ZOOM TECHNOLOGIES INC
Form 10-Q
June 16, 2014

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTER ENDED MARCH 31, 2014

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	**51-0448969**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

Headquarters:
Sanlitun SOHO, Building B, 19th Floor
No.8 Workers Stadium North Road
Chaoyang District, Beijing, China 100027

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

1345 Avenue of Americas
New York, NY 10105

(Address of principal executive offices including zip code)

(212) 370-1300

(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 x 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 x

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

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

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

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 June 16, 2014 is 3,008,569.

Zoom Technologies, Inc.
Affiliates and Subsidiaries

FORM 10-Q

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

		MARCH 31, 2014 (UNAUDITED)		DECEMBER 31, 2013
ASSETS				
Current assets				
Cash and equivalents	$	4,694,290	$	36,735
Restricted cash		8,463,136		19,632,865
Short-term investments		11,011,376		-
Other receivables and prepaid expenses		496,816		614,403
Due from related parties		9,530,697		9,358,033
Current assets of discontinued operations, held for sale		125,768,265		127,409,901
Total current assets		159,964,580		157,051,937
Plant and equipment		-		-
Intangible assets		349,600		349,600
Long-term investments		10,503,972		10,880,977
TOTAL ASSETS	$	170,818,152	$	168,282,514
LIABILITIES AND EQUITY				
Current liabilities				
Short-term loans	$	3,113,830	$	3,158,587
Notes payable		350,937		350,937
Accrued expenses and other payables		928,087		866,367
Purchase deposit from buyer		13,109,118		8,240,490
Taxes payable		22,315		21,860
Due to related parties		3,342,294		3,449,922
Warrant liability		-		377
Current liabilities of discontinued operations		137,275,200		139,109,499
Total current liabilities		158,141,781		155,198,039
Long-term loans		1,248,023		1,352,103
TOTAL LIABILITIES		159,389,804		156,550,142
COMMITMENTS AND CONTINGENCIES				
EQUITY				
STOCKHOLDERS' EQUITY				
Preferred stock: authorized 1,000,000 shares, par value $0.01 none issued and outstanding		-		-
Common stock: authorized 60,000,000 shares, par value $0.01, 3,008,737 shares issued and 3,008,569 shares outstanding at March 31, 2014 and December 31, 2013.		30,087		30,087
Treasury shares: 168 shares at cost		(7,322)		(7,322)
Additional paid-in capital		53,699,157		53,699,157
Statutory surplus reserve		727,822		727,822
Accumulated other comprehensive income		1,035,740		817,365
Accumulated deficit		(43,471,300)		(42,985,768)
TOTAL STOCKHOLDERS' EQUITY		12,014,184		12,281,341
Non-controlling interest		(585,836)		(548,969)
TOTAL EQUITY		11,428,348		11,732,372
TOTAL LIABILITIES AND EQUITY	$	170,818,152	$	168,282,514

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2014	FOR THE THREE MONTHS ENDED MARCH 31, 2013 (RESTATED)
Net revenues	$ -	$ -
Cost of sales	-	-
Gross profit	-	-
Selling, general, and administrative expenses	414,785	654,150
Loss from operations	(414,785)	(654,150)
Other income and (expenses)		
Interest income	85	-
Interest expense	-	(73,911)
Change in fair value of warrants	-	(6,375)
Equity method net investment loss	(377,005)	(405,069)
Other expense, net	153,070	(63)
Other (expense) income, net	(223,850)	(485,418)
Loss before income taxes for continuing operations	(638,635)	(1,139,568)
Income taxes for continuing operations	1,529	2,250
Loss from continuing operations	(640,164)	(1,141,818)
Discontinued Operations:		
Income (loss) from discontinued operations, net of tax	99,040	(358,568)
Loss on disposal, net tax	-	-
Income (loss) from discontinued operations	99,040	(358,568)
Net loss	$ (541,124)	$ (1,500,386)
less: Loss attributable to noncontrolling interest	(55,592)	(37,881)
Net loss attributable to Zoom Technologies, Inc.	$ (485,532)	$ (1,462,505)
Basic and diluted loss per common share from continuing operations:		
Basic	$ (0.21)	$ (0.39)
Diluted	$ (0.21)	$ (0.39)
Basic and diluted loss per common share from discontinued operations:		
Basic	$ 0.05	$ (0.11)
Diluted	$ 0.05	$ (0.11)
Basic and diluted loss per common share		
Basic	$ (0.16)	$ (0.50)
Diluted	$ (0.16)	$ (0.50)
Weighted average common shares outstanding:		
Basic	3,008,569	2,946,795
Diluted	3,008,569	2,946,795
Amounts attributable to Zoom Technologies, Inc. common shareholders		
Loss from continuing operations	(640,164)	(1,141,818)
Income (loss) from discontinued operations	154,632	(320,687)
Net loss attributable to Zoom Technologies, Inc.	$ (485,532)	$ (1,462,505)

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2014	FOR THE THREE MONTHS ENDED MARCH 31, 2013 (Restated)
Net loss attributable to Zoom Technologies, Inc.	$ (485,532)	$ (1,462,505)
Net loss attributable to noncontrolling interest	$ (55,592)	$ (37,881)
Other comprehensive income:		
Foreign currency translation gain - Zoom Technologies, Inc.	218,375	331,873
Foreign currency translation gain - noncontrolling interest	18,725	82,968
Comprehensive loss Zoom Technologies, Inc.	$ (267,157)	$ (1,130,632)
Comprehensive (loss) income noncontrolling interest	$ (36,867)	$ 45,087

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(UNAUDITED)
(RESTATED)

	Preferred stock		Common stock			Additional	Statutory	Accumulated other			
	Shares	Amount	Shares	Amount	Treasury stock	paid in capital	surplus reserve	comprehensive income	Retained earnings	Total	Noncontrolling interest
Balance December 31, 2012 (Restated)	-	$ -	2,932,137	$ 29,321	$ (7,322)	$ 52,083,153	$ 702,539	$ 4,058,657	$ (4,098,798)	$ 52,767,550	$ 3,000,849
Foreign currency translation								(3,241,292)		(3,241,292)	(356,630
Shares issued to directors and consultants			76,600	766		1,480,286				1,481,052	
Stock option expense						135,718				135,718	
Appropriations to statutory surplus reserves							25,283		(25,283)	-	
Capital injection by Tongguang Group										-	2,679,883
Dividends paid										-	(1,079,061
Net loss									(38,861,687)	(38,861,687)	(4,794,010
Balance December 31, 2013	-	$ -	3,008,737	$ 30,087	$ (7,322)	$ 53,699,157	$ 727,822	$ 817,365	$ (42,985,768)	$ 12,281,341	$ (548,969
Balance December 31, 2013	-	$ -	3,008,737	$ 30,087	$ (7,322)	$ 53,699,157	$ 727,822	$ 817,365	$ (42,985,768)	$ 12,281,341	$ (548,969
Foreign currency translation								218,375		218,375	18,725
Appropriations to statutory surplus reserves										-	
Net loss									(485,532)	(485,532)	(55,592
Balance March 31, 2014	-	$ -	3,008,737	$ 30,087	$ (7,322)	$ 53,699,157	$ 727,822	$ 1,035,740	$ (43,471,300)	$ 12,014,184	$ (585,836

