ZOOM TECHNOLOGIES INC
Form 10-K
April 16, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

or

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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: _____________ to _____________

Commission File Number: **0-18672**

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 No.)

Headquarters:

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

U.S. Office:

136 First Street
Nanuet, NY 10954
(Address of Principal Executive Office) (Zip Code)

1-845-507-8200

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

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

(Title of Class)

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

o No þ

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

o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

þ No o

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

þ No o

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

o No þ

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

o No þ

The aggregate market value of the common stock, $0.01 par value, of the registrant held by non-affiliates of the registrant as of June 30, 2011(computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was $24,808,179.

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of March 30, 2012 was 24,134,043 shares.

ZOOM TECHNOLOGIES, INC.
FORM 10-K ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011
TABLE OF CONTENTS

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1 — BUSINESS

Corporate Overview

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

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

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

On June 1, 2010 the Company acquired 100% ownership of Silver Tech Enterprises, Ltd ("Silver Tech"), a BVI holding company which owns 100% of Ever Elite Corporation, Ltd ("Ever Elite"), a Hong Kong holding company, which owns 100% of Nollec Wireless, a mobile phone and wireless communication design company located in Beijing, China, founded in June 2007 and organized under the laws of the PRC. The Company purchased all of the outstanding shares of Silver Tech from its previous owners for $10.96 million, comprising of $1.37 million in cash and 1,342,599 newly issued unregistered shares of common stock of Zoom valued at $9.59 million.

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

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

On October 12, 2011, the Company and Zoom USA Holdings, Inc., a newly formed wholly-owned subsidiary of the Company ("Zoom Sub") entered into a Securities Purchase Agreement ("Securities Purchase Agreement") to purchase from The Cellular Network Communications Group, Inc. ("CNCG") a 50% interest in Portables Unlimited LLC ("Portables"), an exclusive wholesale distributor of T-Mobile products in the United States. As consideration of the 50% interest in Portables, Zoom (i) issued 1,494,688 shares of Zoom common stock (the "Equity Consideration") to the principals of CNCG and (ii) through Zoom Sub, issued a promissory note of $500,000 payable to CNCG. The promissory note accrues interest at 2% and matures three years from the date of issuance.

In addition, Zoom Sub purchased an additional 5% interest in Portables for $750,000 that is currently outstanding and was payable within 30 days of the closing date.

Further, in connection with the transaction, Zoom assumed the responsibility for repaying certain indebtedness owed by Portables to T-Mobile USA, Inc. of $4,757,187 (the "T-Mobile Indebtedness"), and agreed to arrange for a $500,000 letter of credit in the name of Portables to secure obligations of Portables to T-Mobile. The T-Mobile Indebtedness was payable under the following schedule: $2,500,000 was due on November 10, 2011 (the "Initial Payment"), $1,400,000 was due on December 10, 2011 (the "Second Payment"), and the remaining $857,186 was due on December 20, 2011 (the "Final Payment"). The Initial Payment and Second Payment were made timely, and pursuant to the agreement with T-Mobile the Final Payment was waived. Zoom also agreed to pay other outstanding indebtedness of Portables of $4,500,000, less the amount of T-Mobile Indebtedness paid off.

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

www.zoom.com.

The diagram below summarizes our corporate structure as of December 31, 2011:

Description of Business

The Company is a holding company which, through its subsidiaries, engages in the manufacturing, research and development ("R&D"), and sale of electronic and telecommunication products for the latest generation mobile phones, wireless communication circuitry, and related software products. Zoom's subsidiary, Jiangsu Leimone, owns a majority stake of TCB Digital, which offers highly customized and high quality Electronic Manufacturing Service (EMS) for Original Equipment Manufacturer (OEM) customers as well as its Own Brand Manufacturing (OBM) under the brand name of Leimone. The Company's products are both exported from and sold in the PRC. Through its wholly owned subsidiary, Nollec Wireless, the Company also provides state-of-the-art design solutions for mobile handsets, and our R&D clients include Philips, Lenovo, Sonim, Gionee and Borgs.

The Company offers high quality and comprehensive EMS to both domestic and global customers, including, Samsung, Beijing Tianyu Langtong, CECT, Danahar and Spreadtrum. Our primary products include mobile phones, wireless telecommunication modules, digital cameras, cable TV set-top boxes and GPS equipment. In addition, the Company has developed various state-of-the-art mobile phones and Smartphones based on both of the main network technologies: Global System for Mobile Communications, or GSM, and Code Division Multiple Access, or CDMA, and beginning in 2010 also 3G CDMA2000 capable products. Presently, the Company markets its mobile phone products through distributors in China and also supplies GSM, CDMA and 3G CDMA2000 mobile phones to major customers, including one of China's main mobile operators, China Telecom.

