

ZOOM TECHNOLOGIES INC

Form 10-Q/A

December 07, 2012

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

FORM 10-Q/A

(Mark One)

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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

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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 ☐

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	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company
<input type="checkbox"/>	<input type="checkbox"/>		(Do not check if a smaller reporting company)	<input checked="" type="checkbox"/>	

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 November 10, 2012 is 29,219,168.

EXPLANATORY NOTE

ZOOM TECHNOLOGIES, INC. (the "Company") is filing this Quarterly Report on Form 10-Q/A (the "Form 10-Q/A") for the quarterly period ended September 30, 2012 to reflect corrections to certain XBRL "Accounting Policies," "Notes Tables" and "Notes Details" disclosures that were not uploaded correctly in the original Form 10-Q filing. The XBRL Notes details disclosures now reflect the information contained in the filed Form 10-Q. No changes were made to the original Form 10-Q as filed, but it is included here for completeness.

Zoom Technologies, Inc.  
and Subsidiaries

FORM 10-Q/A

For September 30, 2012

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## PART I — FINANCIAL INFORMATION

## ITEM 1 Consolidated Financial Information

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

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets		
Cash and equivalents	\$ 3,803,966	\$ 1,131,109
Restricted cash	16,410,824	15,507,408
Accounts receivable, net	83,741,845	48,970,549
Inventories, net	8,009,471	3,070,000
Purchase deposit	6,860,868	8,549,315
Other receivables and prepaid expenses	7,746,471	9,784,007
Advance to suppliers	10,562,679	9,834,017
Notes receivable	6,480,636	1,086,606
Due from related parties	29,103,484	30,425,700
Costs in excess of revenue - R&D contracts	698,597	91,880
Deferred tax assets, net	-	56,149
Total current assets	173,418,841	128,506,740
Property, plant and equipment, net	5,563,217	6,260,675
Equipment deposit	39,710	101,859
Construction in progress deposit - related parties	-	10,170,809
Intangible assets	899,454	772,527
Long-term investments	11,919,432	-
Goodwill	36,079,826	36,332,497
<b>TOTAL ASSETS</b>	<b>\$ 227,920,480</b>	<b>\$ 182,145,107</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Short-term loans	\$ 28,277,739	\$ 26,405,343
Notes payable	28,574,062	29,443,650
Accounts payable	39,496,742	14,336,883
Accrued expenses and other payables	6,866,161	10,173,712
Advance from customers	3,141,554	1,112,179
Taxes payable	2,588,654	4,287,309
Interest payable	114,650	85,323
Dividends payable	627,109	622,606
Due to related parties	25,964,502	6,742,373
Warrant liability	327,763	850,841
Total current liabilities	135,978,936	94,060,219
Long-term payables	-	145,000
Long-term notes payables	-	500,000
Long-term loan	-	10,458
<b>TOTAL LIABILITIES</b>	<b>135,978,936</b>	<b>94,715,677</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock: authorized 1,000,000 shares, par value \$0.01 none issued and outstanding	-	-
Common stock: authorized 35,000,000 shares, par value \$0.01, Issued 29,180,848 shares and outstanding 29,179,168 shares; Issued 23,865,723 shares and outstanding 23,864,043 shares at September 30, 2012 and December 31, 2011	291,792	238,640
Shares to be issued	-	1,000
Treasury shares: 1,680 shares at cost	(7,322)	(7,322)
Deferred expenses	(5,610,918)	(1,400,068)
Additional paid-in capital	51,333,938	45,957,869
Statutory surplus reserve	702,524	682,528
Accumulated other comprehensive income	2,137,816	2,081,429
Retained earnings	30,401,236	28,373,724
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>79,249,066</b>	<b>75,927,800</b>

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Noncontrolling interest	12,692,478	11,501,630
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 227,920,480</b>	<b>\$ 182,145,107</b>

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

**ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Net revenues</b>	\$ 117,180,898	\$ 50,748,605	\$ 306,717,488	\$ 167,358,736
Cost of goods sold	111,193,306	44,046,505	286,251,895	148,401,121
<b>Gross profit</b>	<b>5,987,592</b>	<b>6,702,100</b>	<b>20,465,593</b>	<b>18,957,615</b>
<b>Operating expenses:</b>				
Sales and marketing	620,223	187,378	1,168,150	577,681
General and administrative expenses	2,792,615	1,708,923	10,772,299	4,651,512
Research and development expenses	386,635	1,410,797	1,772,681	4,459,110
Non-cash equity-based compensation	758,592	362,712	2,030,151	977,650
Total operating expenses	4,558,065	3,669,810	15,743,281	10,665,953
Income from operations	1,429,527	3,032,290	4,722,312	8,291,662
<b>Other income (expense)</b>				
Interest income	43,481	144,953	305,303	289,137
Interest expense	(725,834)	(720,064)	(1,935,977)	(1,695,087)
Change in fair value of warrants	289,708	821,314	523,078	4,208,983
Investment loss	(423,630)	-	(423,630)	-
Other income (expense), net	558,665	(175,466)	550,805	112,891
<b>Income before income taxes and noncontrolling interest</b>	<b>1,171,917</b>	<b>3,103,027</b>	<b>3,741,891</b>	<b>11,207,586</b>
Income taxes	613,126	604,011	1,516,675	2,045,371
<b>Income before noncontrolling interest</b>	<b>558,791</b>	<b>2,499,016</b>	<b>2,225,216</b>	<b>9,162,215</b>
Less: Income (loss) attributable to noncontrolling interest	(193,523)	(77,349)	177,708	(70,016)
<b>Net income attributable to Zoom Technologies, Inc.</b>	<b>\$ 752,314</b>	<b>\$ 2,576,365</b>	<b>\$ 2,047,508</b>	<b>\$ 9,232,231</b>
<b>Basic and diluted income per common share:</b>				
Basic	\$ 0.03	\$ 0.16	\$ 0.08	\$ 0.58
Diluted	\$ 0.03	\$ 0.16	\$ 0.08	\$ 0.58
<b>Weighted average common shares outstanding:</b>				
Basic	29,114,703	15,884,140	26,431,454	15,845,262
Diluted	29,114,703	15,906,606	26,468,297	15,939,214

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

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

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income attributable to Zoom Technologies, Inc.	\$ 752,314	\$ 2,576,365	\$ 2,047,508	\$ 9,232,231
Net income (loss) attributable to noncontrolling interest	\$ (193,523)	\$ (77,349)	\$ 177,708	\$ (70,016)
Other comprehensive income (loss):				
Foreign currency translation adjustments - Zoom Technologies, Inc.	(333,330)	211,491	56,387	920,551
Foreign currency translation adjustments - noncontrolling interest	588	30,163	24,481	102,507
Comprehensive income - Zoom Technologies, Inc.	\$ 418,984	\$ 2,787,856	\$ 2,103,895	\$ 10,152,782
Comprehensive income (loss) - noncontrolling interest	\$ (192,935)	\$ (47,186)	\$ 202,189	\$ 32,491

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



**ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Income including noncontrolling interest	\$ 2,225,216	\$ 9,162,215
Adjustments to reconcile income including non-controlling interest to cash provided by (used in) operating activities:		
Depreciation and amortization	1,268,053	1,168,137
Non-cash equity-based compensation	2,030,151	977,650
Provision for inventory obsolescence	361,039	(69,484)
Provision on accounts receivable	1,559,674	-
Loss on disposal of fixed assets	-	8,487
Loss on investment in joint venture	423,630	-
Fair value adjustment on warrants	(523,078)	(4,208,983)
Changes in deferred tax assets	56,649	(137,429)
Changes in operating assets and liabilities:		
Accounts receivable	(38,096,887)	5,617,608
Inventories	(5,256,775)	(202,940)
Advances to suppliers	(728,846)	(16,462,684)
Prepaid expenses and other assets	(5,713,871)	38,596
Accounts payable	24,834,057	(232,497)
Advance from customers	2,026,810	1,546,012
Related parties-net	3,998,291	(8,004,040)
Accrued expenses and other current liabilities	6,278,056	795,132
<b>Net cash used in operating activities</b>	<b>(5,257,831)</b>	<b>(10,004,220)</b>
<b>Cash flows from investing activities:</b>		
(Decrease) increase in restricted cash	(792,581)	89,134
(Purchase of)/proceeds from disposal of property and equipment and other long-term assets	(359,098)	250,603
Receipts of notes receivable	(5,384,577)	(166,781)
Equity method investee	(12,364,270)	-
Refund from factory construction deposit	10,261,417	-
Cash increase due to acquisition of subsidiaries	-	235,112
<b>Net cash (used in) provided by investing activities</b>	<b>(8,639,109)</b>	<b>408,068</b>
<b>Cash flows from financing activities:</b>		
Issuance of shares for cash	-	174,154
Proceeds from short-term loans	3,201,559	30,713,438
Repayment of short-term loans	(1,506,339)	(23,115,701)
Repayment on notes payable	(4,457,729)	-
Payments to related parties	(6,379,117)	(9,927,290)
Receipt from related parties	25,697,445	11,175,068
Repayments on long-term loan	(7,250)	(7,224)
<b>Net cash provided by financing activities</b>	<b>16,548,569</b>	<b>9,012,445</b>
Effect of exchange rate changes on cash & equivalents	21,228	61,123
<b>Net increase (decrease) in cash and equivalents</b>	<b>2,672,857</b>	<b>(522,584)</b>
<b>Cash and equivalents, beginning balance</b>	<b>1,131,109</b>	<b>6,374,103</b>
<b>Cash and equivalents, ending balance</b>	<b>\$ 3,803,966</b>	<b>\$ 5,851,519</b>

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

	For the Nine Months Ended September 30,	
	2012	2011
<b>SUPPLEMENTARY DISCLOSURES:</b>		
Interest paid	\$ 1,924,763	\$ 933,614
Income tax paid	\$ 2,813,825	\$ 116,717
Non-cash investing and financing activities		
Acquisition of 100% of CDE by issuing 484,800 shares	\$ -	\$ 1,818,000

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES  
SEPTEMBER 30, 2012 AND DECEMBER 31, 2011 (UNAUDITED)

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS OPERATIONS

The Acquisition

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

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

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

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

On September 22, 2009, pursuant to the SEA and approval of the majority of the stockholders of the Company, the Company acquired from the Gold Lion shareholders 100% of Gold Lion's outstanding equity for 4,225,219 shares of the Company's common stock. As a result of this issuance, the former Gold Lion shareholders owned 69.3% of the outstanding stock of the Company and the transaction was recorded as a reverse acquisition. Prior to the Merger, the Company had 1,980,978 shares outstanding which were recapitalized as part of the Merger. The Company, which had an option to acquire an additional 29.0% of the outstanding capital stock of TCB Digital, pursuant to the SEA and the approval of the majority of the stockholders of the Company, agreed to provide the Company the option in exchange for the 2,402,576 shares of the Company's common stock. As of March 31, 2010, Mr. Gu exercised this option (See details in Section entitled "The Subsidiaries" below).