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

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

	FOR THE THREE MONTHS ENDED MARCH 31, 2014	2013 (RESTATED)
Cash flows from operating activities:		
Net loss	$ (541,124)	$ (1,500,386)
Adjustments to reconcile net loss to		
cash provided by (used in) operating activities:		
Depreciation and amortization	213,710	275,400
Non-cash equity-based compensation	-	193,844
Provision on accounts receivable	10,330	(2,111)
Gain on extinguishment of debt	(148,837)	-
Loss on equity method investment	377,005	405,069
Fair value adjustment on warrants	(377)	6,375
Changes in operating assets and liabilities:		
Accounts receivable	2,989,369	789,812
Inventories	(1,194,196)	(933,036)
Advances to suppliers	(133,482)	(969,778)
Other receivables and prepaid expenses	2,029,684	7,519
Accounts payable	(2,171,632)	(4,634,216)
Advance from customers	177,726	899,184
Related parties-net	17,266	125,721
Accrued expenses and other current liabilities	4,519,339	(18,163,053)
Net cash provided by (used in) operating activities	6,144,781	(23,499,656)
Cash flows from investing activities:		
Restricted cash	8,058,081	(4,363,017)
Purchase of property and equipment and other long-term assets	(61,451)	(70,575)
Proceeds from collection on notes receivable	669,210	-
Increase in notes receivable	-	(1,229,598)
Net cash provided by (used in) investing activities	8,665,840	(5,663,190)
Cash flows from financing activities:		
Proceeds from loans	-	4,302,620
Repayment of loans	(3,842,632)	-
Proceeds from issuances of notes	8,088,434	25,075,290
Repayment of notes payable	(20,694,617)	-
Receipt from related parties	18,170,350	1,042,937
Repayment on borrowings from related parties	(5,657,793)	-
Net cash (used in) provided by financing activities	(3,936,258)	30,420,847
Effect of exchange rate changes on cash & equivalents	(102,049)	39,233
Net increase in cash and equivalents	10,772,314	1,297,234
Cash and equivalents, beginning of period	2,885,594	3,233,867
Cash and equivalents from continuing components	36,735	8,351
Cash and equivalents from discontinued components	2,848,859	3,225,516
Cash and equivalents, end of period	$ 13,657,908	$ 4,531,101
Cash and equivalents from continuing components	4,694,290	8,730
Cash and equivalents from discontinued components	8,963,618	4,522,371
SUPPLEMENTARY DISCLOSURES:		
Interest paid	$ -	$ (73,911)
Income tax paid	$ 1,529	$ 2,250

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

ZOOM TECHNOLOGIES, INC., AFFILIATES & SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS OPERATIONS

Acquisition

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

On September 22, 2009, the Company consummated a share exchange transaction and acquired all the outstanding shares of Gold Lion Holding Limited ("Gold Lion"), a company incorporated in the British Virgin Islands ("BVI"), and its subsidiaries Jiangsu Leimone Electronics Co. Ltd ("Jiangsu Leimone"), Tianjin Tong Guang Group Digital Communication Co., Ltd ("TCB Digital") both incorporated in the (People's Republic of China, ("PRC"), and Profit Harvest Corporation Limited ("Profit Harvest") incorporated in Hong Kong. In connection with the share exchange transaction, the Company spun off its then-existing business to its stockholders, by distributing and transferring all assets and liabilities to its then subsidiary, Zoom Telephonics, Inc., and issuing shares of its then operating subsidiary as a dividend to its stockholders. The subsidiaries of Gold Lion were engaged in the manufacture design, sale and manufacture of mobile devices and handsets in China.

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

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

On October 11, 2011, the Company and Zoom USA Holdings, Inc., a newly formed wholly- owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement ("Securities Purchase Agreement") to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), one of the largest wholesale distributors and direct retailers of T-Mobile products in the United States. Subsequent to the purchase of the 50% stake in ownership from CNCG, the Company increased its stake in Portables to 50.1% by injecting additional capital.

As of July 15, 2013, the Company was in default of the promissory note for $2,000,000 owed to Portables Unlimited, Inc. The promissory note was collateralized by the Company's ownership percentage in Portables. As of the date of this report, the Company was not able to recover its investment. As a result, Zoom ceased to have a an equity interest in Portables and did not retain an investment in it on the date of default, July 15, 2013, accordingly, the Company recognized a loss which includes a complete write off of its investment in Portables. The Company recorded a loss on disposal of approximately $11.5 million related to its write-off of Portables.

Dispositions

On December 31, 2012, Zoom Technologies, Inc. ("Zoom" or the "Company") entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. ("BZCC"), a PRC company that provides services to the telecommunication industry. Pursuant to the SPA, the Company agreed to sell (the "Subsidiary Sale") to the Purchaser all the equity interests the Company holds in its China based subsidiaries (except for SpreadZoom Technologies Co., Ltd. ("SpreadZoom") as mentioned below), which include 100% of the outstanding equity interest of Ever Elite Corporation Limited, an intermediary holding company incorporated in Hong Kong, and its wholly owned subsidiary, Nollec, 80% of the outstanding equity interest of TCB Digital, 100% of the outstanding equity interest of Profit Harvest Corporation, Ltd. ("Profit Harvest"), and 100% of the outstanding equity interest of Celestial Digital Entertainment, Ltd. ("CDE"). As consideration for the Subsidiary Sale, the Purchaser agreed to pay to the Company RMB 200 million (approximately US$31.7 million) (the "Purchase Price"), subject to adjustment pending an appraisal by an independent third party appraiser. The Company on October 24, 2012 received approximately $12.6 million (RMB 80 million) less bank charges; the Company on November 5, 2012, received $19.1 million (RMB 120 million) less transaction fees and bank charges. As of the date of this report, the Purchaser has remitted the entire amount of RMB 200 million to the Company, of which RMB120 million was initially held in escrow pending the closing of the Subsidiary Sale. Of this amount, a portion of the funds, approximately RMB 80 million, has been released to the Company to use; accordingly, in the normal course of business, the Company deployed those funds to SpreadZoom and Tianjin Leimone as detailed in "Note 11 - Related Party Transactions". The RMB 80 million released from escrow was a negotiated amount between the Company and the Purchaser. On December 30, 2013, BZCC assigned its purchase right to TCB Digital to Tianjin Huatianli Trading Co., Ltd. ("Huatianli"). On December 30, 2013, the Company consented to the assignment between BZCC and Huatianli and agreed to amend the SPA to reflect the change. In connection with the assignment, RMB120 million, representing the balance of the Purchase Price that was being held in escrow pending the closing of all of the sales under the SPA, was agreed upon to be released within 10 business days to a Company-designated bank account. Of that amount, approximately RMB 68 million was available for the Company's immediate use, and approximately RMB52 million, representing the purchase price for TCB Digital, was be monitored by Huatianli until the closing of the TCB Digital sale. As of the date of this report the RMB 120 million is held in a wealth management account at New Times Trust Holding Co., Ltd. The Company's Chief Executive Officer has unencumbered sole signing and dispositive rights to that account. As of May 16, 2014, the Company has received payment in full from Huatianli for the sale of TCB Digital and the Company has completed the transfer of Jiangsu Leimone's ownership interest in TCB Digital to Huatianli. Since the Company received payment separately from Huantianli for RMB 52 million, the Company is obligated to repay RMB 52 million to BZCC from the RMB 120 million held in the wealth management account.

The Company's ownership interest in SpreadZoom, which owns and operates mobile phone manufacturing facilities in Tianjin, was not part of the Subsidiary Sale.

The closing of the sale of Profit Harvest and CDE occurred on December 31, 2012; the closing of the sale of Ever Elite and Nollec occurred on April 5, 2013

As disclosed above, as of July 15, 2013, the Company has completely written off its investment in Portables Unlimited, LLC.

As of May 31, 2014, the Company's board of directors decided that it would explore the sale of SpreadZoom; Huatianli, the buyer of TCB Digital has expressed interest in buying the SpreadZoom but has not given a formal offer with a price that is acceptable to the Company; however, subsequent to March 31, 2014, Huatianli made a deposit of RMB 2 million with the Company indicating its intent to purchase. The Company is currently awaiting an evaluation report to be issued by a third party appraisal firm to determine an appropriate sales price.

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

Basis of Presentation and Consolidation

The Company's accompanying condensed consolidated balance sheet at March 31, 2014 includes the accounts of Gold Lion Holding Ltd and its wholly owned subsidiary Jiangsu Leimone, its 100%-owned subsidiary Silver Tech, and its wholly owned subsidiary, Zoom Sub. The Company's consolidated balance sheet also included the accounts of TCB Digital for which the Company owns 80% indirectly held through Jiangsu Leimone which has been classified as discontinued operations held for sale.

The Company's accompanying condensed consolidated balance sheet at December 31, 2013 includes the accounts of Gold Lion Holding Ltd and its wholly owned subsidiary Jiangsu Leimone, its 100%-owned subsidiary Silver Tech, and its wholly owned subsidiary, Zoom Sub. The Company's consolidated balance sheet also included the accounts of TCB Digital for which the Company owns 80% indirectly held through Jiangsu Leimone which has been classified as discontinued operations held for sale.