The Company through its Portables subsidiary operates an exclusive wholesale distributor business for T-Mobile products and services in the United States. The Company also has the right to sell branded mobile handsets including those carrying the Zoom brand name and related peripherals in the retail stores managed by Portables under the agreement with T-Mobile.

Competitive Strengths

We are a vertically integrated mobile phone designer, manufacturer and sales services provider, and believe our competitive strengths include:

Experienced Management Team & Strong Technology Experts

Our main manufacturing subsidiary, TCB Digital, believes it has a well-established and efficient human resource strategy. Under this strategy, TCB Digital is able to develop and maintain a good management team, strong technical professionals, and highly skilled manufacturing operators. TCB Digital believes the combination of TCB Digital's internal development and hiring programs provide it with adequate and stable staffing for various levels of technical and managerial requirements. TCB Digital has a management team with expertise in manufacturing, product development, and marketing. Many managers have working experience and training from leading firms in the industry such as Motorola, BenQ, Samsung, Pemstar, Mitsum, and Foxconn. With respect to manufacturing, TCB Digital believes it has developed and maintained a highly efficient manufacturing operator team with strong discipline. Furthermore, TCB Digital believes it has a strong product research and development team that has demonstrated talent in developing state-of-art mobile devices that can meet market needs.

Location Advantage

TCB Digital is located in Tianjin, China, which is located in the middle of Bo Hai Electronic Development Base. China's central government recently established the "Bo Hai Economic Zone" which has been divided into several regions with specific development directions. Bo Hai Electronic Development Base is one of these newly identified regions, which has a well-established transportation system and strong industrial foundation.

Advanced Manufacturing Facility & Process

Our Company has 14 SMT (Surface Mounting Technology) ("SMT") production lines, 12 assembly and testing lines, and about $6 million (net of depreciation) costs of advanced equipment to meet customers' different levels of technical requirements. Our current production lines have the capacity to manufacture up to 13 million units of mobile handsets annually.

Quality Control System & Workflow

TCB Digital has implemented quality control systems and workflow systems to ensure it provides products that meet the standards of our customers and the regulations of China. TCB Digital is ISO 9000 and ISO 14000 certified and passed the requisite annual audits. TCB Digital is also OHSAS 18001 certified for compliance with the international occupational health and safety management system specification as mandated by OSHA, the Occupational Safety and Health Administration.

Marketing Capability

Our Company has a sales and marketing team consisting of approximately 100 employees that a) sell our own branded products to mobile operators such as China Telecom and also to independently owned retail distribution channels, and b) develop and maintain business relationships with our contract manufacturing clients. We also work directly with distributors for export of products to Asian, South American and Middle-Eastern countries.

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

Strategy

Our goal is to become the leading mobile phone manufacturing company in China. Our strategy is to strengthen our position as an innovative mobile phone producer and as an Electronic Manufacturing Service provider to customers in China and overseas. To meet this challenge, we intend to continue to develop our finished mobile product offerings, and broaden the scope of our marketing efforts as follows:

Product Offerings

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Our strategy to develop and expand our finished mobile product offerings includes:

Continue to expand and improve our manufacturing facilities.

We intend to complete the construction of our new manufacturing headquarters for expansion of our manufacturing capacity and improvement in efficiency in at the plant level.

Develop and manufacture mobile phones for mobile phone OEM customers and China's operators

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TCB Digital is able to design, develop and manufacture innovative GSM, CDMA and TD SCDMA mobile phones by leveraging its own resources and facilities. TCB Digital develops, manufactures and delivers the finished mobile products to the customers under the customers' brands and based on customers' requirements and specifications. In 2010, TCB Digital custom made three models of 3G mobile phones for China Telecom, one of the top mobile service providers in China. These custom made models are sold through China Telecom's retail network and carry both logos of China Telecom and our own brand of "Leimone".

Strengthen design and development capabilities in mobile phones

Our R&D subsidiary, Nollec Wireless, focuses on developing mobile phones based on GSM, CDMA, WCDMA and TD-SCDMA core technologies for both China and overseas markets. To meet the changing needs of its customers and to maintain the competitive advantage of its products, we intend to continue to improve and strengthen our development and design capabilities. We plan to continue investing resources to maintain an experienced and skilled design team to preserve competitiveness within a frequently changing and challenging industry landscape.