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

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

including, among others, obligations relating to taxes.

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

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

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

Pursuant to the terms of the Agreement, the Company purchased 100% of the outstanding stock of Silver Tech from KNH and BDF, the existing shareholders of Silver Tech, for \$10.96 million, comprised of \$1.37 million in cash and 1,342,599 newly issued unregistered shares of common stock of Zoom valued at \$9.59 million at the weighted average closing price of shares for 10 days prior and leading up to the Agreement date. At the closing of the Acquisition on May 31, 2010, the Company issued 1,342,599 shares of its common stock and paid \$500,000; the balance of \$870,000 in cash will be paid in six equal installments over a period of three years. As of September 30, 2011, the Company owed three remaining payments of \$145,000 each. The Company paid \$275,000 in year 2011 and \$137,500 in 2010 and as of September 30, 2012, \$435,000 was included in other payables. After the closing of the Acquisition on June 1, 2010, Silver Tech, Ever Elite and Nollec Wireless became wholly owned subsidiaries of Zoom. The Company determined the Acquisition did not require the preparation and filing of audited financial statements of Silver Tech under Rule 3-05(b)(2)(i) of Regulation S-X.

On January 4, 2011, pursuant to a share exchange agreement (the "Share Exchange Agreement") the Company acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in HK. The consideration was \$1,818,000 in shares of common stock of the Company; the number of shares was calculated by dividing \$1,818,000 by the higher of i) \$3.75 per share or ii) the Volume Weighted Average Closing Price of the Company's shares for the 10 consecutive trading days leading up to the day before the date of the Share Exchange Agreement which was December 20, 2010. This resulted in the issuance of 484,800 shares of the Company's common stock to acquire CDE. CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. CDE has developed over 40 titles for the Apple iPhone and is one of the largest developers of iPhone applications in Asia. The Company acquired CDE through its wholly owned HK subsidiary, Profit Harvest.

On October 11, 2011, the Company and Zoom USA Holdings, Inc., a newly formed wholly-owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement ("Securities Purchase Agreement") to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), an exclusive wholesale distributor of T-Mobile products in the United States. As consideration of the 50% interest in Portables, the Company (i) issued 1,494,688 shares of Zoom common stock (the "Equity Consideration") to the principals of CNCG and (ii) through Zoom Sub, issued a promissory note of \$500,000 payable to CNCG. The promissory note accrues interest at 2% and matures three years from the date of issuance. The Equity Consideration was to be held in escrow until the date that Portables provided to the Company financial statements for Portables' third quarter ended September 30, 2011. The financial statements were provided in January 2012 and the stock certificates were released from escrow. In addition, Zoom Sub purchased an additional 5% interest in Portables for \$750,000, to be paid within 30 days of the closing date, which is currently outstanding. Further, in connection with

the transaction, the Company assumed the responsibility for repaying certain indebtedness owed by Portables to T-Mobile USA, Inc. in the amount of \$4,757,187 (the "T-Mobile Indebtedness"), and agreed to arrange for a \$500,000 letter of credit in the name of Portables to secure obligations of Portables to T-Mobile. The T-Mobile Indebtedness was payable under the following schedule: \$2,500,000

was due on November 10, 2011 (the "Initial Payment"), \$1,400,000 was due on December 10, 2011 (the "Second Payment"), and the remaining \$853,788 was due on December 20, 2011 (the "Final Payment"). The Initial Payment and Second Payment were made in a timely manner, and pursuant to an agreement with T-Mobile the Final Payment was waived. The waiver of the final payment was recognized as other income in 2011 because this settlement was not a required condition in the Company's acquisition of Portables. Additionally, the Company agreed to pay other outstanding indebtedness of Portables in the amount of \$4,500,000, less the amount of T-Mobile Indebtedness paid off.

The Company had previously recognized acquisition payables to Portables in the amount of \$1,350,000 and the need to arrange a \$500,000 Letter of Credit in Portables' name to secure obligations to T-Mobile. On April 13, 2012, the Company received notice that it was in default on the Securities Purchase Agreement. The Securities Purchase Agreement provides that if the Company was in default, the Company's ownership of Portables will be reduced and CNCG will be entitled to enforce certain rescission rights against the Company, as more fully described in the Securities Purchase Agreement. Also, in case of a default, Portables, CNCG and the other member of Portables may bring claims for indemnification against the Company for a breach under the Securities Purchase Agreement, as more fully described in the Securities Purchase Agreement. The Company's non-payment to Portables has reduced its percentage of ownership from 55.0% to 50.5%. Portables Unlimited Inc. owns 49.5% of Portables. As of June 30, 2012, the Company is in dispute with Portables Unlimited Inc. over the Company's percentage of ownership of Portables. The Company derecognized the \$1,350,000 acquisition payable and does not expect to make payment for that liability. In the event that the Company is not able to maintain its majority ownership of Portables, the Company would account for its investment in Portables using the equity method of accounting. The Company was advised that on or about August 14, Portables Unlimited Inc., both individually and derivatively, filed an action in the Supreme Court of the State of New York, County of Nassau against the Company, its US subsidiary, and two officers of the Company. The Complaint seeks damages up to an aggregate amount of \$5 million for breach of contract, and a declaration as to the percentage interest the Company retains in Portables Unlimited, Inc. equal to 46%. On and around October 4, 2012, the Company has settled the dispute with Portables Unlimited Inc. and all the parties to the dispute agreed that the Company's and Portables Unlimited, Inc.'s ownership interests in Portables will be 50.1% and 49.9%, respectively.

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

#### The Subsidiaries

Gold Lion was founded by Mr. Lei Gu ("Gu") in September 2002 in the BVI. Pursuant to an agreement dated June 30, 2007, Mr. Wei Cao ("Cao"), purchased from Gu 29.4% of then outstanding shares of the Company. Through a resolution of the Company on November 26, 2008, the Company's issued 705 shares to Gu and 294 shares to Mr.

Songtao Du ("Du"), resulting in 1,000 issued and outstanding shares of common stock. Pursuant to a pledge agreement dated November 26, 2008, Du pledged his 294 shares to Cao, including all rights to such shares. As such, Gu and Cao jointly controlled 100% of Gold Lion.



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

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

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

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

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

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

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

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

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

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

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

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

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

### **Principles of Consolidation**

The Company's accompanying condensed consolidated balance sheet at December 31, 2011 includes the accounts of Gold Lion Holding Ltd, its 100%-owned subsidiary Profit Harvest which wholly owns Celestial Digital Entertainment, its 100%-owned subsidiary Jiangsu Leimone, which owns 80% of TCB Digital, its 100%-owned subsidiary Silver Tech, which wholly owns Ever Elite, and Ever Elite's wholly owned subsidiary Nollec Wireless, and its specifically formed wholly owned Zoom Sub which owned 55.0% of Portables.

Zoom's condensed consolidated balance sheet as of September 30, 2012 includes the balance sheets of Gold Lion, TCB Digital, Jiangsu Leimone, Profit Harvest, Silver Tech, Ever Elite, Nollec Wireless, CDE, Zoom Sub, and Portables. The consolidated operating results for the nine months ended September 30, 2012 include Gold Lion, TCB Digital, Jiangsu Leimone, Profit Harvest, Silver Tech, Ever Elite, Nollec Wireless, CDE, Zoom Sub, and Portables. The Company accounted for its ownership on Portables at September 30, 2012 and for the nine months then ended using an ownership interest of 50.1% (See Note 1). The consolidated operating results for the nine months ended September 30, 2011 include Gold Lion, TCB Digital, Jiangsu Leimone, Profit Harvest, Silver Tech, Ever Elite, Nollec Wireless, and CDE.

### **Equity Method Accounting**

In May 2012, the Company invested \$12.3 million to establish a new joint venture named SpreadZoom Technologies Co. Ltd., ("SpreadZoom"). The Company owns 47.4% of SpreadZoom and accounted for this investment under the

equity method of accounting (ASC 323-30). The Company recorded a loss on investment in SpreadZoom for \$423,630 for the nine months ended September 30, 2012.

#### 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 September 30, 2012 (See Note 26 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 "noncontrolling 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 accompanying condensed consolidated balance sheet as of December 31, 2011, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements as of September 30, 2012 and for the three month and nine month periods ended September 30, 2012 and 2011 have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim 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, 2011, 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 September 30, 2012, its consolidated results of operations and cash flows for the three month and nine month periods ended September 30, 2012 and 2011, 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.

The condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP").

For the Company's subsidiaries of JS Leimone, TCB Digital and Nollec Wireless, the functional currency is the Chinese Renminbi ("RMB"); the functional currency of Gold Lion, Profit Harvest, Silver Tech, Zoom Sub and Portables is United States Dollars ("USD" or "\$"), and the functional currency of Ever Elite and CDE is Hong Kong Dollars ("HKD"). The accompanying condensed consolidated financial statements were translated and presented in USD.

#### Use of Estimates

The preparation of condensed consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

contingent assets and liabilities at the dates of the consolidated financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those results.

## Risks and Uncertainties

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

## Comprehensive Income

The Company follows the provisions of ASC 220 "Reporting Comprehensive Income" which 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 comprehensive income statement.

## Cash and Equivalents

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

## Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Accounts are written off against the allowance when it becomes evident collection will not occur. For the contracted manufacturing activities, our standard terms for accounts receivable from our customers are between 60 to 75 days from close of the billing cycle; and for sales of own brand phones our terms include prepaid arrangements and extending receivable to customers up to 60 days. We also offer credit terms of up to 150 days in our trading activities to a certain customers. As of September 30, 2012, management concluded that the allowances as accrued and disclosed in Note 5 - Accounts Receivable were 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. Historically, the actual net realizable value has been close to management's estimate.

## Property, Plant and Equipment

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

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

## Capitalized Interest

Interest associated with major development and construction projects is capitalized and included in the cost of the project. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using weighted-average cost of the Company's outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or development activity is suspended for more than a brief period. There have not been materials amount of capitalized interest for the nine months ended September 30, 2012 and 2011.

## Impairment of Long-lived Assets

In accordance with ASC 360, "Property, Plant and Equipment", the Company reviews the carrying values of long-lived assets, including property, plant and equipment and other intangible assets, whenever facts and circumstances indicate that the assets may be impaired. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs of disposal. The Company performed an annual review of its long-lived assets at December 31, 2011, and management concluded that for year 2011 there was no impairment. As of and for the nine months ended September 30, 2012, management did not become aware of events that impaired the carrying value of the Company's 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.