The Company's condensed consolidated results of operations for the three months ended March 31, 2014 from continuing operations included the results of Gold Lion, Silver Tech, Jiangsu Leimone, Zoom Sub.; results of operations from TCB Digital have been presented as discontinued operations.

The Company's condensed consolidated results of operations for the three months ended March 31, 2013 from continuing operations included the results of Gold Lion, Silver Tech, Jiangsu Leimone, and Zoom Sub (as restated); results of operations from Ever Elite, Nollec Wireless, and TCB Digital have been presented as discontinued operations.

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

Noncontrolling interest represents the ownership interests in a subsidiary that was held by owners other than the parent and is part of the equity of the consolidated group. The noncontrolling interest is reported in the consolidated statement of financial position within equity, separately from the parent's equity. Net income or loss and comprehensive income or loss is attributed to the parent and the noncontrolling interest. If losses attributable to the parent and the noncontrolling interest in a subsidiary exceed their interests in the subsidiary's equity, the excess, and any further losses attributable to the parent and the noncontrolling interest, is attributed to those interests.

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

The interim condensed consolidated financial information as of March 31, 2014 and for the three months ended March 31, 2014 and 2013 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, which are normally included in annual consolidated financial statements prepared in accordance with U.S. GAAP, have been omitted pursuant to those rules and regulations. The interim consolidated financial information should be read in conjunction with the financial statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, 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 March 31, 2014, its consolidated results of operations and cash flows for the three month periods ended March 31, 2014 and 2013, 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.

Equity Method Accounting

In May 2012, the Company invested $12.3 million to establish a joint venture named SpreadZoom Technologies Co. Ltd., ("SpreadZoom"). The Company owns 47.4% of SpreadZoom and accounted for this investment under the equity method of accounting (ASC 323-30). Refer to "Note 18 - Equity Method Investments" for details.

The Company revised its accounting for Portables Unlimited, LLC. Previously, the Company accounted for the investment as a subsidiary under the consolidation method of accounting; as of the date of this report, Company retroactively changed its method of accounting for Portables to the equity method. Previously reported net income/(loss) attributable to the Company were unchanged; however, the consolidated balance sheet at December 31, 2012 no longer includes all of the assets and liabilities of Portables. As of December 31, 2013, Portables was no longer an investment of the Company. The results of operations of Portables for the three months ended March 31, 2013 were presented using the consolidation method of accounting; those results have been restated and disclosed using the equity method of accounting under the line item "equity method net investment loss" under "Other income and (expenses)". As disclosed above the Company completely wrote off the investment on July 15, 2013, recording a loss of approximately $11.5 million. At December 31, 2012, the Company was a joint borrower on a $3 million line of credit provided by M&T Bank. This line was refinanced in February of 2013 to be reduced to $2.5 million; concurrently, the Company and Portables co-borrow $2.5 million in a term note from M&T Bank. Both the line of credit and term note were accounted for as an increase to the investment amount when Portables was still owned by the Company. The investment was written off in July of 2013; however, at December 31, 2013, the maximum value of the line of credit of $2.5 million and the amortized balance of the term note are carried as liabilities on the Company's consolidated balance sheets. On May 20, 2014, Portables and M&T Banks released the Company from the obligation of repaying the line of credit and term note. Refer to "Note 9 - Short Term Loans" for further details.

Exclusion of Related Party Lessor from Consolidation

Portables, commencing in January 2009, subleased its principal facility from one of its members. 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 was true up to July 15, 2013, the date of disposition of Portables.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the amount of revenues and expenses during the reporting periods. Management makes these estimates using the best information available at the time the estimates are made. However, actual results could differ materially from those results.

Risks and Uncertainties

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

Comprehensive Income

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

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

Foreign Currency Translation and Transactions

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

Cash and Equivalents

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

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Accounts are written off against the allowance when it becomes evident collection will not occur. For the contracted manufacturing activities, our standard terms for accounts receivable from our customers are between 60 to 75 days from close of the billing cycle; and for sales of own brand phones our terms include prepaid arrangements and extending receivable to customers up to 60 days. We also offer credit terms of up to 150 days in our trading activities to a certain customers.

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.

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

Property, Plant and Equipment

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

Depreciation for financial reporting purposes is provided using the straight-line method over the estimated useful lives of assets. See "Note 7 - Property, Plant and Equipment" for details.

Capitalized Interest

Interest associated with major development and construction projects is capitalized and included in the cost of the project. When no debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using weighted-average cost of the Company's outstanding borrowings. Capitalization of interest ceases when the project is substantially complete or development activity is suspended for more than a brief period. There have not been material amounts of capitalized interest for the three months ended March 31, 2014 and 2013.

Impairment of Long-lived Assets

In accordance with ASC 360, "Property, Plant and Equipment", the Company reviews the carrying values of long-lived assets, including property, plant and equipment and other intangible assets, whenever facts and circumstances indicate that the assets may be impaired. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If an asset is considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs of disposal. The Company last performed annual reviews of its long-lived assets at December 31, 2013.

Goodwill

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

Revenue Recognition

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

The Company recognizes revenue when the following criteria are met:

(i) persuasive evidence of an arrangement exists;

(ii) delivery has occurred or services were rendered;

(iii) the price to the customer is fixed or determinable and,

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

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

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

The Company's discontinued operation, Nollec is in the mobile phone design, software integration and mobile solution R&D business. Nollec 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.

13

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

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

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

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

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

Income Taxes

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

Uncertain Tax Positions

The Company accounts for uncertainty in income taxes using a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company classifies the liability for unrecognized tax benefits as current to the extent that the Company anticipates payment (or receipt) of cash within one year. Interest and penalties related to uncertain tax positions are recognized and recorded as necessary in the provision for income taxes. There were no uncertain tax positions in 2013 and 2012. The Company's evaluation of uncertain tax positions was performed for the tax years ended December 31, 2009 and forward, the tax years which remain subject to examination as of March 31, 2014.

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.

Loss per Share

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

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

Fair Values of Financial Instruments

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

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

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of March 31, 2014 and December 31, 2013 are as follows:

	Carrying Value March 31, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 4,694,290	$ 4,694,290	$ -	$ -
Restricted cash	$ 8,463,136	$ 8,463,136	$ -	$ -
Short-term investments	$ 11,011,376	$ 11,011,376	$ -	$ -
Warrants	$ -	$ -	$ -	$ -

	Carrying Value December 31, 2013	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 36,735	$ 36,735	$ -	$ -
Restricted cash	$ 19,632,865	$ 19,632,865	$ -	$ -
Short-term investments	$ -	$ -	$ -	$ -
Warrants	$ 377	$ -	$ 377	$ -

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

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and equivalents and trade and bills receivables. As of March 31, 2014 and December 31, 2013, 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

The FASB has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU state that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company has not yet determined the effect of the adoption of this standard and it is expected to have a material impact on the Company's consolidated financial position and results of operations.

NOTE 3 - MERGER AND ACQUISITIONS

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

The Company acquired 100% ownership of CDE on January 4, 2011. As of January 4, 2011, the net liabilities of CDE were $43,409. The purchase consideration was $1,818,000 which resulted in goodwill of $1,861,409. As of December 31, 2012, as part of the Company's disposal of Profit Harvest the Company has indirectly disposed of CDE, accordingly, all of the goodwill related to CDE has been written off.

The following table summarizes goodwill as of March 31, 2014 and December 31, 2013 resulting from the acquisitions of Jiangsu Leimone, and Silver Tech:

		March 31, 2014 (Unaudited)		**December 31, 2013**
Jiangsu Leimone	$	103,057	$	103,057
Silver Tech		8,395,840		8,395,840
Total		8,498,897		8,498,897
Less: Impairment		(8,498,897)		(8,498,897)
Total goodwill	$	-	$	-

The Company reviews the carrying value of the goodwill for impairment regularly.

