Ended June 30, 2013 (Unaudited) | Six Months Ended June 30, 2013 (Unaudited) |
| Results of Operations of SpreadZoom | | |
| Net revenues | \$ 18,417,376 | \$ 36,523,842 |
| Cost of goods sold | 18,222,696 | 36,146,667 |
| Gross profit | 194,680 | 377,175 |
| Operating expenses | 366,619 | 1,082,522 |
| Operating loss | (171,939) | (705,347) |
| Other income (expenses), net | 832 | 1,017 |
| Income (loss) before taxes | (171,107) | (704,330) |
| less: Provision for income taxes | - | - |
| Net loss | \$ (171,107) | \$ (704,330) |
| Investment loss attributable to Zoom Technologies, Inc. | \$ (81,053) | \$ (333,641) |

NOTE 23 - DISCONTINUED OPERATIONS

On December 31, 2012, the Company announced its plan to dispose of certain assets. The results of operations and financial position of those discontinued operations are detailed below.

| Results of Operations | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|---------------|---------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net revenues | \$ 64,063,406 | \$ 86,743,585 | \$ 106,320,449 | \$ 161,762,793 |
| Cost of sales | 61,594,868 | 80,550,858 | 101,836,422 | 151,999,647 |
| Gross profit | 2,468,538 | 6,192,727 | 4,484,027 | 9,763,146 |
| Operating expenses | 1,874,421 | 5,022,175 | 3,525,242 | 6,877,028 |
| Operating income | 594,117 | 1,170,552 | 958,785 | 2,886,118 |
| Other income (expenses), net | (887,255) | 988,968 | (1,589,430) | 707,997 |
| (Loss) income before taxes from discontinued operations | (293,138) | 2,159,520 | (630,645) | 3,594,115 |
| less: Provision for income taxes | 126 | 556,639 | 21,187 | 903,549 |
| (Loss) income from discontinued operations, net of tax | \$ (293,264) | \$ 1,602,881 | \$ (651,832) | \$ 2,690,566 |
| Basic and diluted (loss) income per common share from discontinued operations: | | | | |
| Basic | \$ (0.08) | \$ 0.06 | \$ (0.09) | \$ 0.11 |
| Diluted | \$ (0.08) | \$ 0.06 | \$ (0.09) | \$ 0.11 |

Edgar Filing: ZOOM TECHNOLOGIES INC - Form 10-Q

| Financial Position | June 30, 2013 (Unaudited) | December 31, 2012 |
|---|---------------------------------|-----------------------|
| Cash and equivalents | \$ 7,287,715 | \$ 3,245,529 |
| Restricted cash | 73,090,132 | 64,467,142 |
| Accounts receivable, <i>net</i> | 39,595,476 | 35,642,961 |
| Inventories, <i>net</i> | 16,515,223 | 7,059,829 |
| Other receivables and prepaid expenses | 12,694,636 | 10,580,693 |
| Advance to suppliers | 475,909 | 3,004,016 |
| Notes receivable | 2,150,223 | 548,218 |
| Due from related parties | 15,049,314 | 18,322,784 |
| Construction in progress deposit | - | 243,747 |
| Property, plant and equipment, <i>net</i> | 1,114,946 | 1,293,689 |
| Intangible assets, <i>net</i> | - | 342,682 |
| Total current assets | 167,973,574 | 144,751,290 |
| Total Assets of Discontinued Operations | \$ 167,973,574 | \$ 144,751,290 |
| Short-term loans | \$ 43,170,479 | \$ 21,187,680 |
| Notes payable | 44,937,634 | 28,156,022 |
| Accounts payable | 34,364,212 | 16,255,076 |
| Accrued expenses and other payables | 19,440 | 1,013,986 |
| Advances from customers | 259,760 | 1,039,775 |
| Taxes payable | (1,669,764) | (2,341,883) |
| Interest payable | - | 110,835 |
| Dividends payable | 641,920 | 628,890 |
| Due to related parties | 43,124,324 | 72,298,478 |
| Total current liabilities | 164,848,005 | 138,348,859 |
| Total Liabilities of Discontinued Operations | 164,848,005 | 138,348,859 |
| Net Assets of Discontinued Operations | \$ 3,125,569 | \$ 6,402,431 |

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, 2013. The balance of the sales proceeds, approximately \$8.2 million will be allocated to TCB Digital upon the closing of that transaction.

NOTE 24 - SUBSEQUENT EVENT

As of August 19, 2013, the Company is in default of the promissory note for \$2,000,000 owed to Portables Unlimited, Inc. The Company is working with Portables Unlimited, Inc. to cure its default. If the Company is not able to cure the default, the Company's ownership interest could pass to Portables Unlimited, Inc.