We will continue to focus on refining our EMS processes, maintaining high quality control processes, adding new manufacturing technology, and enhancing our operations team. In addition, we will continue to monitor market movement, including customers' requirements, adjusting our business model to better cope with these changes while maintaining profit margins. We will attempt to increase our future revenues and profits by enhancing strong customer relationships and expanding the range of services we offers to our customers. We believe growing with our clients will enable us to promote our reputation and expand our geographic presence.

Enhance strong customer relationships into new opportunities.

We will continue to focus on refining our EMS processes, maintaining high quality control processes, adding new manufacturing technology, and enhancing our operations team. In addition, we will continue to monitor market movement, including customers' requirements, adjusting our business model to better cope with these changes while maintaining profit margins. We will attempt to increase our future revenues and profits by enhancing strong customer relationships and expanding the range of services we offers to our customers. We believe growing with our clients will enable us to promote our reputation and expand our geographic presence.

Further expand market and sales channel

Currently we have mobile phone distributors and after-sales service centers at the national, provincial and municipal levels with 280 sites in China. Our distributors together with the mobile operators, sold over 1,800,000 units of our own branded products in 2011 and we anticipate that to grow in 2012. We continue to emphasize the importance of the online retail channels and also potentials in tier 3 and tier 4 cities and towns with population from 2,000,000 down to 600,000, as we believe these areas offer significant growth. We intend to invest in further expansion of our marketing and sales channels in these smaller cities and rural areas.

We intend to identify future acquisition targets that will enable us to grow our access to the Chinese, US and foreign markets. We want to develop relationships with our end user customers and gain direct market intelligence on their needs and expectations towards mobile handset products which we can apply to our product engineering.

We will work more closely with mobile carriers globally to provide complete end customer solutions to be bundled with the carriers to provide higher levels of customer satisfaction and market penetration.

Products and Technology

Our main manufacturing subsidiary, TCB Digital, has produced mobile phone and related products for customers since 2004. In 2011, we developed and produced GSM, CDMA and CDMA2000 mobile phones for OEM customers and also manufactured and sold 1.8 million phones under our own brand name of "Leimone". In addition, we provided EMS services for OEM customers of wireless data modules, cable TV boxes, digital cameras, tablet PCs, and printed circuit board assemblies ("PCBAs"). Our Leimone brand phones are sold through online retail services, and also China Telecom's retail network where these phones carry both logos of China Telecom and our own brand of "Leimone". On the EMS side, we continued to service large domestic OEM customers such as Beijing Tianyu Langtong which markets its products under the brand name of K-Touch.

Our Major Customers and Suppliers in 2011 and 2010 were as follows:

Major Customers in 2011	Sales $ (millions)	% of Zoom Revenues
TCB Group Electronic & Science Co. Ltd - related party	$36.89	12%
Wui Lee Exchange	$30.66	10%

Total	$67.55	22%

Major Customers in 2010		
Beijing Tianyu Langtong Communication Equipment Co. Ltd.	$27.93	11%
Beijing Baina Wei'er Science and Technology Co., Ltd.	$29.29	12%
Larson Limited	$52.32	21%
Total	$109.53	44%

Major Suppliers in 2011	Purchases $ (millions)	% of Total
Leimone (Tianjin) Industrial Co. Ltd. - related party	$93.08	36%
Yuechangrui Ltd.	$28.72	11%
Total	$121.80	47%

Major Suppliers in 2010		
Beijing Beny Wave Science & Technology Co., Ltd.	$57.27	24%
Leimone (Tianjin) Industrial Co., Ltd.	$63.86	26%
Tianjin 712 Communication and Broadcasting Co., Ltd.	$27.58	11%
Total	$148.71	61%

6

Customers and suppliers are large enterprises with multiple divisions that are engaged in the businesses of manufacturing and sales of communication devices and components. Some of these companies are our customers and also our suppliers.

Sale and Marketing

Mobile Phone Business

Our Company markets mobile phone products by two different strategies. One is to develop and manufacture mobile phones for mobile phone OEM customers. In this approach, based on a customer's requirements and specifications TCB Digital develops, manufactures and ships the finished mobile product to the customer under the customer's brand. TCB Digital developed several strategic mobile phone OEM customers in China including Beijing Tianyu Langtong and CECT.