## 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 subsidiary, 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 subsidiary, 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.

#### Operating Leases

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

#### Research and Development Costs

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

#### Earnings Per Share

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

Common stock equivalents represent the dilutive effect of the assumed exercise of the outstanding stock options and warrants, using the treasury stock method, at either the beginning of the respective period presented or the date of issuance, whichever is later, and only if the common stock equivalents are considered dilutive based upon the Company's net income (loss) position at the calculation dates.

## 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 September 30, 2012 and December 31, 2011 are as follows:

	Carrying value	Active markets For identical Assets	Significant other Observable Inputs	Significant Unobservable Inputs
	2012	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 3,803,966	\$ 3,803,966	\$ -	\$ -
Restricted cash	\$ 16,410,824	\$ 16,410,824	\$ -	\$ -
Warrants	\$ 327,763	\$ -	\$ 327,763	\$ -

	Carrying value	Active markets For identical Assets	Significant other Observable Inputs	Significant Unobservable Inputs
	2011	(Level 1)	(Level 2)	(Level 3)
Cash and cash equivalents	\$ 1,131,109	\$ 1,131,109	\$ -	\$ -
Restricted cash	\$ 15,507,408	\$ 15,507,408	\$ -	\$ -
Warrants	\$ 850,841	\$ -	\$ 850,841	\$ -

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

## Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents and trade and bills receivables. As of September 30, 2012 and December 31, 2011, substantially all of the Company's cash and equivalents and restricted cash were held by major financial institutions located in the PRC, Hong Kong and the United States, which management believes are of high credit quality. With respect to trade and notes receivables, the Company extends credit based on an evaluation of the customer's financial condition. The Company generally does not require collateral for trade receivables and maintains an allowance for doubtful accounts of trade receivables.

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

## Non-controlling Interests

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

## Statement of Cash Flows

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

## Recent Accounting Pronouncements

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

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

## Correction of Prior Period Financial Statements

During the three months ended September 30, 2012, management determined that the outstanding Series A, C, F, G and related placement agents warrants should be accounted for as liabilities under derivative accounting. The Company has adjusted its December 31, 2011 condensed consolidated balance sheet and its income statements for the three and nine month periods ended September 30, 2011.





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The following tables detail the corrections and impact to the condensed consolidated balance sheets at December 31, 2011:

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

The following tables detail the corrections and impact to the condensed income statements for the three and nine months ended September 30, 2011:

	For the Three Months Ended September 30, 2011			For the Nine Months Ended September 30, 2011		
	As Previously Reported	Adjustment	As Currently Reported	As Previously Reported	Adjustment	As Currently Reported
<b>Other income (expenses)</b>						
Change in fair value of warrants	\$ -	\$ 821,314	\$ 821,314	\$ -	\$ 4,208,983	\$ 4,208,983
Total other income and expenses	(750,577)	821,314	70,737	(1,293,059)	4,208,983	2,915,924
<b>Net income attributable to Zoom Technologies, Inc.</b>	\$ 1,755,051	\$ 821,314	\$ 2,576,365	\$ 5,023,248	\$ 4,208,983	\$ 9,232,231
<b>Basic and diluted income per common share:</b>						
Basic	\$ 0.11	\$ 0.05	\$ 0.16	\$ 0.32	\$ 0.26	\$ 0.58
Diluted	\$ 0.11	\$ 0.05	\$ 0.16	\$ 0.32	\$ 0.26	\$ 0.58

The corrections had no net impact on the Company's cash flows.

Management believes that these corrections when considering the qualitative impact are not considered material to the Company's financial position and results of operations in relation to financial statements previously filed with the SEC. The Company further believes treating these corrections as material and amending prior filings would be misleading to readers and investors because it would imply that the Company earned significantly more earnings through core business operations that would be available for distribution, which is not the case.

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

### 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.

Silver Tech's subsidiary Nollec Wireless primarily focuses on R&D for mobile phones, and hardware and software solutions for domestic Chinese and overseas customers. Its design team includes experienced engineers in the core technologies of wireless communication and mobile phone development. Nollec provides state of the art industrial, user inter-phase, mechanical and engineering designs and software and hardware integration. The acquisition of Nollec allows the Company to provide complete original design and manufactured solutions to its customers in order to maintain a competitive advantage in the mobile handset manufacturing market.

The Company acquired 100% ownership of CDE on January 4, 2011. As of January 4, 2011, the net assets of CDE were \$(43,409). The purchase consideration was \$1,818,000 which resulted in goodwill of \$1,861,409. The Company acquired CDE to broaden and deepen its knowledge base towards software solutions for mobile handsets. CDE has designed games for iOS and Android platforms for several years. The accumulated knowledge and source codes can be useful to the Company in integrating and testing operating systems with the hardware that the Company produces.

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

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

The Company acquired 55% ownership of Portables on October 11, 2011. As of October 11, 2011, the net assets of Portables were \$(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 September 30, 2012.

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

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

Our purchase price allocation is preliminary and will be finalized within one year from the date of acquisition of Portables.

The following table summarizes goodwill as of September 30, 2012 and December 31, 2011 resulting from the acquisitions of Jiangsu Leimone, Silver Tech, CDE and Portables:

	September 30, 2012 (Unaudited)	December 31, 2011
Jiangsu Leimone	\$ 103,057	\$ 103,057
Silver Tech	8,395,840	8,395,840
CDE	1,583,198	1,861,409
Portables	27,031,493	27,005,953
	37,113,588	37,126,605
Less: Impairment	(1,033,762)	(1,033,762)
<b>Total goodwill</b>	<b>\$ 36,079,826</b>	<b>\$ 36,332,497</b>

As of December 31, 2011, the Company had recorded total impairment of goodwill of \$1,033,762. During the nine months ended September 30, 2012, after considering markets conditions and the performance of those subsidiaries listed above, the Company concluded that it did not need to record additional impairment of goodwill. 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 deposits in banks as collateral for the banks to issue banker's acceptances. Restricted cash may not be recovered when the collateralized notes payable cannot be paid (see Note 14).

**NOTE 5 - ACCOUNTS RECEIVABLE**

As of September 30, 2012 and December 31, 2011, the Company's accounts receivable consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Accounts receivable	\$ 85,298,928	\$ 49,798,505
less: Allowance for doubtful accounts	(1,557,083)	(827,956)
<b>Accountants receivable, net</b>	<b>\$ 83,741,845</b>	<b>\$ 48,970,549</b>

**NOTE 6 - INVENTORIES**

Inventories, by major categories, as of September 30, 2012 and December 31, 2011 were as follows:

	September 2012 (Unaudited)	December 31, 2011
Raw materials	\$ 6,162,314	\$ 1,574,759
Finished goods	2,241,276	1,502,197
	8,403,590	3,076,956
less: Allowance for obsolete inventories	(394,119)	(6,956)
<b>Inventories, net</b>	<b>\$ 8,009,471</b>	<b>\$ 3,070,000</b>

**NOTE 7 - PURCHASE DEPOSIT**

As of September 30, 2012 and December 31, 2011, the Company's purchase deposit consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Shenzhen Wuxing Commercial & Trade Co.	\$ 5,436,592	\$ 7,135,266
Shenzhen Nanxin Communication Equipment Co., Ltd.	791,264	785,583
Shenzhen Futian District Longchengfa Electronic Co., Ltd.	633,012	628,466
<b>Total purchase deposit</b>	<b>\$ 6,860,868</b>	<b>\$ 8,549,315</b>

These three suppliers provide purchasing platforms. The purchase deposits are paid to ensure the Company is able to purchase components at competitive price. If the company ceases to conduct business with three suppliers, the deposits are refundable.

**NOTE 8 - OTHER RECEIVABLES & PREPAID EXPENSES**

As of September 30, 2012 and December 31, 2011, the Company's other receivables and prepaid expenses consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011
Advance to employees	\$ 74,329	\$ 23,882
Deposit	-	211,583
Prepaid expenses	364,288	238,857
Bank notes (a)	6,441,170	9,226,641
Tax Reimbursement	69,993	-
Other	796,691	83,044
<b>Total other receivables and prepaid expenses</b>	<b>\$ 7,746,471</b>	<b>\$ 9,784,007</b>

- (a) Per purchase contract signed in 2010, CECCC provided mobile phone components to the Company. The Company paid in advance to CECCC by payment of 'bank notes'. During 2011, no purchase transaction was completed. As of September 30, 2012, the total outstanding amount is \$6.4 million (RMB 40.7 million).

**NOTE 9 - COSTS IN EXCESS OF REVENUE - R&D CONTRACTS**

	September 30, 2012 (Unaudited)	December 31, 2011
Costs in excess of revenue	\$ 698,597	\$ 91,880

Research and development contracts in progress include cost plus profit attributable to mobile phone development contracts in progress. Cost to date is calculated based on the value of man-month engineering costs and related overhead expenses. The Company's R&D performed as a service for customer had total accumulated costs at September 30, 2012 and December 31, 2011 of \$0.7 million and \$0.09 million respectively while its progress billings were \$0 million and \$0 million respectively.

## NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of September 30, 2012 and December 31, 2011 consisted of the following:

	Estimated Useful Lives	September 30, 2012 (Unaudited)	December 31, 2011
Machinery and equipment	4-6 years	\$ 9,799,115	\$ 9,678,543
Electronic equipment	4-6 years	2,158,344	2,431,834
Transportation equipment	4-6 years	173,303	182,250
Workshop reconstruction	5 years	252,599	173,928
Leasehold improvements	5 years	2,668,935	2,547,847
Computer equipment	4-6 years	304,082	96,982
Office equipment	4-6 years	751,668	614,710
Total		16,108,046	15,726,094
less: Accumulated depreciation		(10,544,829)	(9,465,419)
<b>Property, plant and equipment, net</b>		<b>\$ 5,563,217</b>	<b>\$ 6,260,675</b>

Depreciation for the nine months ended September, 2012 and 2011 was \$1,051,301 and \$1,130,038 respectively.

Depreciation for the three months ended September, 2012 and 2011 was \$254,209 and \$757,123, respectively.