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 results of operations for the three and six months ended June 30, 2012 have been restated as follows:

| | Three Months Ended June 30, 2012 | | |
|---|---|-------------------|--------------------------|
| | As Previously Reported | Adjustment | As Currently Reported |
| Other income (expenses) | | | |
| Change in fair value of warrants | \$ - | \$ 350,323 | \$ 350,323 |
| Net income attributable to Zoom Technologies, Inc. | \$ 419,939 | \$ 350,323 | \$ 770,262 |
| Basic and diluted income per common share: | | | |
| Basic | \$ 0.02 | \$ 0.01 | \$ 0.03 |
| Diluted | \$ 0.02 | \$ 0.01 | \$ 0.03 |
| | | | |
| | Six Months Ended June 30, 2012 | | |
| | As Previously Reported | Adjustment | As Currently Reported |
| Other income (expenses) | | | |
| Change in fair value of warrants | \$ - | \$ 233,370 | \$ 233,370 |
| Net income attributable to Zoom Technologies, Inc. | \$ 1,061,824 | \$ 233,370 | \$ 1,295,194 |
| Basic and diluted income per common share: | | | |
| Basic | \$ 0.04 | \$ 0.01 | \$ 0.05 |
| Diluted | \$ 0.04 | \$ 0.01 | \$ 0.05 |

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 44.42% at June 30, 2012. 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.

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

Forward Looking Information

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 report 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 Condensed Consolidated Financial Statements and Related Notes.

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. Dr. Li resigned from our Board and Spreadtrum has appointed Mr. Chin Hung (James) Lo effective May 27, 2013.

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\$31.7 million) (the "Purchase Price"), subject to adjustment pending an appraisal by an independent third party appraiser. As of the date of this report, the Purchaser has remitted the entire amount of RMB 200 million to the Company to use; accordingly, in the normal course of business, a negotiated amount of RMB 80 million of funds was released from escrow to the Company that was deployed to SpreadZoom and Tianjin Leimone as detailed in "Note 11 - Related Party Transactions" as agreed by the Purchaser. Upon the final closing of the Subsidiary Sale, which will occur 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale, the balance of the escrowed funds will be released to the Company. As of the date of this quarterly 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 quarterly report, the Company's and Portables

Unlimited, Inc.'s ownership interests in Portables are 50.1% and 49.9%, respectively. The Company is currently in default of a promissory note owed to Portables Unlimited, Inc. If the Company is unable to cure the default, the Company's ownership in Portables could be transferred to Portables Unlimited, Inc., and the Company could be potentially subject to a loss in the range of \$5.0 million to \$9.0 million.

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.

The diagram below summarizes our corporate structure as of June 30, 2013:

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 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 engaged 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 acquisition of Jiangsu Leimone, Silver Tech, and CDE.

Commitments

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

Results of Operations for the Three Months ended June 30, 2013

Revenues

Our revenues from continuing operations were \$6,764,881 for the quarter ended June 30, 2013, a decrease of \$4,926,581 or 42.15% compared to \$11,691,462 in the corresponding quarter in 2012. The decrease in revenues in the second quarter of 2013 compared to the corresponding quarter in 2012 was attributable to change in the phone plans and service plans sold by Portables as a result of T-Mobile USA change in business strategy. For the three months ended June 30, 2013, Portables derived \$1,913,263 from the sale of phones and accessories, and \$4,851,619 from activation and reoccurring carrier service fees compared to \$3,548,158 and \$8,143,304 for the same period in 2012.

Cost of sales

For the quarter ended June 30, 2013 our cost of sales from continuing operations was \$4,448,240 or 65.8% of revenues while cost of sales for the same period in 2012, was \$9,432,110 or 80.7% of revenues. The decrease in the cost of sales as a percentage of revenues is related to the change in the business strategy by T-Mobile USA which has altered Portables' business.

Gross Profit

Gross profit from continuing operations for the quarter ended June 30, 2013 declined by 2.5% to \$2,316,641 compared to \$2,259,352 for the corresponding same period in 2012. Gross profit as a percentage of revenues for the first quarter of 2013 was 34.2%, an increase from 19.3% for the same period in 2012. The main reason for the increase in gross margin is correlated with the change in business strategy by T-Mobile USA.

The sales of mobile handsets and accessories by Portables produced gross margins of 5.6%, while activation and reoccurring carrier service fees provided for 45.5% gross margins during the quarter ended June 30, 2013.

Operating expenses

Sales, general and administrative expenses primarily consisted of compensation for sales personnel, marketing, transportation, administrative personnel, depreciation, travel expenses, rental, materials expenses related to ordinary administration, and fees for professional services; and these were \$1,987,113 for the three months ended June 30, 2013 compared to \$2,242,562 for the corresponding period in 2012. The decrease in such expenses in 2013 was due to the Company's cost cutting measures in the first quarter of 2013 which included reductions in employees.