NOTE 4 - RESTRICTED CASH

Restricted cash was part of the funds deposited with the Company for sale to BZCC of Profit Harvest, CDE, Ever Elite, Nollec, and TCB Digital. BZCC has assigned its rights to purchase TCB Digital to Huatianli. The funds become unrestricted upon closing of the disposition transaction.

NOTE 5 - SHORT-TERM INVESTMENT

A portion of the funds received by the Company for the sale of Profit Harvest, CDE, Ever Elite, Nollec, and TCB Digital was deposited in a wealth management account. The funds were previously classified as restricted; however, they are no longer encumbered. Accordingly, the have been classified as a short term investment.

NOTE 6 - OTHER RECEIVABLES AND PREPAID EXPENSES

As of March 31, 2014 and December 31, 2013, the Company's other receivables and prepaid expenses consisted of a balance of $496,816, which includes $472,042 of receivables owed to the Company by Profit Harvest that arose in the normal course of business where the Company paid for expenses and professional fees on behalf of Profit Harvest. Profit Harvest was previously a subsidiary of the Company. At December 31, 2013, there was $614,403 in receivables owed by Profit Harvest arising in the normal course of business as described above. In 2012, Profit Harvest was sold to Beijing Zhumu Culture Communication Company, Ltd. These amounts are expected to be recovered by the Company. The Company has continued to collect outstanding balances from Profit Harvest subsequent to December 31, 2013; accordingly, the Company has determined the amounts are fully recoverable and no allowance has been provided.

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2014 and December 31, 2013 consisted of the following:

	Estimated Useful Lives	**March 31, 2014 (Unaudited)**	**December 31, 2013**
Machinery and equipment	4-6 years	$ 1,121,444	$ 1,130,554
Electronic equipment	4-6 years	91,670	92,415
Transportation equipment	4-6 years	51,384	51,801
Computer equipment	4-6 years	1,164	1,173
Office equipment	4-6 years	20,637	20,805
Total		1,286,299	1,296,748
less: Accumulated depreciation		(1,286,299)	(1,296,748)
Property, plant and equipment, *net*		$ -	$ -

Depreciation expense for the three months ended March 31, 2014 and 2013 was $0 and $0, respectively. The Company recorded $213,710 and $275,400 of depreciation in discontinued operations for the three months ended March 31, 2014 and 2013, respectively.

NOTE 8 - INTANGIBLE ASSETS

As of March 31, 2014 and December 31, 2013, the Company's intangible assets were summarized as follows:

	Estimated Useful Life		March 31, 2014 (Unaudited)		December 31, 2013
Domain name, logo and trade mark	Indefinite	$	349,600	$	349,600
less: Accumulated amortization			-		-
Intangible assets, *net*		$	349,600	$	349,600

Intangible assets are stated at cost less accumulated amortization. The Company acquired the domain name "zoom.com" and related logo and trade name for 80,000 shares of common stock valued $349,600 as of the date of purchase. The domain name, logo and trademark have indefinite lives and no amortization was recorded for the three months ended March 31, 2014 and 2013.

NOTE 9 - SHORT-TERM LOANS

In 2012, the Company and Portables entered into a line of credit with M&T Bank for $3.0 million. At December 31, 2012 the loan balance which was classified as short term loan, was $2,994,999. The line was collateralized by real property, a certificate of deposit, and guarantees of Portables Unlimited, Inc. (the 49.9% owner of Portables). The interest rate was 1 month LIBOR plus 3.00%. The maturity date of the line of credit is March 26, 2015. In February of 2013, the line of credit was refinanced to a maximum borrowing amount of $2.5 million. At March 31, 2014 and December 31, 2013 the Company accrued an amount due on the line of credit for $2.5 million. On May 20, 2014, the Company was released by M&T Bank as co-borrower for the line of credit. The Company will recognize a gain in the second quarter of 2014 for $2.5 million reflecting the release.

In February of 2013 the Company and Portables jointly entered into a term loan with M&T Bank for $2,500,000 million that matures in February of 2017. The balance of the note fully amortizes via monthly principal and interest payments up through the maturity of the note. The note carries an interest of 1 month LIBOR plus 3.50%. At March 31, 2014, Portables had repaid $638,147 in principal; the outstanding balance of the note was $1,861,853. The Company accounted for the outstanding balance of $1,861,853 with $613,830 as short term, and the remainder of $1,248,023 as long term. On May 20, 2014, the Company was released by M&T Bank as co-borrower for the term note. The Company will recognize a gain in the second quarter of 2014 for $1,861,853 million reflecting the release.

NOTE 10 - NOTES PAYABLE

As of March 31, 2014 and December 31, 2013, the Company's notes payable consisted of the following:

	March 31, 2014 (Unaudited)	December 31, 2013
Former Executives of Nollec	$ 145,000	$ 145,000
The Cellular Network Communications Group, Inc.	205,937	205,937
Total	$ 350,937	$ 350,937

There was a note owed to the former executives of Nollec that was an incentive for key managers to remain with the Nollec after Zoom acquired it in 2010. The note neither bears interest nor is collateralized by any assets.

The Note due to CNCG carries an annual interest rate of 8.00% to be made in quarterly installments of $43,708. The Company's subsidiary Zoom Sub is currently in default of the note due to CNCG therefore the interest rate adjusted to 14.00%. The note amortizes and matures in October of 2014. The note is unsecured and is not guaranteed by Zoom Technologies, Inc. The note was previously classified as long term.

As of March 31, 2014, and for the three months then ended, the Company has not made any payments on these outstanding notes and they are considered in default.

NOTE 11 - RELATED PARTY TRANSACTIONS

Due from related parties

As of March 31, 2014 and December 31, 2013, the amounts due from related parties were:

Due from related parties	**March 31, 2014 (Unaudited)**	**December 31, 2013**
Beijing Leimone Shengtong Wireless Technology Co., Ltd.	$ -	$ 17,997
Shenzhen Leimone	280,303	293,998
Spreadzoom	9,250,394	9,046,038
Total due from related parties	$ 9,530,697	$ 9,358,033

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

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. As of March 31, 2014 and December 31, 2013, $208,303 and $293,998 of loans made to Shenzhen Leimone to be used for setup costs were still outstanding. The balance is expected to be repaid in full.

The balance due from SpreadZoom represents an advance to SpreadZoom for it to purchase components to manufacture handsets in the normal course of business. The advance bears no interest, and is uncollateralized. If the Company is able to successfully complete a sale of SpreadZoom, the Company expects to be repaid these advances.

Due to related parties

As of March 31, 2014 and December 31, 2013, the amounts due to related parties were:

Due to related parties		**March 31, 2014 (Unaudited)**		**December 31, 2013**
Mr. Lei Gu	$	1,063,500	$	1,063,500
Leimone (Tianjin) Industrial Co., Ltd.		2,176,294		2,283,922
Beijing Leimone Shengtong Cultural Development Co., Ltd.		102,500		102,500
Total due to related parties	$	3,342,294	$	3,449,922

Mr. Gu provided funds to the Company with no interest and are due on demand. As of March 31, 2014 and December 31, 2013, the balances of funds provided by Gu was $1,063,500.

Leimone (Tianjin) Industrial Co., Ltd. ("Tianjin Leimone") was controlled by Gu, the largest shareholder of the Company. As of December 31, 2013, the amount owed to Tianjin Leimone was $2,283,922. This balance is the result of a transfer from Tianjin Leimone of $10,719,532 (RMB 66,400,000) for Jiangsu Leimone to inject as capital into its discontinued operation TCB Digital. The transfer of funds from Tianjin exceeded the then outstanding balance of $8,435,610 owed by Tianjin Leimone; therefore, the remaining balance is a net due to Tianjin Leimone. The balance due to Tianjin Leimone of $2,283,922 at December 31, 2013 was reduced to $2,176,294 at March 31, 2014.

The balance owed to Beijing Lemone Shengtong Cultural Development Co, Ltd ("Beijing Shentong") arose in the normal course of business, as certain corporate staff expenses in Beijing were paid by Beijing Shentong on behalf of the Company.