## NOTE 11 - CONSTRUCTION IN PROGRESS DEPOSIT - RELATED PARTY

	September 30, 2012 (Unaudited)	December 31, 2011
Manufacturing plant	\$ -	\$ 10,170,809

The Company signed an agreement with Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") to construct a manufacturing plant on June 26, 2010 for \$15,063,000 (RMB 99,591,000). The contract included land use rights for 46,021 square meters and space of 21,029 square meters. At December 31, 2011, the Company had paid to Tianjin Leimone \$10,170,809 (RMB 64,734,150). During the three months ended June 30, 2012, the Company incorporated a new joint venture, SpreadZoom Technologies Co., Ltd., that will be the entity to legally hold title to the Company's new factory. The Company believes the valuation of the assets and economic benefits derived from the Company's ownership via the newly formed entity remained unchanged. See Note 27 - SpreadZoom Investment for details. The deposit paid to Tianjin Leimone was repaid to the Company and immediately used to capitalize SpreadZoom and then subsequently paid back to Tianjin Leimone for the factory that will owned by SpreadZoom. As disclosed in Note 27, SpreadZoom began operations. The Company recorded a loss on investment of \$423,630 for the three and nine months ended September 30, 2012.

Leimone (Tianjin) Industrial Co., Ltd ("Leimone Tianjin"), a related party, is currently involved with a dispute with the construction company contracted to build our new manufacturing facility in Tianjin. On August 15, 2011, Leimone Tianjin filed a claim against Henan Urban Construction Group ("HUCG"). The claim is for the termination of the construction contract between Leimone Tianjin and HUCG and claims damages of approximately \$1.3 million (RMB 8,072,310) against HUCG. In Leimone Tianjin's court filing, it has accused HUCG of improper use of the funds paid to HUCG by Leimone Tianjin, as a result, construction project has been delayed. HUCG's has claimed as its defense that the delay in construction was a result of poor conditions at the construction site. The outcome of the dispute is still pending decision from the courts from the 2<sup>nd</sup> Mid-Level People's Court of Tianjin City. The Company is currently unable to determine the probability that it will be successful in this claim. During the quarter ended September 30, 2012, the Company received notice from the courts in Tianjin that it had made a ruling; however, the counterparty has appealed the Court's ruling. As of September 30, 2012, further judgment on the counterparty's appeal is still pending.

## NOTE 12 - INTANGIBLE ASSETS

As of September 30, 2012 and December 31, 2011, the Company's intangible assets were summarized as follows:

	Estimated Useful life	September 30, 2012 (Unaudited)	December 31, 2011
Software	3 years	\$ 202,343	\$ 201,275
Domain name, logo & trade mark	Indefinite	349,600	349,600
Customer list	5 years	-	86,250
Technology use right	1 year	387,387	125,432
Patent techniques	10 years	182,671	181,360
Total cost		1,122,001	943,917
less: Accumulated amortization		(222,547)	(171,390)
<b>Intangible assets, net</b>		<b>\$ 899,454</b>	<b>\$ 772,527</b>

Intangible assets are stated at cost less accumulated amortization. The Company acquired domain name "zoom.com" and related logo & trade name for 80,000 shares of common stock valued \$349,600 as of the date of purchase. The domain name, logo and trademark have indefinite lives and no amortization was recorded. The amortization of intangible assets for the nine months ended September, 2012 and 2011 was \$216,752 and \$42,446 respectively. The amortization of intangible assets for the three months ended September, 2012 and 2011 was \$164,177 and \$21,840 respectively. The estimated amortization for the next five years as of September 30, 2012 and thereafter is expected to be as follows by years:

2012	\$ 44,481
2013	178,424
2014	140,324
2015	90,194
2016	28,003
2017	19,580
Thereafter	48,848
Total	<b>\$ 549,854</b>

## NOTE 13 - SHORT-TERM LOANS

Short-term loans are due to various financial institutions which are normally due within one year. As of September 30, 2012 and December 31, 2011, the Company's short term loans consisted of the following:

	September 30, 2012	December 31, 2011
	(Unaudited)	
Bank of Communication Tianjin Branch ("BOCTB"), due from July 4, 2011 to July 3, 2012 with benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	\$ -	\$ 3,142,332
BOCTB, due from June 20, 2011 to June 16, 2012 with benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	-	3,142,332
BOCTB, due from June 14, 2011 to June 13, 2012 with benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	-	3,079,485
BOCTB, due from August 18, 2011 to August 17, 2012, with benchmark interest rate plus 5%, mortgaged by fixed assets	-	3,142,332
BOCTB, due from August 3, 2011 to August 1, 2012 with benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	-	4,713,498
BOCTB, due from June 14, 2012 to June 13, 2013 benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	6,330,116	-
BOCTB, due from July 19, 2012 to July 18, 2013 benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	3,165,058	-
BOCTB, due from July 26, 2012 to July 25, 2013 benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	4,747,587	-
BOCTB, due from September 3, 2012 to September 2, 2013 benchmark interest rate plus 5%, guaranteed by TCBGCL —related party	3,006,805	-
China Merchant Bank Tianjin branch, due from July 29, 2011 to January 28, 2012, interest at 7.93%, mortgaged by bank notes of \$785,583 (RMB5,000,000); repaid in full on January 28, 2012	-	754,160
Key Network Holdings Limited, due on demand with interest at 6%.	715,064	715,064
SKAVYNIA HOLDINGS LTD collateralized by guarantee of Portables Unlimited, Inc. (the 49.9% owner of Portables), due on demand.	525,000	854,469
HSBC, due on demand with interest at 7.25%	-	48,146
Bank of Tianjin Laolian Branch, due January 9, 2013 with benchmark interest rate plus 5%, guaranteed by Tianjin Zhonghuan Electronic Information Group Ltd. ("Electronic")	3,165,058	-
Bank of Tianjin Laolian Branch, due from June 24, 2011 to June 22, 2012 with interest at 6.941%, guaranteed by Tianjin Zhonghuan Electronic Information Group Ltd. ("Electronic")	-	1,995,381
Bank of Tianjin Laolian Branch, due from June 24, 2011 to June 22, 2012 with interest at 6.941%, guaranteed by Electronic		628,466
Bank of Tianjin Laolian Branch, due from June 27, 2011 to June 22, 2012 with interest at 6.941%, guaranteed by Electronic	-	157,117



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Bank of Tianjin Laolian Branch, due from June 28, 2011 to June 22, 2012 with interest at 6.941%, guaranteed by Electronic	-	361,368
Shanghai Pudong Development Bank Pucheng Branch, due from November 1, 2011 to November 1, 2012 with interest at 7.216%, guaranteed by Tianjin Loan Guaranty Company, price is 1.2% of total principal, shall pay off within 5 days after all principal are paid off (a)	1,582,529	1,571,166
North International Trust Company, due from April 12, 2012 to April 12, 2013 with interest at 11.5%, guaranteed by Tianjin Loan Guaranty Company	1,582,529	-
HSBC Suzhou Branch, due from August 15, 2011 to January 12, 2012 with interest at SIBOR plus 4.0%, guaranteed by tangible assets of the Company	-	1,000,000
HSBC Suzhou Branch, due from April 27, 2012 to January 12, 2013 with interest at SIBOR plus 4.0%, guaranteed by the Company (a)	600,000	-
Beijing Bank Zhongguancun Haidianyuan Sub-branch, due March 14, 2012 with interest at 6.67%, guaranteed by TCB Digital; repaid in full on March 14, 2012	-	235,675
Beijing Bank Zhongguancun Haidianyuan Sub-branch, due March 14, 2012 with interest at 6.67%, guaranteed by TCB Digital, repaid in full on March 14, 2012	-	314,233
Beijing Bank Zhongguancun Haidianyuan Sub-branch, due March 14, 2012 with interest at 6.67%, guaranteed by TCB Digital; repaid in full on March 12, 2012	-	534,196
JP Morgan Chase —Bank Overdraft Account; Due on Demand	-	15,923
HSBC Hong Kong; 0.52% flat rate per month, Corporate Guarantee	7,995	-
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%.	2,849,999	-
<b>Total short-term loans</b>	<b>\$ 28,277,739</b>	<b>\$ 26,405,343</b>

(a) The loan was repaid in full subsequent to September 30, 2012.

## NOTE 14 - NOTES PAYABLE

These notes are payable in three to six months and bear no interest. These notes payable are collateralized by the Company's restricted cash. The balance of notes payable as of September 30, 2012 and December 31, 2011 consisted of the following (all were bankers' acceptances):

	September 30, 2012 (Unaudited)	December 31, 2011
CECCC, honored by the BOCTB, from July 14, 2011 to January 14, 2012, secured by \$942,700 of cash in bank; Repaid January 16, 2012	\$ -	\$ 1,885,399
CECCC, honored by the BOCTB, from July 20, 2011 to January 20, 2012, secured by \$1,414,049 of cash in bank, Repaid January 20, 2012	-	2,828,099
Shanghai Zhanqiao, honored by the BOCTB, from August 8, 2011 to February 8, 2012, secured by \$1,571,166 of cash in bank; repaid February 8, 2012	-	1,571,166
CECCC, honored by the BOCTB, from September 20, 2011 to March 20, 2012, secured by \$3,927,915 of cash in bank; repaid March 20, 2012	-	7,855,830
CECCC, honored by the BOCTB, from September 22, 2011 to March 22, 2012, secured by \$3,220,890 of cash in bank; repaid March 22, 2012	-	6,441,780
CECCC, honored by the BOCTB, from September 27, 2011 to March 27, 2012, secured by \$974,123 of cash in bank; repaid March 27, 2012	-	1,948,246
CECCC, honored by the BOCTB, from October 14, 2011 to April 14, 2012, secured by \$790,551 of cash in bank	-	1,571,166
CECCC, honored by the BOCTB, from October 19, 2011 to April 19, 2012, secured by \$2,687,875 of cash in bank	-	5,341,964
CECCC, honored by the BOCTB, from March 30 to September 30, 2012, secured by \$3,955,884 of cash in bank;	7,912,644	-
CECCC, honored by the BOCTB, from April 5 to October 5, 2012, secured by \$4,224,884 of cash in bank;	8,450,704	-
CECCC, honored by the BOCTB, from April 9 to October 9, 2012, secured by \$2,057,060 of cash in bank;	4,114,575	-
CECCC, honored by the BOCTB, from April 16 to October 16, 2012, secured by \$1,424,118 of cash in bank;	2,848,552	-
CECCC, honored by the BOCTB, from July 13, 2012 to January 13, 2013, secured by \$2,373,793 of cash in bank;	4,747,587	-
CNCG, as part of the consideration payable to the sellers in our acquisition of Portables, from October 11, 2011 to October 11, 2014 with interest at 2%	500,000	-
<b>Total notes payable</b>	<b>\$ 28,574,062</b>	<b>\$ 29,443,650</b>

## NOTE 15 - DIVIDENDS PAYABLE

In June 2007, before the Company acquired 51.0% of TCB Digital, TCB Digital decided to distribute dividends to its original shareholders of \$1,074,068 (RMB 7,862,700). The Company paid dividends of \$495,926 (RMB 3,900,000) in July 2007 to its original shareholders. The balance of dividends payable was \$627,109 and \$622,606 as of September 30, 2012 and December 31, 2011 respectively, representing the dividend payable to TCBGCL of RMB 3,962,700. The specific due date of the dividend will be negotiated between the current shareholders and original shareholders of the Company. The fluctuation of the balance of dividend payable represents the fluctuation of currency exchange rate.