Our second approach is to sell mobile phones under our Leimone brand name. For sales of its Leimone-branded mobile phone handsets, we distribute through online retail services and also directly through China Telecom's retail network. In addition, we work with distributors and after-sales service centers at the national level, provincial level and municipal level in over 200 locations in China. We believe the market potential in tier 3 and tier 4 cities (population from 2,000,000 down to 600,000) in China has continued to grow significantly. Our Company adjusted its distribution strategy to sell products not only to distributors at the provincial level, but also to agents at the municipal level in some provinces.

We export mobile phones to overseas markets by setting sales office in Hong Kong to promote sales of mobile phones in countries in Asia, South America and the Middle East. We are also actively participating in bids held by China Mobile, China Telecom and China Unicom in order to directly sell mobile phones to these large mobile operators.

We intend to sell our Zoom branded mobile phones initially to the US markets and expand to other markets. We will initially sell our Zoom branded phones in the stores for which we provide exclusive distribution of T-Mobile products in the US. We intend to further market our phones to T-Mobile and other US carriers as well.

EMS Business

TCB Digital started providing EMS services to electronic product and mobile phone product OEM customers in 1999. Over the past 12 years, TCB Digital has been providing EMS to many domestic and global customers. We believe we have a well-established sales and support network throughout the country that can provide effective and comprehensive after-sales services.

Competition

The market for mobile phone product is competitive. We face competition from a number of competitors, including domestic mobile handset producers such as Foxconn, BYD Company Ltd., Suzhou Yulang (Jurong) Technologies, Newtronics, Hangzhou Dongxin Electronic Co. Ltd, Hangzhou Jinling Technologies, Ba Fang Dian Zi, Tianjin Hi-P and SangFei Communications Co. Ltd of Shenzhen. We believe our competitive advantages include experience in the telecommunications terminal area, distribution network, in-house and external R&D capacity, and our reputation. For the EMS business area, competition is from other EMS providers based in Northern China. We believe our competitive advantages include our quality control emphasis and wide range of customized services.

Employees

Currently Zoom Technologies has approximately 1,800 total employees, mostly in Tianjin city, including approximately 1,100 EMS manufacturing operators, 100 sales executives, 80 R&D engineers, 100 after-sales service technicians, and other support staff and management personnel. There are about 200 persons employed by our R&D subsidiary, Nollec Wireless, and our newly acquired subsidiary in the U.S., Portables, employs about 40 persons. Our CDE subsidiary employs approximately 20 employees, and our Beijing headquarters has about 75 persons including executives, accounting and administrative positions. Our employees do not have a collective bargaining agreement and we believe our relationship with our employees is good.

ITEM 1A. — RISK FACTORS

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

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

Risks Related to Our Business

Our operations and reputation could be materially adversely affected if we fail to efficiently manage our manufacturing operations without interruption, or fail to ensure that our products meet the expectations of our distributors and end-user customers.

The operating businesses that we own indirectly through our subsidiaries, inclusive of TCB Digital, Jiangsu Leimone, Profit Harvest, Nollec Wireless, Celestial Digital Entertainment, Zoom USA Holdings, and Portables Unlimited LLC (collectively the "Zoom Operating Group") including sales, results of operations, and reputation could be materially adversely affected if we fail to efficiently manage our manufacturing operations without interruption, or fail to ensure that our products meet the expectations of our distributors and end-user customers.

Operation of Zoom Operating Group requires successful execution of complex manufacturing processes, including surface mount technology ("SMT"), precision assembly, calibration, testing, as well as software design, solution integration, inventory management based on consumer demand, and sales initiatives. The disruption of any of these could negatively impact the generation of revenue and adversely materially affect our relationships with distributors and end-user customers.

TCB Digital's manufacturing operations involve the procurement of raw materials and components from third parties, internal assembly processes, and distribution. These operations are modified on a regular basis in an effort to improve manufacturing and distribution efficiency and flexibility. We may experience difficulties in coordinating its supply of raw materials and components to meet the demand for its products, increasing or decreasing production at our facilities in response to demand,, adopting new manufacturing processes, finding technical solutions for new products, or achieving efficiency and flexibility within our manufacturing processes. We may experience delays in adjusting, or upgrading production at our facilities when we introduce new models, expand our manufacturing capacity, fail in our manufacturing processes, or failures by our business partners to adequately perform services we have contracted to them, which in turn, may have a material adverse effect on our results of operations. Failures can occur anywhere along the value chain from product development to the manufacturing and delivery processes, leading to unreached expectations set by ourselves, distributors and end customers, which could have material adverse effects on our sales, results of operations, and reputation.