NOTE 12 - STOCKHOLDERS' EQUITY

COMMON STOCK

On January 25, 2013 the Company issued 18,600 shares of its common stock to its Board of Directors for the service period from January 1, 2013 to December 31, 2013. These shares were valued at $6.50 per share which was the closing price on the date of Board Approval. The Company recorded non-cash compensation expense of $120,900 for the year ended December 31, 2013.

On January 25, 2013 the Company issued 2,000 shares of its common stock to consultants for the service period from January 1, 2013 to December 31, 2013. These shares were valued at $6.50 per share which was the closing price on the date of Board approval. The Company recorded non-cash compensation expense of $ 13,000 for the year ended December 31, 2013.

On July 16, 2013, the Company issued 56,000 shares as compensation to Mr. Anthony Chan for back pay. The Company recorded $475,603 of compensation expense.

On November 12, 2013, the Company effectuated a 10 for 1 reverse split of its common stock. All share numbers and per share amounts have been retroactively restated to reflect the reverse split.

For the year ended December 31, 2013, the Company accelerated the write off of certain deferred stock based compensation totaling $395,250.

The Company has not issued or accrued any stock based compensation for the three months ended March 31, 2014.

NOTE 13 - WARRANTS

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

Following is the brief description of warrants:

Series A Warrants

: The Series A warrants had an exercise price of $60.00 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 had an exercise price of $0.10 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 are exercisable only upon the exercise of the Series B warrants. The Series C warrants had an exercise price of $60.00 and a term of 5 years from the issue date.

Series D Warrants

: The Series D warrants were exercisable if the Company failed to meet certain performance criteria for the year 2009. The Series D warrant had an exercise price of $0.10 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 would be extended indefinitely if the warrant could not 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 were exercisable if the Company fails to meet certain performance criteria for the year 2010. The Series E warrants had an exercise price of $0.10 and a term of three (3) months from the date the Maximum Eligibility Date (as defined in the agreement); provided, however, that such date would be extended indefinitely if the warrant could not be exercised due to the Beneficial Ownership Limitation (as defined in the agreement) until the Warrant could 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 had an exercise price of $60.00 and a term of 5 years from the issue date. The Company issued 37,500 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 placement offering on November 15, 2010.

Series G Warrants

: The Series G warrants have an exercise price of $47.10 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 $37.40 per share and the number of warrants eligible is multiplied by a factor of 60 / 37.40 or 1.60 with fractional shares rounding up.

The following summary represents warrants activity during the three months ended March 31, 2014:

	Number of Warrants		**Weighted-Average Exercise Price**		**Aggregate Intrinsic Value**
Balance, December 31, 2013	863,860	$	23.00	$	-
Granted					
Lapsed					
Exercised					
Cancelled					
Balance, March 31, 2014	863,860	$	23.00	$	-

The following presents a warrants summary as of March 31, 2014:

	Warrants Outstanding			Warrants Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
Warrants	863,860	0.84 years	$ 23.00	863,860	$ 23.00

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

NOTE 14 - STOCK OPTIONS

The 2009 Equity Incentive Compensation Plan

The following summary represents options activity during the three months ended March 31, 2014 under the New Plan.

	Under New Plan	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Balance, December 31, 2013	199,125	$ 12.58	$ -
Granted	-		
Lapsed	(61,400)	37.50	-
Exercised			
Cancelled	-	-	-
Balance, March 31, 2014	137,725	$ 11.39	$ -

The following represents options summary as of March 31, 2014 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	137,725	2.80 years	$ 11.39	137,725	$ 11.39

On February 14, 2013, the Company's BOD approved of the granting of 10,000 options to an employee with an exercise price of $6.50, with monthly vesting beginning in February 2013. The options expire four years from the date of grant. The Company determined the grant date fair value of 10,000 options of $0.17 per share which was calculated using the Black Scholes Options Pricing Model as follows: Stock price of $6.50 per share, exercise price of $6.50 per share, expected life of 4.00 years, volatility of 32.48% and discount rate of 0.64%.

In November of 2013, the Company's BOD approved of the granting of 55,000 options to certain employees with an exercise price of $3.14, with monthly vesting beginning in November 2013. The options expire four years from the date of grant. The Company determined the grant date fair value of 55,000 options of $1.14 per share which was calculated using the Black Scholes Options Pricing Model.

As a result, of the issuances in February and November of 2013 of 10,000 and 55,000 shares respectively, the total options issued during 2013 were 65,000.

The Company did not record any non-cash stock compensation expense for the three months ended March 31, 2014.

NOTE 15 - INCOME TAXES

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 $4.29 million and $4.04 million at March 31, 2014 and December 31, 2013, which may be available to reduce future years' taxable income. Management believes the realization of benefits from these losses remains uncertain due to Zoom's limited operating history and continuing losses. Accordingly, a 100% deferred tax asset valuation allowance has been provided.

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

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

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

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

Nollec had pre-tax loss up to the date of its disposition April 5, 2013. The Company's net income and earnings per share had no effect due to its income tax exemption.

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

Portables is governed by the Income Tax Law of United States; however, because Portables is a pass through entity for tax purposes, tax liabilities are the responsibility of its members. Therefore, Zoom Sub, which is responsible to report and make payments on its portion of income generated by Portables was subject to a maximum graduated statutory tax rate of 34%. In 2014, the Company no longer owns any interest in Portables; accordingly, it will not be subject to future income taxes generated from the results of operations from Portables on a go forward basis.

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

The following table summarizes the temporary differences which result in deferred tax assets and liabilities as at March 31, 2014 and December 31, 2013:

	March 31, 2014 (Unaudited)	December 31, 2013
Deferred tax assets:		
Net operating loss	$ 1,458,834	$ 1,373,600
less: Valuation allowance	(1,458,834)	(1,373,600)
Total deferred tax assets	-	-
Deferred tax liabilities:	-	-
Deferred tax assets, net	$ -	$ -

The following table reconciles the U.S. statutory rates to the Company's effective tax rates for the three months ended March 31, 2014 and 2013:

	For Three Months Ended March 31,	
	2014 (Unaudited)	2013 (Unaudited) (Restated)
US statutory rates	34.00%	34.00%
Tax rate difference	-5.47%	-2.24%
Valuation allowance	-28.53%	-31.76%
State taxes	-0.24%	0.20%
Tax per financial statements	-0.24%	0.20%

NOTE 16 - STATUTORY RESERVES

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

i) Making up cumulative prior years' losses, if any;

ii) Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;

iii) Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and Statutory common welfare fund is no longer required per the new cooperation law executed in 2006.

iv) Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

As of March 31, 2014 and December 31, 2013, the Company's statutory surplus reserve was $727,822 and $727,822 respectively.

NOTE 17 - OPERATING RISK

- **Industry risk**

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

- **Exchange risk**

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

- **Political risk**

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

- **Interest risk**

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

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

NOTE 18 - EQUITY METHOD INVESTMENTS

On May 10, 2012, the Company along with Spreadtrum Communications (Tianjin) Co., Ltd, Tianjin Baoshui District Investment Co, Ltd, and Han & Qin International (BVI) Limited invested in the joint venture SpreadZoom Technologies, Inc ("SpreadZoom"). SpreadZoom is domiciled in Tianjin, China with a registered capital of $47,352,700 (RMB 300,000,000). As of June 30, 2012, $17,520,500 (RMB 111,000,000) in capital had been contributed to SpreadZoom; the Company contributed $12,342,542 (RMB 78,000,000). The Company had committed to invest an additional $10,117,700 (RMB 64,100,000) in SpreadZoom. Management and control of the business have not been fully determined. The Company has used the equity method to account for its investment in SpreadZoom and has recorded a loss from investment of $377,005 and $ 252,588 for the three months ended March 31, 2014 and 2013, respectively. The Company is contemplating disposing of SpreadZoom. Refer to "Note 1 - Organization and Nature of Business Operations: Dispositions" for further details.