NOTE 16 - RELATED PARTY TRANSACTIONSDue from related parties

As of September 30, 2012 and December 31, 2011, due from related parties were:

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Due from related parties - short term</b>		
Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd.	\$ 6,810,361	\$ 3,883,641
Beijing Leimone Shengtong Wireless Technology Co., Ltd.	110,302	167,172
Leimone (Tianjin) Industrial Co., Ltd.	7,441,408	20,473,338
Beijing Leimone Shengtong Cultural Development Co., Ltd.	1,708,438	2,744,697
Tianjin Tong Guang Group	-	379,994
Shenzhen Leimone	13,990	429,170
712 (Prior Shareholder)	758,858	992,815
Raja R Amar - Chief Executive Officer of Portables	-	741,448
Spreadzoom	9,387,561	-
Others	2,872,566	613,425
<b>Total due from related parties</b>	<b>\$ 29,103,484</b>	<b>\$ 30,425,700</b>

Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd. ("Electronics Science & Tech"), an entity related to the Company through a common shareholder of TCB Digital, purchased products from the Company. For the nine months ended September 30, 2012 and 2011, the Company recorded revenues of \$41,055,041 and \$21,603,055 from sales to Electronics Science & Tech respectively. For the three months ended September 30, 2012 and 2011, the Company recorded revenues of \$18,305,584 and \$9,061,134 from sales to Electronics Science & Tech respectively.

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

Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") was controlled by Gu, the largest shareholder of the Company. Tianjin Leimone sells raw materials to the Company. For the nine months ended September 30, 2012 and 2011, the Company recorded total purchases from Tianjin Leimone of \$118,188,000 and \$36,153,234 respectively. The amount due from Tianjin Leimone represented advances of \$12,049,192 and \$13,708,030 as of September 30, 2012 and December 31, 2011 respectively. The Company also sold certain products to Tianjin Leimone of \$10,445,942. In addition, Tianjin Leimone borrowed money from the Company and these borrowings bore no interest. As of September 30, 2012 and December 31, 2011, the balance of such loans was \$11,495,490 and \$6,765,308 respectively. The balances are neither collateralized nor personally guaranteed by Gu.

The amount due from Beijing Leimone Shengtong Cultural Development Co., Ltd. ("Beijing Leimone Cultural") for short term loan granted by the Company. Beijing Leimone Cultural was controlled by Gu. The borrowing bore no interest and is due on demand. The balances are neither collateralized nor personally guaranteed by Gu.



Tianjin Tong Guang Group, a 20% shareholder of our TCB subsidiary, borrowed money from the Company. The borrowings bear no interest and are due on demand. As of September 30, 2012, there was no outstanding balance due from Tianjin Tong Guang Group.

712 was a minority shareholder of TCB Digital before Mr. Gu exercised the option to acquire 29.0% of TCB Digital. (See note 1.) 712 purchases raw materials from the Company. For the nine months ended September 30, 2012 and 2011, the Company recorded revenues from sales to 712 of nil and \$15,757,425 respectively. For the three months ended September 30, 2012 and 2011, the Company did not recognize and sales to 712. As of September 30, 2012 and December 31, 2011, the balance of such sales was \$563,539 and \$796,419 respectively. In addition, the Company purchases raw materials from 712. For the nine months ended September 30, 2012 and 2011, the Company recorded purchases from 712 of 580,617 and \$15,523,282 respectively. For the three months ended September 30, 2012 and 2011, the Company recorded total purchases from 712 of 580,617.19 and nil respectively. 712 was no longer a related party of the Company after Mr. Gu exercised his option to acquire the additional 29.0% of TCB Digital in March 2010.

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. \$369,185.39 and \$408,831 as of September 30, 2012 and December 31, 2011 was a loan to Shenzhen Leimone for setup costs. Our Chairman, Mr. Gu, plans to personally fund the cost of equipment as his investment into Shenzhen Leimone and become the controlling shareholder of Shenzhen Leimone. The Company purchased raw materials from Shenzhen Leimone in 2011. The balance as of September 30, 2012 was advance to Shenzhen Leimone amounted to \$13,990. In addition, For the nine months ended September 30, 2012 and 2011, the Company recorded revenues from sales to Shenzhen Leimone of \$16,055 and \$153,695 respectively. For the three months ended September 30, 2012 and 2011, the Company recorded total revenue from sales to Shenzhen Leimone of \$2,729 and \$153,695 respectively.

The amounts due from Raja R Amar are related to loans made to Raja R Amar by Portables prior to its acquisition by Zoom. The loans are interest free and are unsecured and are expected to be repaid by December 31, 2012. There was no balance due from Raja R. Amar at September 30, 2012. Amounts owed by him personally have been settled.

The entire balance of receivables due from SpreadZoom was for mobile handsets manufactured by the Company and sold to SpreadZoom. The Company expects to receive payments for these outstanding receivables in the normal course of business.

### Due to related parties

As of September 30, 2012 and December 31, 2011, due to related parties were:

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Due to related parties</b>		
Mr. Lei Gu	\$ 2,883,500	\$ 2,788,635
Anthony Chan	328,854	-
Tianjin Tong Guang Group Electronics Science & Technology Co., Ltd.	37,636	-
Beijing Leimone Shengtong Cultural Development Co., Ltd.	72,500	-
Tianjin Tong Guang Group	37,845	-
Leimone (Tianjin) Industrial Co., Ltd.	17,171,257	-
Wireless Holdings of Northeast	117,600	117,600
Portables Unlimited International	4,079,864	2,633,147
Portables Unlimited, Inc.	1,110,000	650,000
AUM Realty, Inc.	125,446	269,049
Others	-	283,943
<b>Total due to related parties</b>	<b>\$ 25,964,502</b>	<b>\$ 6,742,374</b>

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The Company borrowed money from Hui Pak Kong, a prior shareholder of CDE before the Company's acquisition on January 4, 2011. The borrowings bear no interest and are due on demand. As of September 30, 2012 and December 31, 2011, the balance of such loans was Nil and \$277,076 respectively. The loan owed to Hui Pak Kong was forgiven and the amount was added to the additional paid in capital during the nine months ended September 30, 2012.

Gu provides fund to the Company with no interest and are due on demand. As of September 30, 2012 and December 31, 2011, the balances of funds provided by Gu was \$2,883,500 and \$2,788,635, respectively.

TCB Digital had outstanding related party payable of \$17,171,257 owed to Tianjin Leimone for raw materials that TCB Digital purchased through Tianjin Leimone for its manufacturing in the normal course of business. During the nine months ended September 30, 2012, the TCB Digital purchased approximately \$118.2 million of material from Tianjin Leimone.

In January 2011, the Portables entered into a line of credit agreement with a Portables Unlimited International for \$5,000,000. Interest on the line is due and payable on demand at 5.6%. The unpaid balance as of September 30, 2012 and December 31, 2011 was \$4,079,864 and \$2,633,147 respectively.

Portables received advances from one of its non-controlling owner, Portables Unlimited, Inc., totaling \$1,110,000. The advance has an interest rate of 12% per annum and is due on demand.

### NOTE 17 - LONG-TERM PAYABLES

Acquisition payable arose from our acquisition of Nollec Wireless on June 1, 2010. As of September 30, 2012, there were three payments outstanding of \$145,000 and they have all been classified as short term.

### NOTE 18 - LONG-TERM NOTES PAYABLE

September 30,

December 31,

2012

2011

(Unaudited)

CNCG, as part of the consideration payable to the sellers in our acquisition of Portables, from October 11, 2011 to October 11, 2014 with interest at 2%

\$

-

\$

500,000

The note owed to CNCG was classified as short term at September 30, 2012 because the Company was in default. Subsequent to the balance sheet date, the company has remedied the issue.

#### NOTE 19 - STOCKHOLDERS' EQUITY

##### COMMON STOCK

On September 6, 2012 and July 2, 2012, the Company issued 72,500 shares and 137,625 shares, respectively, of its common stock to the employees of its Nollec Wireless subsidiary in lieu of cash salaries. The 72,500 shares were valued at \$0.98 per share, the closing price on the date of Board Approval, and were issued for services from September 2012 onwards for 3 years. The 137,625 shares were valued at \$1.03 per share, the closing price on the date of Board Approval, and were issued for services within the second quarter of 2012. The Company recorded non-cash compensation expense of \$141,754 for the quarter ended June 30, 2012 and \$1,974 for the quarter ended September 30, 2012, for these issuances.

On June 25, 2012, the Company issued 35,000 shares of its common stock to a consultant for services from June 2012 onwards for 1 year. These shares were valued at \$1.07 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of \$9,363 for the quarter ended September 30, 2012 for this issuance, and the balance of deferred expenses related to such shares at September 30, 2012 was \$24,967.

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

On May 22, 2012, the Company issued 4,497,200 shares of its common stock to consultants for their services over the next four years beginning with the second quarter of 2012. The shares were valued at \$1.12 per share, the closing price on the date of Board Approval. The projects these consultants are pursuing include but are not limited to marketing our ODM business to large Southeast Asian customers, sales of our own brand and ODM products to private companies and government supported programs in China aimed at various demographic sectors of the domestic mobile market, and other cooperative ventures with the three mobile operators of the PRC. The Company recorded \$314,804 of non-cash compensation expense for this issuance for the quarter ended September 30, 2012; and the outstanding deferred expenses related to such shares at September 30, 2012 was \$4,407,256.

On February 28, 2012, the Company issued to members of the Board of Directors a total of 170,000 shares of its common stock at a then fair value of \$1.34 per share. The Company recorded \$56,950 of non-cash compensation expense for this issuance for the quarter ended September 30, 2012. The outstanding deferred expense related to such shares at September 30, 2012 was \$56,950.

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 \$96,050 for the quarter ended September 30, 2012. The outstanding deferred expense related to such shares at September 30, 2012 was \$960,500.

On November 29, 2011, the BOD approved a grant of 200,000 shares of common stock to management and one consultant for their services over the next two years. The shares were valued at \$0.79 per share, the closing price on the date of Board Approval. For the quarter ended September 30, 2012, we recorded non-cash compensation expense of \$19,750 and deferred expenses of \$92,167.