Zoom Operating Group's results of operations, particularly its profitability, may be materially adversely affected if it does not successfully manage price erosion and is not able to manage costs related to its products and operations. Selling price erosion is a characteristic of the mobile handset and electronics industries, and the products offered by us are subject to natural price erosion over time. If we are not able to lower our costs at an equivalent or faster pace than the pace at which our selling prices erodes, complemented by the timely introduction of new cost-efficient products with higher prices, or the successful management of manufacturing and productions costs, our business and our related results of operations, particularly profitability, may be adversely effected. We operate in an industry with slim margins, slight erosion in price, if not mitigated by increased efficiencies, may significantly reduce our profitability.

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

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

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

The Company has acquisition payables outstanding to Portables in the amount of $1,350,000 (which includes $750,000 payable in connection with the purchase of an additional 5% interest in Portables). The Company also has not yet arranged a $500,000 Letter of Credit in Portables' name to secure obligations to T-Mobile. On April 13, 2012, we received notice that we are in default on the Securities Purchase Agreement. The Securities Purchase Agreement provides that if we are in default, the Company's ownership of Portables will be reduced from 55% to 46%. In such event, the Company will account for the investment in Portables in 2012, using the equity method. The Securities Purchase Agreement also provides that if there is a default, CNCG will be entitled to enforce certain rescission rights against the Company, as more fully described in the Securities Purchase Agreement. Also, in case of a default, Portables, CNCG and the other member of Portables may bring claims for indemnification against the Company for a breach under the Securities Purchase Agreement, as more fully described in the Securities Purchase Agreement. In the event CNCG determines to enforce its rescission rights, we may lose our entire interest in Portables. If rescission is enforced against us or an indemnification claim is brought against us by these parties, we would suffer a material adverse effect to our operations and our business.

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

In the PRC, Zoom Operating Group relies primarily on distributors for marketing and sale of our products at the provincial and local levels and for after-sales support of our products. We have limited influence over our distributors, we cannot be certain that their marketing and after-sale support of our products will be adequate to meet our sales requirements and to protect our brand and reputation. Our distributors and after-sales service centers are at the national, provincial and municipal levels in 31 provinces throughout China. We grant our distributors the right, within their assigned sales territories or channels, to use our brand name and logo when they market our products and provide after-sales support to end-user customers; however, our contractual arrangements with our distributors do not provide us with control over their everyday business activities, and our distributors may engage in activities that are prohibited under Zoom Operating Group's contractual arrangements with them, that violate Peoples' Republic of China ("PRC") laws and regulations governing the mobile handset industry or other PRC laws and regulations generally, or that are otherwise harmful to our business or reputation in the industry.

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

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

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

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

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

We market our products and services to countries within and outside of China, as such, we are subject to various economic, political, regulatory, legal and foreign exchange risks.

We currently sell a substantial portion of our products within China; however, we have begun selling products and services to markets outside of China where we believe we can realize a reasonable return on investment. The marketing, distribution and sale of manufacturing services, and our own branded mobile handsets overseas exposes us to a number of risks, including:

- fluctuations in currency exchange rates of the U.S. dollar and other foreign currencies against the Renminbi;

difficulty in engaging and retaining distributors and agents who are knowledgeable about, and can function effectively in, overseas markets;

difficulty in designing products that are compatible with communications and product standards in foreign countries, and in attaining the required certifications for those products;

longer accounts receivable collection periods and greater difficulty in accounts receivable collection;

increased costs associated with maintaining marketing and sales activities in various countries;

difficulty and costs relating to compliance with unexpected changes in regulatory requirements and different commercial and legal requirements in the jurisdictions in which Zoom Operating Group offers its products;

inability to obtain, maintain or enforce intellectual property rights; and

changes to import and export regulations, including quotas, tariffs and other trade barriers, delays or difficulties in obtaining export and import licenses, potential foreign exchange controls and repatriation controls on foreign earnings, exchange rate fluctuations, and currency conversion restrictions.

If we are unable to effectively manage these risks, our ability to conduct or expand our business abroad would be impaired; and this may in turn have a material adverse effect on our business, financial condition, results of operations, and prospects.

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

Zoom Operating Group's operating results are difficult to predict and may fluctuate significantly from period to period, based on a number of factors such as the launch of new products in a given period, the seasonality of mobile handset sales, the short life-cycle of any given handset model due to rapid technological advances, a possible deterioration of economic conditions in China, and potential changes to the regulation of the mobile handset industry in China. As a result, you may not be able to rely on period-to-period comparisons of our operating results as an indication of its future performance. If our revenues for a particular period are lower than our expectations, we may be unable to reduce our fixed costs and operating expenses for that period by a corresponding amount, which would negatively impact our operating results for that period relative to our operating results for other periods.