Changes in Equity Method Investments

	Portables	SpreadZoom	Total
Balance December 31, 2012 **(Restated)**	$ 11,846,018	$ 11,912,956	$ 23,758,974
Equity method investment loss	105,606	(377,005)	(271,399)
Increase in investment through co-borrowing on bank term note	2,500,000	-	2,500,000
Reduction in investment through repayment of line of credit	(500,000)	-	(500,000)
Reduction from repayment on bank term note	(489,310)	-	(489,310)
Gain from default of promisssry note leading for fofeiture of ownership	(2,000,000)	-	(2,000,000)
Loss on disposal	(11,462,314)	-	(11,462,314)
Balance December 31, 2013	$ -	$ 11,535,951	$ 11,535,951
Balance December 31, 2013	$ -	$ 11,535,951	$ 11,535,951
Equity method investment loss	-	(377,005)	(377,005)
Balance March 31, 2014	$ -	$ 11,158,946	$ 11,158,946

Financial Position of SpreadZoom	March 31, 2014 (Unaudited)	December 31, 2013
Current assets	$ 24,227,267	$ 17,811,982
Non-current assets	6,670,406	6,558,367
Total assets	30,897,673	24,370,349
Current liabilities	16,797,399	9,353,001
Non-current liabilities	-	-
Total liabilities	16,797,399	9,353,001
Net asset value	$ 14,100,274	$ 15,017,348

Results of Operations of SpreadZoom	For Three Months Ended March 31,	
	2014 (Unaudited)	2013 (Unaudited)
Net revenues	$ 12,074,348	$ 18,106,466
Cost of goods sold	12,276,854	17,923,971
Gross profit	(202,506)	182,495
Operating expenses	593,525	715,903
Operating loss	(796,031)	(533,408)
Other income (expenses), net	159	185
Income (loss) before taxes	(795,872)	(533,223)
less: Provision for income taxes	-	-
Net loss	$ (795,872)	$ (533,223)
Investment loss attributable to Zoom Technologies, Inc.	$ (377,005)	$ (252,588)

The Company accounted for its investment in Portables Unlimited, LLC using the equity method. The following are operating results of Portables for the three months ended March 31, 2013 (as restated).

Results of Operations of Portables		**For Three Months Ended March 31, 2013 (Unaudited) (Restated)**
Net revenues	$	7,365,230
Cost of goods sold		5,893,746
Gross profit		1,471,484
Operating expenses		1,637,860
Operating loss		(166,376)
Other income (expenses), net		(137,978)
Income (loss) before taxes		(304,354)
less: Provision for income taxes		-
Net loss	$	(304,354)

NOTE 19 - DISCONTINUED OPERATIONS

On December 31, 2012, the Company announced its plan to dispose of certain business operations to Beijing Zhumu Culture Communication Company, Ltd. covered in the Share Purchase Agreement as described in "Note 1 - Organization and Nature of Business Operations" was for approximately $31.7 million (RMB 200 million) in sales proceeds. The Share Purchase Agreement covers the sale of several business operations in different jurisdictions, with differing regulatory requirements regarding the purchase and sale of businesses. For accounting purposes the Company has accounted for those operations as discontinued operations up to the point of the individual closing of the relevant entities under relevant local jurisdictions as detailed in the tables below.

The sale of Profit Harvest and CDE closed on December 31, 2012. The portion of the sale covered in the Share Purchase Agreement for Ever Elite and Nollec closed on April 5, 2013. The sale of TCB Digital closed on May 16, 2014.

Results of Operations	**Three Months Ended March 31,**	
	2014	**2013**
Net revenues	$ 56,298,303	$ 42,257,043
Cost of sales	54,275,799	40,241,554
Gross profit	2,022,504	2,015,489
Operating expenses	1,425,832	1,650,821
Operating income	596,672	364,668
Other income (expenses), net	(465,327)	(702,175)
(Loss) income before taxes from discontinued operations	131,345	(337,507)
less: Provision for income taxes	32,305	21,061
Income (loss) from discontinued operations, net of tax	$ 99,040	$ (358,568)
Income (loss) from discontinued operations attributable to Zoom Technologies, Inc.	$ 154,632	$ (320,687)
Basic and diluted (loss) income per common share from discontinued operations:		
Basic	$ 0.05	$ (0.11)
Diluted	$ 0.05	$ (0.11)

Financial Position	**March 31, 2014**	**December 31, 2013**
Cash and equivalents	$ 8,963,618	$ 2,848,859
Restricted cash	72,010,257	80,658,355
Notes receivable	-	669,583
Accounts receivable, net	17,085,575	20,225,872
Inventories, net	19,846,379	18,809,671
Other receivables and prepaid expenses	147,143	2,061,687
Advance to suppliers	355,578	224,913
Due from related parties	5,818,141	204,509
Property, plant and equipment, net	1,472,004	1,636,316
Deferred tax assets, noncurrent	69,570	70,136
Total current assets	125,768,265	127,409,901
Total Assets of Discontinued Operations	$ 125,768,265	$ 127,409,901
Short-term loans	$ 34,404,972	$ 38,529,498
Notes payable	29,588,128	42,441,911
Accounts payable	40,342,706	42,843,584
Accrued expenses and other payables	866,404	19,643
Advances from customers	272,718	97,110
Taxes payable	(5,362,691)	(4,106,935)
Due to related parties	37,162,963	19,284,688
Total current liabilities	137,275,200	139,109,499
Total Liabilities of Discontinued Operations	137,275,200	139,109,499
Net (Liabilities) Assets of Discontinued Operations	$ (11,506,935)	$ (11,699,598)

NOTE 20 - SUBSEQUENT EVENT

On December 31, 2012, the Company entered into a Securities Purchase Agreement with BZCC, which among other assets included the sale of TCB Digital by the Company to BZCC. On or about December 30, 2013, the Company consented to BZCC assigning its purchase rights to Huatianli; on May 15, 2014, the Company completed the sale of TCB Digital to Huatianli which is evidenced by the recording of transfer ownership with the PRC government, and the Company's receipt of payment in full from Huatianli. Additionally, the Company is obligated to refund a purchase deposit of RMB 52 million to BZCC for funds previously deposited in a restricted trust account in the Company's name.

On May 20, 2014, the Company received releases from M&T Bank for balances owed under both a line of credit and term note owed at March 31, 2014. As result of these releases, the liabilities will be written off as gains in the second quarter of 2014.

NOTE 21 - CORRECTION OF ERROR FOR ACCOUNTING OF PORTABLES UNLIMITED, LLC

On May 5, 2014, the Company concluded that the consolidated balance sheet, and related consolidated statement of operations and comprehensive income/(loss), stockholders' equity and statements of cash flows included in Form 10K Annual Report, dated April 15, 2013 (the "2012 Financials") will need to be restated as a result of the Company erroneous application of the consolidation method of accounting for its former 50.1% equity interest investment in Portables Unlimited, LLC ("Portables"). The Company's management determined during the fourth quarter of the year ended December 31, 2013 that the Company's former investment in Portables was incorrectly accounted for using the consolidation method and should instead have been accounted for using the equity method. The error resulted in an overstatement of the total assets, total liabilities, net revenues, cost of sales, operating expenses, and operating income in the previously filed consolidated financial statements. The Company did not demonstrate that it had unilateral control over the investment, but rather, the Company only exercised substantive participating rights; accordingly, the Company should have used the equity method of accounting to account for its former investment.

The following tables show the previously reported amounts, the required adjustment and the currently restated amounts related to the Company's results of operations for three months ended March 31, 2013 (as restated).