The Company's non-cash equity-based compensation charges were \$ 451,821 and \$837,310 for the three months ended June 30, 2013, and 2012, respectively. The \$385,489 decrease, or 46.0%, is a result of the discontinuance of certain operations. Non-cash equity-based compensation issued to consultants and employees providing services to operations the Company has or is in the course of disposing have been accelerated and written off in 2012. Non-cash equity-based compensation on go forward basis reflect grants and awards that have been issued to personnel still in the service of the Company's continuing operating entities.

Other income/(expenses)-net

The Company's other income-net were \$42,338 and \$181,618 for the three months ended June 30, 2013 and 2012 respectively. The change in fair value of the Company's warrants was minimal. As a result of the Company's investment in SpreadZoom, the Company recorded a loss of \$81,053 for the quarter ended June 30, 2013.

Net (loss) income

For the quarter ended June 30, 2013, the Company's net loss was \$2,729,304, as compared to net income of \$770,262 for the corresponding period in 2012. The loss incurred in the second quarter of 2013 as compared to the profit shown in the same period in 2012 reflects the loss on disposition of Evert Elite and Nollec and related loss from discontinued operations.

Other comprehensive income/(loss)

For the three months ended June 30, 2013 and 2012, the Company's other comprehensive income was \$446,562 and \$80,139 respectively. Other comprehensive income resulted from foreign currency exchange fluctuations particularly the Renminbi against the USD.

Results of Operations for the Six Months ended June 30, 2013

Revenues

Our revenues from continuing operations were \$ 14,130,111 for the six months June 30, 2013, a decrease of \$13,643,686 or 49.1% compared to \$27,773,797 in the corresponding period in 2012. The decrease in revenues in the six month period ending June 30, 2013 compared to the corresponding period in 2012 was attributable to change in phone plans and service plans sold by Portables as a result of T-Mobile USA change in business strategy. For the six months ended June 30, 2013, Portables derived \$3,944,855 from the sale of phones and accessories, and \$10,185,257 from activation and reoccurring carrier service fees.

Cost of sales

For the six months June 30, 2013 our cost of sales from continuing operations was \$10,341,986 or 73.2% of revenues while cost of sales for the same period in 2012, was \$22,770,558 or 82.0% of revenues. The decrease in the cost of sales as a percentage of revenues is derived from the aforementioned change in business strategy T-Mobile USA and its related effect on Portables.

Gross Profit

Gross profit from continuing operations for the six months June 30, 2013 declined by 24.3% to \$3,788,125 compared to \$5,003,239 for the corresponding same period in 2012. Gross profit as a percentage of revenues for the six months of 2013 was 26.8%, an increase from 18.0% for the same period in 2012. The main reason for the decrease in the gross margin is related to poor performance in the first quarter of 2013 but there were signs of improvement in the second quarter of 2013. Margin improvement is expected as result of the change in phone and service plans.

The sales of mobile handsets and accessories by Portables produced gross margin of 6.3%, while activation and reoccurring carrier service fees provided a 34.8% gross margin during the six months ended June 30, 2013.

Operating expenses

Sales, general and administrative expenses primarily consisted of compensation for sales personnel, marketing, transportation, administrative personnel, depreciation, travel expenses, rental, materials expenses related to ordinary administration, and fees for professional services; and these were \$4,085,279 for the six months ended June 30, 2013 compared to \$4,713,466 for the corresponding period in 2012. The decrease in such expenses in 2013 was due to the Company's cost cutting measures in the six months of 2013 which included reductions in employees.

The Company's non-cash equity-based compensation charges were \$645,665 and \$1,271,559 for the six months ended June 30, 2013 and 2012, respectively. The \$625,894 decrease, or 49.2%, is a result of the discontinuance of certain operations. Non-cash equity-based compensation issued to consultants and employees providing services to operations the Company has or is in the course of disposing have been accelerated and written off in 2012. Non-cash equity-based compensation on go forward basis reflect grants and awards that have been issued to personnel still in the service of the Company's continuing operating entities.

Other income/(expenses)-net

The Company's other expenses-net were \$428,577 and \$42,355 for the six months ended June 30, 2013 and 2012, respectively. These expenses increased primarily as result of the Company's investment in SpreadZoom. The Company recorded a loss of \$333,641 for the six months ended June 30, 2013.