#### NOTE 20 - WARRANTS

The Company granted Series A, B, C, D and E warrants to the accredited investors as part of its private place 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 nine months ended September 30, 2012:

	Number of Warrants	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	8,638,604	\$ 2.30	\$ -
Granted	-	-	-
Lapsed	-	-	-
Exercised	-	-	-
Cancelled	-	-	-
Balance, September 30, 2012	8,638,604	\$ 2.30	\$ -

The following presents warrants summary as of September 30, 2012:

	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	2.34 years	\$ 2.30	8,638,604	\$ 2.30

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

## NOTE 21 - STOCK OPTIONS

### Previous Plan

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

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

The following summary represents options activity for the nine months ended September 30, 2012 under the previous plan.

	Under Previous Plan	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	129,350	\$ 1.80	\$ -
Granted	-	-	-
Lapsed	(129,350)	1.80	-
Exercised	-	-	-
Cancelled	-	-	-
Balance, September 30, 2012	-	\$ -	\$ -

#### STOCK OPTIONS - The 2009 Equity Incentive Compensation Plan

On December 10, 2009, the Company's Board of Directors ("BOD") approved and adopted the 2009 Equity Incentive Compensation Plan (the "New Plan"), and a total of 1,100,000 options were granted on the same day to current employees, executives and directors of the Company, with an exercise price of \$6.18 per share, expiration between 1 and 3 years, and vesting over the life of the options.

On November 28, 2010, the Company's BOD approved re-pricing of the outstanding options from the exercise price of \$6.18 to \$3.75 per share, the market price for the Company's common stock at the time of the re-pricing.

On December 1, 2010, the Company's BOD approved of the granting of 677,000 options to current employees and executives of the Company, with an exercise price of \$3.75 per share, the market price for the Company's common stock at the time of the re-pricing, vesting over 3 years and expiration in 3.25 years.

On May 22, 2012, the Company issued 302,800 shares of its common stock to its employees and directors in replacement for cancelling 1,339,000 outstanding options that were held by the same recipients. The shares have the same vesting schedule as the options and were valued at \$1.12 per share, the closing price on the date of Board Approval, which is considered the market price at that time. Based on the difference between the market value of the shares and the Black-Scholes value of the cancelled options as of May 22, 2012, there is an extra non-cash compensation expense of \$66,977 for the quarter ended September 30, 2012.

The following summary represents options activity during the nine months ended September 30, 2012 under the New Plan.

	Under Previous Plan	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2011	3,557,000	\$ 3.02	\$ -
Granted	-	-	-
Lapsed	(408,000)	3.18	-
Exercised	-	-	-
Cancelled	(1,339,000)	3.18	-
Balance, September 30, 2012	1,810,000	\$ 2.97	\$ -

The following represents options summary as of September 30, 2012 under the New Plan.

Options Outstanding			Options Exercisable	
Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Options 1,810,000	2.71 years	\$ 2.97	963,750	\$ 2.62

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

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

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

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

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

The Company recorded \$259,701 of non-cash compensation expense related to stock options for the quarter ended September 30, 2012. As of September 30, 2012, there was \$705,979 of non-cash compensation to be recorded up to 2014 based on options valued at grant date.

#### NOTE 22 - 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 \$10.2 million at September 30, 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.

TCB Digital, Jiangsu Leimone and Nollec Wireless 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.

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

Since Nollec has pre-tax loss for the nine months period ended September 30, 2012, the Company's net income and earnings per share had no effect due to its income tax exemption.

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 statutory tax rate of 34%.

TCB Digital had pre-tax losses of \$1,361,596 and \$360,102 for the nine months ended September 30, 2012 and 2011 respectively, while Jiangsu Leimone had pre-tax losses of \$190,738 and \$801,131 for the nine months ended September 30, 2012 and 2011 respectively, while Profit Harvest had pre-tax profit of \$8,780,223 and \$12,333,401 for the nine months ended September 30, 2012 and 2011 respectively, while Nollec Wireless had pre-tax loss of \$2,455,326 and \$1,884,866 for the nine months ended September 30, 2012 and 2011, while CDE had pre-tax profit of \$369,569 and pre-tax loss of \$133,576 for the nine months ended September 30, 2012 and 2011, while Portables had pre-tax profit of \$901,857 for the nine months ended September 30, 2012.

The following table summarizes the temporary differences which result in deferred tax assets and liabilities as at September 30, 2012 and December 31, 2011:

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Deferred tax assets:</b>		
Accounts receivable allowance	\$ 206,308	\$ -
Net operating loss	1,542,316	-
Inventory impairment reserve	-	8,360
Inventory shortage	-	60,688
Long-term investment impairment	-	17,676
	1,748,624	86,724
<b>less: Valuation allowance</b>	<b>(1,748,624)</b>	<b>-</b>
<b>Total deferred tax assets</b>	<b>-</b>	<b>86,724</b>
<b>Deferred tax liabilities:</b>		
Developed products	-	(30,575)
<b>Deferred tax assets, net</b>	<b>\$ -</b>	<b>\$ 56,149</b>

The following table reconciles the U.S. statutory rates to the Company's effective tax rate for the nine months ended September 30, 2012 and 2011:

	For the Nine Months Ended September 30, 2012	2011
US statutory rates	34.00%	34.00%
Tax rate difference	-24.50%	-22.60%
Valuation allowance	37.10%	5.55%
Tax for prior year	2.12%	1.30%
Non-taxable Income of pass through entity	-8.19%	0.00%
<b>Tax per financial statements</b>	<b>40.53%</b>	<b>18.25%</b>

Foreign pretax earnings approximated \$3.5 million for the nine months ended September 30, 2012. Pretax earnings of a foreign subsidiary are subject to U.S. taxation when effectively repatriated. The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries except to the extent that, such earnings are invested indefinitely outside of the U.S. At September 30, 2012, approximately \$30.53 million of accumulated undistributed earnings of non-U.S. subsidiaries was invested indefinitely. At the existing U.S. federal income tax rate, additional taxes of \$7.3 million would have to be provided if such earnings were remitted currently.



**NOTE 23 - STATUTORY RESERVES**

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

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

In accordance with Chinese Company Law, the Company allocated 10% of its net income to surplus. For the nine months ended September 30, 2012 and 2011, the Company appropriated \$19,996 and \$3,667 to statutory surplus reserve respectively. As of September 30, 2012 and December 31, 2011, the Company's statutory surplus reserve was \$702,524 and \$682,528 respectively.

**NOTE 24 - CONCENTRATION DISCLOSURE**

(a) During the reporting periods, the customers accounting for 10% or more of the Company's consolidated sales were:

Customer	For the Nine Months Ended September 30,			
	2012		2011	
	Sales Revenue	% of Total Sales	Sales Revenue	% of Total Sales
TCB Group Electronic & Science Co. Ltd —related party	\$ 41,055,041	13%	\$ 21,603,055	13%
Gohigh Data Networks Technology Co., Ltd	37,722,134	12%	-	0%
Tianjin Optical Communication Technology Co., Ltd.	22,466,635	7%	23,715,637	14%
Achemetal Inc	5,265,920	2%	19,242,916	12%
<b>Total</b>	<b>\$ 106,509,731</b>	<b>35%</b>	<b>\$ 64,561,608</b>	<b>39%</b>

(b) During the reporting periods, the suppliers accounting for 10% or more of the Company's consolidated purchases are:

Supplier	For the Nine Months Ended September 30,			
	2012		2011	
	Total Purchases	% to Total Purchases	Total Purchases	% to Total Purchases
Leimone (Tianjin) Industrial Co., Ltd. —related party	\$ 118,188,000	41%	\$ 36,153,234	23%
Tianjin 712 Communication and Broadcasting Co., Ltd. —related party	581,584	0%	15,523,282	10%
<b>Total</b>	<b>\$ 118,769,584</b>	<b>41%</b>	<b>\$ 51,676,516</b>	<b>33%</b>

#### NOTE 25 - OPERATING RISK

- Industry risk

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

- Exchange risk

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

- Political risk

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

- Interest risk

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

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

## NOTE 26 - COMMITMENTS

Operating lease commitments

The Company has an operating lease for TCB Digital's premises through TCBGCL, a common shareholder of TCB Digital; pursuant to this lease, the rate of rent is at \$1.25 (Rmb 8) per square meter per month for production facilities and dormitory space. The Company leases of the Tianjin factory and dormitory expired on July 20, 2012 and December 31, 2011; the Company is currently renting on a month to month basis. The Company also has an operating lease in Beijing for office space shared with Nollec Wireless, with rent at \$21.37 (Rmb 137) per square meter per month for 1,409 square meters and with rent at \$20.44 (Rmb 131) per square meter per month for 388 square meters. Nollec's Beijing office expires in April 15, 2013. The Company has an operating lease in Hong Kong for the office of CDE, rental and property management fees are \$1,363 (HKD 10,588) and \$438 (HKD 3,402) respectively per month. The lease for CDE's Hong Kong office expires August 31, 2013. The leases commitments of the Company (except for Portables which is disclosed separately below) as of September 30, 2012 are as follows:

Year	
2012	\$ 269,570
2013	462,301
2014	155,341
<b>Total minimum lease payments</b>	<b>\$ 887,212</b>

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 and simultaneously transferred title to, and entered into a lease agreement with, The Rockland County Industrial Development Agency, with a bargain purchase option upon expiration of the lease. A non-controlling member of Portables, 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 PILOT payments (real estate taxes). In addition, AUM borrowed \$1,628,000 from a bank secured by a first mortgage on the property. This loan is guaranteed by Portables non-controlling member.

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

Portables leases two warehouses and 28 retail stores and kiosks. These leases require monthly payments and expire at various dates through 2015. The Company has operating agreements in place with 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 in accordance with accounting principles generally accepted in the United States of America.

The future minimum annual rental commitments of Portables as of September 30, 2012 are as follows:

Year	
2012	\$ 203,055
2013	349,766
2014	145,044
2015	72,522
<b>Total minimum lease payments</b>	<b>\$ 770,387</b>

Rent expense, net of sublease income for retail locations of \$197,749, amounted to \$1,004,847 of which \$215,885 was paid to one of the Company's members under the sublease agreement for the period ended September 30, 2012.

**NOTE 27 - INVESTMENT IN 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 September 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. The Company's capital contribution to SpreadZoom of \$12,342,358 was primarily comprised of rights to the deposits made for the construction of the new factory in Tianjin that as of December 31, 2011, was valued at \$10,170,809. The balance of \$2,171,549 was a refund of a prepayment for the purchase raw material in the ordinary course of business made to Leimone (Tianjin) Industrial Co., Ltd., a related party who is also the general contractor for the construction of the new factory. See details described in Note 11 Construction in Progress - Related Party. SpreadZoom is still in the initial phases of setup and registration. Management and control of the business have not been fully determined. As of September 30, 2012, the Company has used the equity method to account for its investment in SpreadZoom and has recorded and loss from investment of \$423,630.