We have not applied for patents or registered copyrights for most of our intellectual property; and our failure to adequately protect our intellectual property rights may undermine our competitive position.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other countries. Zoom Operating Group relies primarily on trade secrets and other contractual restrictions to protect its intellectual property. We have not applied for patents or registered copyrights in China for most of our inventions, original works of authorship, developments, and improvements relating to the mobile handsets it produces. Our actions to protect our intellectual property rights may not be adequate to provide us with meaningful protection or commercial advantage. As a result, third parties may use the technologies that we have developed and compete with us, which could have a material adverse effect on our business, financial condition and operating results.

Litigation to protect Zoom Operating Group's intellectual property rights may be costly.

Policing unauthorized use of proprietary technology can be difficult and expensive. Litigation may be necessary to enforce our intellectual property rights and the outcome of any such litigation may not be to our favor. Given the relative unpredictability of China's legal system and potential difficulties in enforcing a court judgment in China, there is no guarantee that we would be able to halt the unauthorized use of our intellectual property through litigation in a timely manner. Any such litigation may be costly and may divert management's attention away from our business and cause us to expend significant resources. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, we do not have insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover such costs from other parties. The occurrence of any of the foregoing could have a material adverse impact on our business, financial condition and results of operations.

We may be exposed to infringement or misappropriation claims by third parties. If determined adversely against us, our business could be disrupted and subject to significant liability to third parties, as well as have a material adverse effect on its financial condition and results of operations.

Our success heavily depends on our ability to use and develop technology, know-how and product designs without infringing upon the intellectual property rights of third parties.

Zoom Operating Group's products include increasingly complex technology and, as the amount of such technologies and the number of parties claiming rights continue to increase; the possibility of alleged infringement and related intellectual property claims against us may rise. The holders of patents and other intellectual property rights potentially relevant to Zoom Operating Group's product offerings may be unknown to us, or may otherwise make it difficult for us to acquire a license on commercially acceptable terms. There may also be technologies licensed to and relied on by Zoom Operating Group that are subject to infringement or other corresponding allegations or claims by others which could damage our ability to rely on such technologies. In addition, although Zoom Operating Group endeavors to ensure that companies that work with us possess appropriate intellectual property rights or licenses, Zoom Operating Group cannot fully avoid the risks of intellectual property rights infringement created by suppliers of components used in its products or by companies with which it works in cooperative research and development activities. Since technology standards, including those used and relied on by Zoom Operating Group, typically involve intellectual property rights, we cannot fully avoid risks of a claim for infringement of such rights due to our reliance on such standards. Zoom Operating Group believes that the number of third parties declaring their intellectual property to be relevant to these standards - for example, those standards related to 3G mobile communication technologies as well as other advanced mobile communications standards - is increasing, which may increase the likelihood that Zoom Operating Group will be subject to such claims in the future. While Zoom Operating Group believes that any such intellectual property rights declared and found to be essential to a given standard carry with them an obligation to be licensed on fair, reasonable and non- discriminatory terms, not all intellectual property owners agree on the meaning of that obligation and, thus, costly and time-consuming litigation over such issues may result in the future.

As Zoom Operating Group continues to market and sell its products throughout China and abroad, we may face a higher risk of becoming subject to claims for intellectual property infringement. While Zoom Operating Group has not, to date, become subject to these types of claims, it is possible that it may, in the future, become subject to such intellectual property infringement claims. Regardless of whether such claims have merit or are decided in its favor, any such litigation could have a negative impact on Zoom Operating Group brand, reputation and ability to conduct its business and sell some or all of our products.

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

We derive a large portion of revenues from the sale of mobile handsets in China and abroad. The continued development of our business depends, in large part, on continued growth in the mobile telecommunications industry, in terms of the number of existing mobile subscribers who upgrade or replace their existing mobile handsets, the number of new subscribers, and increased usage. The global wireless telecommunications industry has grown rapidly in the past; however the wireless telecommunication industry may not continue to grow at the same growth rate in the future or to grow at all.

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

Changes in the regulatory environment for telecommunications systems and services could negatively impact Zoom Operating Group's business.

The telecommunications industry in China and internationally are heavily regulated, and regulatory changes may affect both Zoom Operating Group and its customers. For example, changes in regulations that impose more stringent standards for the production of mobile handsets could adversely affect our business. Similarly, tariff regulations that affect the pricing of new services offered by mobile telecommunication operators could also affect our ability to invest in network infrastructure, which in turn could affect the sales of our mobile handsets. License fees, environmental, health and safety, privacy and other regulatory changes may increase costs and restrict operations of mobile telecommunication network operators and service providers. The indirect impact of such changes could affect our business adversely even though the specific regulations may not directly apply to us or our products.