Net (loss) income

For the six months June 30, 2013, the Company's net loss was \$4,191,809, as compared to net income of \$1,295,194 for the corresponding period in 2012. The losses incurred in the six months of 2013 as compared to the profit shown in the same period in 2012 reflects the Company's recent efforts to reorganize its business and reduce costs. The losses were generated by the completion of the disposition of Ever Elite and Nollec as well as poor operating results from the discontinued operation TCB Digital.

Other comprehensive income/(loss)

For the six months ended June 30, 2013 and 2012, the Company's other comprehensive income was \$778,435 and \$389,717 respectively. Other comprehensive income resulted from foreign currency exchange fluctuations particularly the Renminbi against the USD.

Liquidity and Capital Resources

Zoom generally finances its operations from cash flow generated internally, interest-free credit lines in the form of banker acceptances and short-term loans from domestic banks. As of June 30, 2013, the Company had cash and equivalents of \$748,788 and restricted cash of \$19,438,865. Restricted cash was part of the funds deposited with the Company for sale to Beijing Zhumu Culture Communication Company, Ltd. of Profit Harvest, CDE, Ever Elite, Nollec Wireless, and TCB Digital. We had cash and equivalents of \$430,746 and restricted cash of \$19,044,294 as of December 31, 2012.

Net cash used in operating activities for the six months ended June 30, 2013 was \$1,383,982 compared to \$2,315,780 for the same period in 2012. In the first six months of 2013, operational use of funds included net decreases in accounts payable and accrued liabilities of \$1,708,143 and \$494,775, respectively. These decreases were partially offset by decreases in inventories of \$597,144.

Net cash used in investing activities was \$123,256 in the six months ended June 30, 2013 as compared to \$150,417 for the same period in 2012 was for the purchase of fixed assets.

Net cash provided by financing activities was \$1,825,494 for the six months ended June 30, 2013 as compared to \$2,321,482 in the same period in 2012. The source of cash was primarily attributable to bank borrowings of \$2,500,000 and \$2,043,055 for 2013 and 2012 respectively.

Contractual Obligations

As of June 30, 2013, the Company has short-term loan obligations of \$3,608,772 and long term loan obligations of \$1,708,928.

On a go forward basis over the next 12 months, Zoom intends to continue to rely on loans and restricted cash to fund its operational cash needs. In the event that expansion or acquisition opportunities exist, we may contemplate additional conventional bank and/or equity financing to take advantage of such opportunities. However, there is no assurance that such opportunities can be found, and if so, whether financing is available at acceptable terms.

Off Balance Sheet Arrangements

As of June 30, 2013, Zoom had no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

(a) Disclosure 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, as amended, 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, Company 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 June 30, 2013, and based on this evaluation, the Company's principal executive and financial officers have concluded that 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 are effective.

(b) Changes in Internal Control over Financial Reporting.

There were no significant changes in the Company's internal control over financial reporting that occurred during the first three months of fiscal 2013 that have materially affected, or are reasonably likely to materially affect, such control.

PART II - OTHER INFORMATION

Item 1. 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 appealed the decision and in the second quarter of 2013, the Court of Appeals upheld the previous rulings. The Company is awaiting the Court to execute on its ruling.

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 1A. Risk Factors.

Not applicable.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

The Company is default of a promissory note issued Portables Unlimited, Inc. If the Company cannot cure the default, the Company's ownership interest in Portables could be transferred to Portables Unlimited, Inc.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On November 27, 2012, the Company received notice from NASDAQ that it was not in compliance with its continued listing rules for its common stock requiring a minimum \$1 bid price. The Company was granted 180 days regain compliance. On May 29, 2013, the Company was granted an extension by NASDAQ for 180 days to regain compliance by November 25, 2013.

Item 6. Exhibits.

The following exhibits are included with this report.

Exhibit 31.1 Rule 13a-14(a) / 15d-14(a) Certification of Lei Gu, CEO.
Exhibit 31.2 Rule 13a-14(a) / 15d-14(a) Certification of Patrick Wong, CFO.
Exhibit 32.0 Section 1350 Certifications.
101.INS* XBRL Instance Document
101.SCH* XBRL Taxonomy Extension Schema Document
101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
101.LAB* XBRL Taxonomy Extension Label Linkbase Document
101.PRE* XBRL Taxonomy Extension Presentation 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, as amended, 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 the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf on August 19, 2013 by the undersigned, thereunto duly authorized.

Zoom Technologies, Inc.
(Registrant)

By: /s/ Lei Gu

Lei Gu
Chief Executive Officer

INDEX TO EXHIBITS

Exhibits:

- 31.1 Rule 13a-14(a) / 15d-14(a) Certification of Lei Gu, CEO
- 31.2 Rule 13a-14(a) / 15d-14(a) Certification of Patrick Wong, CFO
- 32.0 Section 1350 Certifications
- 101.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation 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, as amended, 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.