**NOTE 28 - OTHER INCOME (EXPENSES)**

Other income and expenses are comprised of the following:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Loss on disposal of fixed assets	\$ -	\$ -	\$ -	\$ (8,487)
Government grants	126,433	454	203,025	15,895
Other income	221,300	58,363	388,327	520,179
Exchange gain (losses)	204,511	(30,378)	191,757	(67,859)
Other expense	6,421	(203,905)	(232,304)	(346,837)
	\$ 558,665	\$ (175,466)	\$ 550,805	\$ 112,891

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 Consolidated Financial Statements and Related Notes.

Corporate Overview

Zoom Technologies, Inc. (the "Company", "we", "us", "our", or "Zoom") 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.

The Company, through Gold Lion, is the owner of 100% of Profit Harvest Corporation Ltd., a company organized under the laws of Hong Kong ("Profit Harvest") and through Gold Lion's wholly owned subsidiary, Jiangsu Leimone, is the owner of 80% of TCB Digital, a company organized under the laws of the People's Republic of China ("PRC"). The Company's ownership of TCB Digital increased from 51% to 80% when our Chairman and Chief Executive Officer, Mr. Lei Gu, through Hebei Leimone Technology Company, Ltd. ("Hebei Leimone"), a company controlled by him, exercised an option to purchase an additional 28.97% of TCB Digital and transferred such ownership to the Company on March 29, 2010. The Company issued 2,402,576 shares of common stock to Hebei Leimone's assignees as consideration for such transfer. Profit Harvest serves as the sales and marketing arm of TCB Digital and Jiangsu Leimone serves as a complimentary and supplemental manufacturing arm for TCB Digital. Substantially all of the revenues of Zoom are currently generated by TCB Digital and Profit Harvest, and from June 1, 2010 onwards by Nollec Wireless (see next paragraph), and from October 12, 2011 onwards by Portables Unlimited LLC. Both TCB Digital and Jiangsu Leimone are in the business of manufacturing, research and development, and sales of electronic components for third generation mobile phones, whole phones, wireless communication circuitry, GPS equipment, and related software products.

On June 1, 2010 the Company acquired 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, a mobile phone and wireless communication design company located in Beijing, China, founded in June 2007 and organized under the laws of the PRC. The Company purchased all of the outstanding shares of Silver Tech from its previous owners for \$10.96 million, comprised of \$1.37 million in cash and 1,342,599 newly issued unregistered shares of common stock of Zoom valued at \$9.59 million.

On January 4, 2011, the Company through its wholly-own subsidiary in Hong Kong, Profit Harvest, acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in Hong Kong. The consideration was \$1,818,000 to be divided by the Volume Weighted Average Closing Price of the Company's common stock for the 10 consecutive trading days leading up to the day before the date of this Share Exchange Agreement, or \$3.75 per share, whichever is greater. This resulted in the issuance of 484,800 shares to acquire CDE.

CDE primarily focuses on development of video games and applications for mobile phones and mobile platforms. CDE has developed over 40 titles for the Apple iPhone. The acquisition transaction closed on January 4, 2011, and CDE became a wholly owned subsidiary of Profit Harvest.

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. On April 13, 2012, the Company received notice that it was in default on the Securities Purchase Agreement. The Securities Purchase Agreement provides that if the Company was in default, a portion of the Company's ownership of Portables will be transferred to Portables, and CNCG will be entitled to enforce certain rescission rights against the Company, as more fully described in the Securities Purchase Agreement. Also, in case of a default, Portables, CNCG and the other member of Portables may bring claims for indemnification against the Company for a breach under the Securities Purchase Agreement, as more fully described in the Securities Purchase Agreement. The Company's non-payment to Portables has reduced its percentage of ownership from 55.0% to 50.5%. Portables Unlimited Inc. owns 49.5% of Portables. As of May 15, 2012, the Company is in dispute with Portables Unlimited Inc. over the Company's percentage of ownership of Portables. The Company derecognized the \$1,350,000 acquisition payable and does not expect to make payment for that liability. On or about August 14, 2012, Portables Unlimited Inc., both individually and derivatively, filed an action in the Supreme Court of the State of New York, County of Nassau against the Company, its US subsidiary, and two officers of the Company, and a declaration as to the percentage interest the Company retains in Portables Unlimited, Inc. equal to 46%. On and around October 4, 2012, the Company settled the dispute with Portables Unlimited Inc. and all the parties to the dispute agreed that the Company's and Portables Unlimited, Inc.'s ownership interests in Portables will be 50.1% and 49.9%, respectively.

Please see more details in Note 1 - Organization and Nature of Business Operations of the Accompanying Notes to Consolidated Financial Statements.

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

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

The diagram below summarizes our corporate structure as of September 30, 2012:

### Plan of Operation

During the next 12 months, Zoom, through its operating subsidiaries will continue to execute its business plan by:

- Continuing to grow its EMS business by delivering cost effective value added services to OEM and ODM customers;
- Continuing to develop "Leimone" and "ZOOM" brand phones through strategic marketing initiatives and partnerships with industry leaders;
- Continuing to spend on research and development for products based on 2.5G, 3G, and 4G platforms;
- Develop solutions, and build according to specifications for mobile operators in China, Asia, and Latin America;
- Gain product penetration into new foreign markets;
- Continue to leverage new products and initiatives introduced by T-Mobile USA

### *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.

Company's subsidiary, Nollec Wireless is in the mobile phone design, software integration and mobile solution R&D business, Nollec Wireless, recognizes revenue under percentage of completion method ASC Topic 605-35-25 (Construction - Type and Production - Type Contracts) when reasonably dependable estimates can be made and in which 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 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 engages tax preparers in all of the jurisdictions in which it operates to determine if the Company is both fully compliant with applicable tax laws and is lawfully maximizing tax benefits to the Company.

#### Asset Impairment

Zoom periodically evaluates the carrying value of other long-lived assets, including, but not limited to, property and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Significant estimates are utilized to calculate expected future cash flows utilized in impairment analyses. Zoom also utilizes judgment to determine other factors within fair value analyses, including the applicable discount rate. As of September 30, 2012, the Company has completely written off goodwill resulting from its acquisition of Jiangsu Leimone. During 2011, the Company took 50% impairment charges for goodwill related to its acquisition of CDE. The Company will closely monitor the development and carrying value of CDE on a quarterly basis in 2012 to determine if additional impairment charges will be necessary. For the nine months ended September 30, 2012, the Company has not recorded any impairment of goodwill; however, the Company reviewed the current and projected future cash flows of its subsidiaries in concluding no impairment of goodwill was necessary during the period.

#### Commitments

As detailed in Note 26 - Commitments of the accompanying notes to the financial statements, the Company had operating leases commitments for it leased facilities.

#### Correction of Prior Period Financial Statements

Management discovered during the quarter ended September 30, 2012 that in accordance to ASC 815-40 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. Additionally, the Series G and related placement agent warrants contained change of control provisions that required that the warrants be accounted for as liabilities. The Company has adjusted its December 31, 2011 condensed consolidated

balance sheet and its income statements for the three and nine month periods ended September 30, 2011. The Company conducted an exhaustive analysis of the correction of error from both quantitative and qualitative approaches and concluded that the corrections were not material to the Company's previously filed consolidated financial statements. Refer to Note 2 - Basis of Presentation and Summary of significant Accounting Policies for details.

Results of Operations for the Quarter and Nine Months Ended September 30, 2012

Revenues

The Company's revenues were \$117,180,898 for the quarter ended September 30, 2012, an increase of \$66,432,293, or 130.9% compared to \$50,748,605 in the corresponding quarter in 2011. The Company's revenues were \$306,717,488 for the nine months ended September 30, 2012, an increase of \$139,358,752, or 83.3% compared to \$167,358,736 to the same period in 2011. The increase of revenues in the third quarter and for the nine months ended September 30, 2012 compared to the corresponding quarter and nine months in 2011 was mainly attributable to the Company's continued increase in sales of whole phones.

In the third quarter of 2012, the Company sold 4.59 million whole phones, of which 0.94 million units were Leimone brand phones, with 0.32 million units of those phones being 3G handsets compared to 0.85 million whole phones, of which 0.15 million units were Leimone brand phones, with 0.12 million units being 3G, for the same period in 2011. Revenue from sales of the Company's own branded products in the third quarter of 2012 was \$45.6 million as compared to \$13.0 million for the same period in 2011. For the nine months ended September 30, 2012, the Company sold 9.43 million whole phones, of which 2.14 million units were Leimone brand phones, with 0.78 million units of those phones being 3G handsets compared to 2.08 million whole phones, of which 0.55 million units were Leimone brand phones, with 0.44 million units being 3G, for the same period in 2011. Revenue from sales of the Company's own branded products in the nine months ended September 30, 2012 was \$109.8 million as compared to \$40.2 million for the same period in 2011.

For the three and nine months ended September 30, 2012, Portables contributed revenue of \$11,880,774 and \$39,654,571, respectively. During the three and nine months ended September 30, 2012, sale of phones and accessories comprised \$3,623,435 and \$13,989,162 of Portables contribution to revenue, while activation and reoccurring carrier service fees contributed \$8,257,339 and \$25,665,409 for the same respective periods.

Cost of goods sold

For the quarter ended September 30, 2012 the Company's cost of goods sold was \$111,193,306 or 94.9% of revenues while cost of goods sold for the same period in 2011, was \$44,046,505 or 86.8% of revenues. For the nine months ended September 30, 2012 the Company's cost of goods sold was \$286,251,895 or 93.3% of revenues while cost of goods sold for the same period in 2011, was \$148,401,121 or 88.7% of revenues. The increase in the cost of goods sold as a percentage of revenues was mainly due to a highly competitive mobile handset market. As the Company continues to increase its purchasing volume, it expects its bargaining power with suppliers to improve which will lead to lower costs of goods sold on a per unit basis.

Gross Profit

Gross profit for the quarter ended September 30, 2012 decreased by 10.7% to \$5,987,592 compared to \$6,702,100 for the corresponding same period in 2011. Gross profit as a percentage of revenues for the third quarter of 2012 was 5.1%, a decrease from 13.2% for the same period in 2011. Gross profit for the nine months ended September 30, 2012 increased by 8.0% to \$20,465,593 compared to \$18,957,615 for the corresponding same period in 2011 as a result of increased sales volume; however, gross profit as a percentage of revenues for the nine months of 2012 was 6.7%, a decrease from 11.3% for the same period in 2011 reflecting the highly competitive market. The Company expects gross profit to improve in future periods as the Company continues to increase its revenues going forward.