China Ministry of Industry and Information Technology ("MIIT") has broad discretion and authority to regulate all aspects of the telecommunications and information technology industries in China, including managing spectrum, setting mobile handset specifications and standards, approving the adoption of new technologies such as 3G, and drafting laws and regulations. MIIT also determines the forms and types of services that may be offered by telecommunication companies to the public, the rates that are charged to subscribers for those services, and the content of material available in China over wireless services, including Internet content. In addition, China's telecommunication regulatory framework is still at a relatively early stage of development, and prone to directional shifts and major structural changes. The PRC government is in the process of drafting a national telecommunication law, which may include new legislation governing the mobile handset industry. If MIIT sets standards with which Zoom Operating Group is unable to comply or which would render Zoom Operating Group's products uncompetitive, its ability to sell products could be severely limited, resulting in substantial harm to Zoom Operating Group's operations.

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

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

In addition, if any of these key personnel joins a competitor or forms a competing company, Zoom Operating Group may lose some of its customers. Zoom Operating Group has entered into employment agreements with each of these key personnel, which contain confidentiality and non-competition provisions. However, if any disputes arise between these key personnel and Zoom Operating Group, it is not clear what the court decisions will be and the extent to which these court decisions could be enforced in China, where all of these key personnel reside and hold some of their assets. Furthermore, as Zoom Operating Group expects to continue to expand its operations and develop new products, Zoom Operating Group will need to continue attracting and retaining experienced management and key research and development personnel.

Competition for management and research and development personnel in the mobile handset market in China is intense, and the availability of suitable and qualified candidates is limited. In particular, Zoom Operating Group competes to attract and retain qualified research and development personnel with other mobile handset manufacturers, universities and research institutions. Competition for these individuals could cause Zoom Operating Group to offer higher compensation and other benefits in order to attract and retain them, which could have a material adverse effect on Zoom Operating Group's financial condition and results of operations. Zoom Operating Group may also be unable to attract or retain the personnel necessary to achieve its business objectives, and any failure in this regard could severely disrupt its business and growth.

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

Because Zoom Operating Group's derives a significant portion of our earnings in Renminbi, any appreciation or depreciation in the value of the Renminbi relative to the U.S. dollar would affect our balance sheet position and financial results reported in U.S. dollar terms without giving effect to any underlying change in our business or results of operations. In addition, fluctuations in the exchange rate between the U.S. dollar and the Renminbi would affect the relative purchasing power of Zoom Operating Group's U.S. dollar denominated cash assets and the Renminbi value of Zoom Operating Group's U.S. dollar denominated bank borrowings. Fluctuations in the exchange rate will also affect the relative value of any dividend Zoom Operating Group may issue that will be exchanged into U.S. dollars, and will affect the earnings from and value of any U.S. dollar-denominated investments it makes in the future.

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

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

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

During fiscal year ended 2011, we acquired 55% interests in Portables and 100% interest in CDE. We may in the future acquire or make strategic investments in additional companies. We may not realize the anticipated benefits of these two acquisitons or any other acquisitions or strategic investments, which involve numerous risks, including:

- our inability to integrate the purchased operations, technologies, personnel or products into our existing operations and/or over geographically disparate locations;

- unanticipated costs, litigation and other contingent liabilities;

- diversion of management's attention from our core business;
- adverse effects on existing business relationships with suppliers and customers;
- incurrence of acquisition-related costs or amortization costs for acquired intangible assets that could impact our operating results;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business; and
- potential loss of our key employees or the key employees of an acquired organization;

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

Risks Related to Our Industry

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

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

Zoom Operating Group experiences intensive competition from its Electronics Manufacturing Service ("EMS") competitors; Zoom Operating Group's failure to maintain its relationship with clients may have material adverse impact on its business and profitability.

In recent years, more and more EMS providers have invested heavily in the northern part of China and particularly in the Bo Hai area where Tianjin city is located. Zoom Operating Group's OEM customers are also giving more orders to other EMS providers to balance their need and reduce their risk. Zoom Operating Group will attempt to provide better services and higher quality products to attract more customers and reduce its risk from fierce competition. We have also incorporated the design phase to our EMS solution so that we now provide ODM solutions to customers that will help us to retain our clientele.