	For the Three Months Ended March 31, 2013		
	As Previously Reported	Adjustment	As Currently Reported **(Restated)**
Net revenues	$ 7,365,230	$ (7,365,230)	$ -
Cost of sales	5,893,746	(5,893,746)	-
Gross profit	1,471,484	(1,471,484)	-
Total operating expenses	2,292,010	(1,637,860)	654,150
Loss from operations	(820,526)	166,376	(654,150)
Other (expense) income, net	(470,915)	(14,503)	(485,418)
Loss before income taxes for continuing operations	(1,291,441)	151,873	(1,139,568)
Income taxes for continuing operations	2,250	-	2,250
Loss from continuing operations	(1,293,691)	151,873	(1,141,818)
Discontinued Operations:			
Loss from discontinued operations, net of tax	(358,568)	-	(358,568)
Loss on disposal, net tax	-	-	-
Loss from discontinued operations	(358,568)	-	(358,568)
Net loss	$ (1,652,259)	$ 151,873	$ (1,500,386)
less: Income (loss) attributable to noncontrolling interest	(189,754)	151,873	(37,881)
Net loss attributable to Zoom Technologies, Inc.	$ (1,462,505)	$ -	$ (1,462,505)
Basic and diluted loss per common share			
Basic	$ (0.50)	$ -	$ (0.50)
Diluted	$ (0.50)	$ -	$ (0.50)

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

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

Corporate Overview

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

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

Zoom's Operations in China

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

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

On October 26, 2011, the Company closed the sale of 167,630 shares of common stock to Spreadtrum Communications, Inc., ("Spreadtrum") in consideration of $2,900,000, pursuant to a Common Stock Purchase Agreement (the "Purchase Agreement") entered into by and among the Company, Spreadtrum and Leo (Lei) Gu (the "Key Stockholder"). Pursuant to the Purchase Agreement, the Company also agreed to design and develop all applicable Company products to integrate and operate solely with Spreadtrum's products, and to not design and develop any Company products to integrate or operate with any Spreadtrum's competitive products for a term of three years from the Purchase Agreement. Also pursuant to the Purchase Agreement, Spreadtrum has the right to nominate one nominee to the Board of Directors of the Company (the "Nomination Right"), subject to approval of the Company's independent directors, as required under Nasdaq Rule 5605(e)-Independent Director Oversight of Director Nominations. Spreadtrum's Nomination Right shall continue until such time that Spreadtrum owns not less than 83,815 shares of the Company's outstanding common stock. In accordance with the Purchase Agreement, Dr. Leo Li, Chairman and Chief Executive Officer of Spreadtrum, was added to the Company's Board. Dr. Li was subsequently replaced by Chin Hung (James) Lo as a director of the Company in May 2013.

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

Subsidiary Sale

On December 31, 2012, the Company entered into a Share Purchase Agreement (the "SPA") with Beijing Zhumu Culture Communication Company, Ltd. (the "BZCC"), a PRC company that provides services to the telecommunication industry. Pursuant to the SPA, the Company agreed to sell (the "Subsidiary Sale") to the Purchaser all the equity interests the Company holds in its China based subsidiaries (except for SpreadZoom as mentioned above), which include 100% of the outstanding equity interest of Ever Elite and its wholly owned subsidiary Nollec, 80% of the outstanding equity interest of TCB Digital (excluding TCB Digital's interest in SpreadZoom; however, as stated abve the Company will mostly likely pursue the sale of SpreadZoom), 100% of the outstanding equity interest of Profit Harvest, and 100% of the outstanding equity interest of CDE. As consideration for the Subsidiary Sale, the Purchaser agreed to pay to the Company RMB 200 million (approximately US$32 million) (the "Purchase Price"), subject to adjustment pending an appraisal by an independent third party appraiser. The Purchaser remitted an advance payment to Zoom in the amount of RMB 80 million and deposited the balance of the purchase price into an escrow account, to be released to the Company upon the final closing of the Subsidiary Sale, which was to be held until 30 days after the Company receives all the requisites corporate and regulatory approvals with respect to the Subsidiary Sale. On December 31, 2012, BZCC completed its acquisition of Profit Harvest and CDE; on April 5, 2013, BZCC completed its acquisition of Ever Elite and Nollec. As of May 15, 2014, the acquisition of TCB Digital by BZCC been completed.

On December 30, 2013, BZCC assigned its purchase right for TCB Digital to Tianjin Huatianli Trading Co., Ltd. ("Huatianli"). On December 30, 2013, the Company consented to the assignment between BZCC and Huatianli and agreed to amend the SPA to reflect the change. In connection with the assignment, the parties agreed that the RMB120 million, representing the balance of the Purchase Price that was being held in escrow pending the closing of all of the sales under the SPA, would be released to the Company on January 14, 2014. Of that amount, approximately RMB 68 million was available for the Company's immediate use, and approximately RMB52 million, representing the purchase price for TCB Digital, was be monitored by Huatianli until the closing of the TCB Digital sale. As of the date of this report the RMB 120 million is held in a wealth management account at New Times Trust Holding Co., Ltd. The Company's Chief Executive Officer has unencumbered sole signing and dispositive rights to that account. As of May 16, 2014, the Company has received payment in full from Huatianli for the sale of TCB Digital and the Company has completed the transfer of Jiangsu Leimone's ownership interest in TCB Digital to Huatianli. Since the Company received payment separately from Huantianli for RMB 52 million, the Company is obligated to repay RMB 52 million to BZCC from the RMB 120 million held in the wealth management account.

Letter of Intent

On January 13, 2014, Zoom entered into a Letter of Intent with Tinho Union Holding Group, pursuant to which it proposes to acquire 100% of the outstanding shares of Tinho Union Holding Group and its subsidiaries ("Tinho") in exchange for the issuance of 9,363,585 shares of the Company's common stock at a valuation of $8.6505 per share; 4,681,793 shares that are to be issued will be held in escrow, and those shares will be released upon Tinho's achievement of certain earnings targets (such transaction, the "Tinho Acquisition"). The Letter of Intent is subject to final terms and conditions, which will be mutually accepted and fully described in a definitive agreement governing the proposed transaction. To date no such definitive agreement has been prepared and there can be no assurance that Zoom and Tinho will consummate this transaction.

The Letter of Intent provides the parties with exclusivity until the earlier of: (i) June 30, 2014; (ii) the time that all parties agree in writing not to pursue the Tinho Acquisition; or (iii) execution of a definitive agreement; provided, that the Company shall be allowed to consider other acquisition proposals that may be superior to terms of the Tinho Acquisition. In the event that either Tinho or Zoom's board of directors fails to approve the Tinho Acquisition during the exclusivity period for reasons other than material breach of the Letter of Intent or the definitive agreement, dissatisfaction with the outcomes of due diligence, or failure of any closing conditions outside of a party's control, such party shall be subject to a break-up fee of

36

$2 million. However, Tinho shall not be subject to any break-up fee in the event that Zoom is no longer listed on the Nasdaq Capital Market ("Nasdaq") and Zoom is deemed by Nasdaq to be subject to Nasdaq's seasoning rules. With the exception of these exclusivity and break-up provisions, which are binding, the terms of the Letter of Intent are non-binding in nature. As of the date of this report, the Company has not concluded its due diligence on Tinho, and audit financial statements for Tinho for the years ended December 31, 2013, 2012, and 2011 have yet to be provided to the Company.

Tinho is a leading B2B e-commerce platform provider for the travel industry in China. Tinho's innovative platform aggregates and streamlines a vast inventory of travel products, including air, hotels, car rentals, and vacation packages from travel service providers worldwide to enable customers to easily and accurately find best deals in real-time. Tinho also provides full-service, customized travel solutions to corporate clients. Tinho distributes its platform through websites (

www.thlm.com.cn), franchise model, direct-sale model and 24-hour toll-free call centers. Founded in 2009, Tinho is headquartered in Shenzhen, China with over 200 employees.

The Company is currently conducting due diligence on Tinho, and Tinho is conducting due diligence on the Company. Definitive agreements have yet to be completed or executed by either party.

Zoom's Investment in the U.S.

On October 12, 2011, the Company and Zoom USA Holdings, Inc., a wholly-owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), an exclusive wholesale distributor of T-Mobile products in the United States. As consideration of the 50% interest in Portables, Zoom (i) issued 149,469 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. Subsequent to the purchase of the 50% stake in ownership from CNCG, Zoom Sub increased its stake in Portables to 50.1% by injecting additional capital. Further, in connection with the transaction, the Company 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. The Company also agreed to pay other outstanding indebtedness of Portables of $4,500,000, less the amount of T-Mobile Indebtedness paid off. Additionally, the Company had previously recognized acquisition payables to Portables in the amount of $1,350,000 and the need to arrange a $500,000 Letter of Credit in Portables' name to secure obligations to T-Mobile.