The sales of mobile handsets and accessories by Portables produced gross margins of 4.9%, while activation and reoccurring carrier service fees provided for 23.7% gross margins during the quarter ended September 30, 2012. Gross margins, on weighted average basis for the combined product and services mix derived from Portables was \$2,133,735 or 18.0%. During the nine months ended September 30, 2012, the sales of mobile handsets and accessories

by Portables produced gross margins of 4.5%, while activation and reoccurring carrier service fees provided for 25.3% gross margins. Gross margins, on weighted average basis for the combined product and services mix derived from Portables was \$7,136,974 or 18.0%.

#### Operating expenses

Sales and marketing expenses mainly represent salaries of sales personnel, and marketing and transportation costs; such expenses were \$620,223 for the three months ended September 30, 2012 compared to \$187,378 for the corresponding period in 2011. For the nine months ended September 30, 2012 and 2011 sales and marketing expenses were \$1,168,150 and \$577,681. The Company's continued increase in sales activities correlates with our increase in sales and marketing expenses for both the quarter as well as the nine months ended.

General and administrative expenses primarily consisted of compensation for administrative personnel, depreciation, travel expenses, rental, materials expenses related to ordinary administration, and fees for professional services; and these were \$2,792,615 for the three months ended September 30, 2012 compared to \$1,708,923 for the corresponding period in 2011. For the nine months ended September 30, 2012 general and administrative expense increased to \$10,772,299 from \$4,651,512 for the same period in 2011. The increase of such expenses in 2012 was due to our inclusion of \$698,381 and \$5,701,621 of general and administrative expenses for the three and nine month period ended September 30, 2012 generated by Portables, our newly acquired subsidiary, in addition to increased overall business activity, and increased costs of legal, accounting and related expenses in order to maintain the Company's compliance with SEC and NASDAQ rules and regulations.

The Company's research and development expenditures for the three months ended September 30, 2012 and 2011 were \$386,635 and \$1,410,797 respectively. These costs were incurred by our Nollec Wireless subsidiary for developmental costs in mobile handset design and software integration. R&D expenditures decreased by \$1,024,162, or 72.6% as compared to the same period in the prior year. The Company's research and development expenditures for the nine months ended September 30, 2012 and 2011 were \$1,772,681 and \$4,459,110 respectively. R&D expenditures for the nine months ended September 30, 2012 decreased by \$2,686,429, or 60.2% as compared to the same period in 2011. The Company continues to spend on research and development; however, its spending is focused on the continued development of products on platforms in which Company invested heavily in 2011. Accordingly, the Company expects future R&D expenditures to be steady as percentage of revenue.

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The Company's non-cash equity-based compensation charges were \$758,592 and \$362,712 for the three months ended September 30, 2012, and 2011, respectively; the Company's non-cash equity-based compensation charges were \$2,030,151 and \$977,650 for the nine months ended September 30, 2012, and 2011, respectively. The respective \$395,880 and \$1,052,501 increases, or 109.1% and 107.7%, in such expenses during the three and nine month periods represent the Company's investment in human capital for new business development initiatives and retention of key engineers and managers.

### Other income (expense)

The Company's had a net other expense of \$257,610 and net other income of \$70,737 for the three months ended September 30, 2012 and 2011 respectively. The Company's had a net other expense of \$980,421 and net other income of \$2,915,924 for the nine months ended September 30, 2012 and 2011 respectively.

Interest expense remained steady at \$725,834 and \$720,064 for the three months ended September 30, 2012, and 2011. Interest expense increased to \$1,935,977 from \$1,695,087 for the nine months ended September 30, 2012, and 2011, reflecting the overall increasing borrowing over the nine month period to finance working capital.

As described above in Correction of Prior Period Financial Statements, the Company has employed derivative accounting for its outstanding warrants. The change in their fair value for each reporting period is recorded in the Company's income statement as other income (expense).

The Company recorded a loss on investment for the three and nine month periods ended September 30, 2012, \$423,630 for its equity method investment in SpreadZoom. SpreadZoom is just ramping up production. The Company expects significant improvement in the results of operations for SpreadZoom on a go forward basis.

### Net income

For the quarter ended September 30, 2012, the Company's net income was \$752,314 a decrease of \$1,824,051 or 70.8% from \$2,576,365 for the corresponding period in 2011. For the nine months ended September 30, 2012, the Company's net income was \$2,047,508, a decrease of \$7,184,723 or 77.8% from \$9,232,231 for the corresponding period in 2011. Net income as a percentage of revenues, for the three months ended September 30, 2012 and 2011 were 0.6% and 5.1% respectively. Net income as a percentage of revenues, for the nine months ended September 30, 2012 and 2011 were 0.7% and 5.5% respectively. The Company's decreased gross margin as percentage of sales led to lower net profit margins during the quarter. As noted above, the Company expects gross margin to improve moving forward from increased bargaining power with suppliers as a function of expected increases in revenues in the future. Increases in general and administrative expenses are expected to decrease as a percentage of revenue as a result of the Company expectations such costs should scale with the Company's increase revenue in the future. Equity based compensation is expected to remain stable in the future. The Company also believes those that have been incentivized through equity based compensation will help the Company create brand recognition and improved profitability in the future. The Company's net income was impacted by the accounting for the warrants using derivative accounting. As detailed in above in Correction of Prior Period Financial Statements, the Company's net income for the three and nine months period ended September 30, 2011 was increased when the Company corrected this period, the relative increase as a result of the correction was significantly more than the income reported for 2012 as result of marking the warrants to fair value at the end September 30, 2012. Refer to Note 2 - Basis of Presentation and Summary of significant Accounting Policies for a more a detailed analysis.

### Other comprehensive income/(loss)

For the three months ended September 30, 2012 and 2011, the Company's other comprehensive income (loss) was \$(333,330) and \$211,491 respectively. For the nine months ended September 30, 2012 and 2011, the Company's other comprehensive income was 56,387 and \$920,551 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 September 30, 2012, the Company had cash and equivalents of \$3,803,966 and restricted cash of \$16,410,824. Restricted cash is our deposit held as security at banks for the ability to issue twice the amount in interest-free notes for our purchase of production materials. We had cash and equivalents of \$1,131,109 and restricted cash of \$15,507,408 as of December 31, 2011.



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Net cash used in operating activities for the nine months ended September 30, 2012 was \$5,257,827 compared to net cash used in operating activities of \$10,004,220 for the same period in 2011. In the first nine months of 2012, operational sources of funds included net increases in accounts payable of \$24,834,057, increases in accruals and other payables of \$6,278,057, reduction in advances to suppliers of \$728,846, and increase in advance from customers of \$2,026,810. These increases were primarily partially offset by an increase in accounts receivable of \$38,096,887, an increase of \$5,713,871 in prepaid expenses and \$5,256,775 in inventories. The significant increase in accounts receivable was related to the growth in sales activity by the Company. The Company does not expect difficulties in recovering its receivable as the Company has been successful with collections subsequent to September 30, 2012.

Net cash used in investing activities of \$8,639,109 in the nine months ended September 30, 2012 was primarily attributable to \$12,364,270 provided by the Company's subsidiary, TCB Digital, to capitalize SpreadZoom Technologies Co., Ltd. in an equity investment in which TCB Digital will ultimately own 47.37% interest. This amount was offset by the refund of construction deposits for the new factory by Tianjin Leimone, a related party, for the amount of \$10,261,417. Cash was also used in the increase of \$792,581 in restricted cash, and the increase in notes receivable of \$5,384,577.

Net cash provided by financing activities was \$16,548,569 for the nine months ended September 30, 2012 as compared to \$9,012,445 sourced in the same period in 2011. The Company received repayment on borrowings from related parties of \$25,697,445. The Company repaid \$1,506,339 in short term bank loans and repaid \$4,457,729 in notes payable.

In October 2012, as consideration of the settlement for a dispute between Portables Unlimited Inc. ("PUI") and Company regarding their ownership percentages in Portables Unlimited LLC ("Portables"), PUI extended a 12% nine-month loan (the "PUI Loan") in the principal amount of \$2,000,000 to the Company, the proceeds of which loan will be dispersed by the Company as follows: (1) 615,000 as a capital contribution to Portables on behalf of Zoom USA Holdings, Inc. ("Zoom Sub"), a wholly-owned subsidiary of the Company ("Zoom Sub"), (2) \$200,000 to The Cellular Network Communications Group, Inc. ("CNCG") toward principal and interest due under that certain \$500,000 promissory note payable to CNCG and issued by Zoom Sub in connection with the Company's acquisition of a majority equity interest in Portables in October 2011, and (3) three months of interest on the PUI Loan in the amount of \$60,000 to be prepaid to Portables. The Loan was guaranteed by Zoom Sub.

### Contractual Obligations

As of September 30, 2012, the Company has short-term loan obligations of \$28,277,739 with interest rates between 5.00% and 7.93%. In addition, notes payable are secured by our restricted cash deposits at the banks, payable in three to six months and bear no interest. The outstanding balance of notes payable as of September 30, 2012 was \$28,574,062.

On a go forward basis over the next 12 months, Zoom intends to continue to rely on short-term loans and restricted cash secured notes 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 or we may sell certain assets. 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 September 30, 2012, 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 March 31, 2012, 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 2012 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 outcome of the dispute is still pending decision from the courts from the High-Level People's Court of Tianjin City. The Company is currently unable to determine the probability that it will be successful in this claim. The Company believes the decision by the courts will be issued before the end of the year 2012. As of November 12, 2012, the courts have not yet issued their judgment.

On or about August 14, 2012, Portables Unlimited Inc., both individually and derivatively, filed an action in the Supreme Court of the State of New York, County of Nassau against the Company, its US subsidiary, and two officers of the Company, and a declaration as to the percentage interest the Company retains in Portables Unlimited, Inc. equal to 46%. On and around October 4, 2012, the Company has settled the dispute with Portables Unlimited Inc. and all the parties to the dispute agreed that the Company's and Portables Unlimited, Inc.'s ownership interests in Portables will be 50.1% and 49.9%, respectively.

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.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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 31.1 Rule 13a-14(a) / 15d-14(a) Certification of Anthony K. Chan, 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

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- \* 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 December 7, 2012 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	<a href="#"><u>Rule 13a-14(a) / 15d-14(a) Certification of Lei Gu, CEO</u></a>	<a href="#"><u>PDF</u></a>
31.2	<a href="#"><u>Rule 13a-14(a) / 15d-14(a) Certification of Anthony K. Chan, CFO</u></a>	<a href="#"><u>PDF</u></a>
32.0	<a href="#"><u>Section 1350 Certifications</u></a>	<a href="#"><u>PDF</u></a>
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	
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