As of July 15, 2013, the Company was in default of a promissory note for $2,000,000 owed to Portables Unlimited, Inc. The promissory note was collateralized by the Company's ownership percentage in Portables. The Company was not been able to cure its default, and the Company determined it was not able to recover its investment, and forfeited its ownership interest. Accordingly, the Company recognized a loss of approximately $16.3 million during the year ended December 31, 2013 which includes a complete write off of its investment in Portables for loss of approximately $11.5 million. The Company had previously erroneous accounted for its investment in Portables using the consolidation method of accounting; however, it was subsequently determined that the proper method of accounting for its investment was the equity method; accordingly, the Company has revised its presentation of 2013 financial statements in this Form 10-Q. Refer to "Note 21 - Correction of Error for Accounting of Portables Unlimited, LLC" for further details.

37

Zoom's principal executive offices are located in the People's Republic of China at Sanlitun SOHO, Building B, 19th Floor, No.8 Workers Stadium North Road, Chaoyang District, Beijing, China 100027; its telephone number is 86-10-5935-9000. The Company's corporate web site address is

www.zoom.com.

The diagram below summarizes the Company's corporate structure as of March 31, 2014:

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

The Company recognizes revenue when the following criteria are met:

(i) persuasive evidence of an arrangement exists;

(ii) delivery has occurred or services were rendered;

(iii) the price to the customer is fixed or determinable and,

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

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

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

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

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

Equity Method Accounting

In May 2012, the Company invested $12.3 million to establish a joint venture named SpreadZoom Technologies Co. Ltd., ("SpreadZoom"). The Company owns 47.4% of SpreadZoom and accounted for this investment under the equity method of accounting (ASC 323-30). Refer to "Note 18 - Equity Method Investments" for details.

The Company revised its accounting for Portables Unlimited, LLC. Previously, the Company accounted for the investment as a subsidiary under the consolidation method of accounting; as of the date of this report, Company retroactively changed its method of accounting for Portables to the equity method. Previously reported net income/(loss) attributable to the Company were unchanged; however, the consolidated balance sheet at December 31, 2012 no longer includes all of the assets and liabilities of Portables. As of December 31, 2013, Portables was no longer an investment of the Company. As disclosed above the Company completely wrote off the investment on July

15, 2013, recording a loss of approximately $11.5 million. At December 31, 2012, the Company was a joint borrower on a $3 million line of credit provided by M&T Bank. This line was refinanced in February of 2013 to be reduced to $2.5 million; concurrently, the Company and Portables co-borrowed $2.5 million in a term note from M&T Bank.

Both the line of credit and term note were accounted for as an increase to the investment amount when Portables was still owned by the Company. The investment was written off in July of 2013; however, at December 31, 2013, the maximum value of the line of credit of $2.5 million and the amortized balance of the term note are carried as liabilities on the Company's consolidated balance sheets. On May 20, 2014, Portables and M&T Banks released the Company from the obligation of repaying the line of credit and term note. Refer to "Note 9 - Short Term Loans" for further details.

Allowance for doubtful accounts

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

Income taxes

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

Asset Impairment

Zoom periodically evaluates the carrying value of other long-lived assets, including, but not limited to, property and equipment and intangible assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Significant estimates are utilized to calculate expected future cash flows utilized in impairment analyses. Zoom also utilizes judgment to determine other factors within fair value analyses, including the applicable discount rate. As of December 31, 2012, the Company had completely written off goodwill resulting from its acquisition of Jiangsu Leimone, Silver Tech, and CDE. There was no goodwill outstanding as of and for the three months ended March 31, 2014.

Results of Operations for the Three Months Ended March 31, 2014

Revenues

Our revenues from continuing operations were $0 for the three months ended March 31, 2014 and 2013. The Company is restructuring its business and expects to consummate a transaction to invest in a high growth technology based business.

Cost of sales

For the three months ended March 31, 2014 and 2013, our costs of sales from continuing operations were $0. As previously noted, the Company is restructuring its business.

Gross profit

Gross profits from continuing operations for the three months ended March 31, 2014 and 2013 were $0.

Operating expenses

Sales, general and administrative expenses from continuing operations primarily consisted of compliance expense related to maintaining the Company's status as public company.

The Company has not issued any non-cash equity-based compensation during the three months ended March 31, 2014.

Other income/(expenses)-net

The Company's other net expense was $223,850 and $485,418 for the three months ended March 31, 2014 and 2013. There was a net investment loss for SpreadZoom of $377,005 for the three months ended March 31, 2014 as compared to an investment loss of $252,588 for the same period in 2013 (as restated). The Company also incurred net investment loss for Portables of $152,481for the three months ended March 31, 2013 (as restated).

Net (loss) income

For the three months ended March 31, 2014 and 2013, the Company's net loss was $541,124 as compared to net income of $1,500,386 for the corresponding period in 2013. The substantial losses are the result of the Company restructuring and ongoing public company expenses.

Other comprehensive income/(loss)

The Company's other comprehensive income is attributable to foreign currency exchange fluctuations, particularly the Renminbi against the USD.

Liquidity and Capital Resources

Zoom generally finances its operations from cash flow generated internally, equity fundraising and short-term bank loans due in less than one year and with interest rates between 5.3% and 8.4%. As of March 31, 2014, we had cash and equivalents of $4,694,290, an increase of $4,657,555 from $36,735 as of December 31, 2013. We also had $8,463,136 in restricted cash a reduction of $11,169,729 from $19,632,865 in restricted cash. The reduction was a result of certain funds to be reclassified as short term investments. The restricted cash and short term investment are held in a wealth management trust account controlled by the Company's Chief Executive Officer and BZCC. The funds were related to the disposition of certain discontinued operations. As of May 16, 2014, the funds have been released to the Company for use without any further restrictions. The signatory and dispositive authority over the funds in the wealth management account after they were unencumbered rests solely with the Company's Chief Executive Officer.

The net cash provided in operating activities in for three months ended March 31, 2014 was $6,144,781 compared to net cash used in operating activities for the same period in 2013 of $23,499,656 (as restated). The net cash inflow from operating activities in 2013 was primarily generated in discontinued operations by decreases in accounts receivables and increases in accrued and other current liabilities.

Net cash provided by in investing activities was $8,665,840 for the three months ended March 31, 2014. These funds were primarily sourced from discontinued operations as certain restricted with PRC banks became unencumbered.

Net cash used in financing activities was $3,936,258 for the three months ended March 31, 2014. These funds were used in discontinued operations for the repayments of related parties and notes payable.

Contractual Obligations

As of March 31, 2013, the Company had promissory note obligations outstanding for past acquisitions totaling $350,937. The Company also owed $1,861,853 to M&T Bank as co-borrower with Portables on an amortizing term note. The Company was also a co-borrower revolving on a line of credit of $2,500,000 from M&T bank. On May 20, 2014, the Company was released by M&T Bank as co-borrower for both the line of credit and term note.

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

Off Balance Sheet Arrangements

As of March 31, 2014, Zoom had no off balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") (the Company's principal executive officer) and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures is not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Management's Interim Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control system was designed to, in general, provide reasonable assurance to the Company's management and board regarding the preparation and fair presentation of published financial statements, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2014. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our management has determined that as of March 31, 2014, the Company identified deficiencies that were determined to be a material weakness.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Because of the material weakness described below, management concluded that our internal controls over financial reporting were not effective as of March 31, 2014.

The specific material weakness identified by the Company's management as of March 31, 2014 is described as follows:

- The Company has had to make corrections of errors on two separate occasions during the last two years for its accounting of warrants and its accounting for its equity investment in Portables. These corrections of errors represent material weaknesses in the Company's ability to accurately account for complex accounting issues. The Company is currently reviewing its processes to determine if more additional outside expertise is necessary to account for transactions that require complex accounting treatments. The Company must assess the cost benefit of using outside sources. As of the date of this report, the Company it still conducting its analysis; however, the Company has begun evaluating potential remedial measures to eliminate the material weakness.

Changes in Internal Controls over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the three months ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

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

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 June 16, 2014 by the undersigned, thereunto duly authorized.

Zoom Technologies, Inc.
(Registrant)

By: /s/ Lei Gu

Lei Gu
Chief Executive Officer

By: /s/ Patrick Wong

Patrick Wong
Chief Financial Officer

INDEX TO EXHIBITS

Exhibits:

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