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

The mobile handset manufacturing industry in China is intensely competitive. Industry participants compete with each other mainly on the basis of the breadth and depth of their product portfolios, price, operational and manufacturing efficiency, technical performance, product features, quality, customer support and brand recognition. Zoom Operating Group faces significant competition from a number of competitors, including domestic mobile handset producers such as Bird Ningbo Co., Ltd, Haier Telecom Co. Ltd., , Konka Group Co., Ltd, Lenovo Group Limited, and TCL Communication Technology Holdings Limited,. and a number of large multinational mobile handset producers, such as LG Electronics Ltd., Motorola Inc., Nokia Corporation, Samsung Electronics Co., Ltd., and Sony Ericsson Mobile

Communications (China) Co., Ltd.. Many of Zoom Operating Group's competitors have longer operating histories, greater name recognition, significantly larger market shares, access to larger customer bases and significantly greater economies of scale and financial, sales and marketing, manufacturing, distribution, technical and other resources than Zoom Operating Group does. Some of these competitors have used, and will probably continue to use, more aggressive pricing strategies, greater amounts of sales incentives and subsidies for distributors, retailers and customers, more successful design approaches, and more advanced technologies. In addition, some competitors have chosen to focus on building products based on commercially available components, which may enable them to introduce these products faster and with lower levels of research and development spending than Zoom Operating Group. Furthermore, consolidation among the industry participants in China may potentially result in stronger competitors that are better able to compete as end-to-end suppliers as well as competitors who are more specialized in particular areas and geographic markets. This could have a material adverse effect on Zoom Operating Group's business, financial condition, results of operations and prospects.

Zoom Operating Group may be unable to manage rapid growth and a changing operating environment, which could adversely affect its ability to serve its customers and could harm its business.

Zoom Operating Group has experienced rapid growth over the last few years. Zoom Operating Group has limited operational, administrative and financial resources, which may be inadequate to sustain its current growth rate. If Zoom Operating Group is unable to manage its growth effectively, the quality of its solutions could deteriorate and its business may suffer. As its customer base increases and it enters new end-markets, Zoom Operating Group will need to:

- increase its investments in personnel, research and development capabilities, facilities and other operational areas;

- continue training, motivating and retaining its existing employees, and attract and integrate new qualified employees;

- develop and improve its operational, financial, accounting and other internal systems and controls; and

- take enhanced measures to protect any proprietary technology or technological capability it develops.

Any failure to manage Zoom Operating Group's growth successfully could distract management's attention and result in its failure to serve its customers and harm its business.

We have depended on a small number of customers for the vast majority of our sales. A reduction in business from any of these customers could cause a significant decline in our sales and profitability.

The vast majority of our sales are generated from a small number of customers. During the year ended December 31, 2011, we had two customers that generated revenues of at least 10% of our total revenues, with our largest customer accounted for 12% of our revenues. We believe that we may continue to depend upon a small number of customers for a significant majority of our sales in the future, and the loss or reduction in business from any of these customers could cause a significant decline in our sales and profitability.

We are dependant on a small number of suppliers.

We have depended on a few suppliers. During the year ended December 31, 2011, two suppliers have provided approximately 47% of the raw materials. If we are unable to continue our relationship with these suppliers on acceptable terms, our operations could be adversely affected.

Some of our major customers and major suppliers are affiliate of our management. Failure to continue these related party transactions on terms favorable to us may result in adverse impact on our operations.

One of our major customers and one of our major suppliers are affiliates of Mr. Gu, our largest shareholder and chairman of the board. If our audit committee refuses to approve these related party transactions within its authority, or if the approved terms of these transactions turn out to be not favorable to us, we may suffer loss of customers or suppliers and may not be able to replace such customers or suppliers on terms acceptable to us in desired time frame.

Risks Related to Doing Business in China

Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for Zoom Operating Group's products and materially adversely affect its competitive position.

Zoom Operating Group conducts a significant portion of its operations and generates a significant portion of its revenues in China. Accordingly, its business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The PRC economy differs from the economies of most developed countries in many respects, including:

- the higher level of government involvement;
- the early stage of development of the market-oriented sector of the economy;
- the rapid growth rate;
- the higher level of control over foreign exchange; and
- the allocation of resources.

While the PRC economy has grown significantly since the late 1970s, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on Zoom Operating Group. For example, Zoom Operating Group's financial condition and results of operations may be adversely affected by government control over the telecommunications industry, capital investments or changes in tax regulations that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although the PRC government has in recent years implemented measures emphasizing the utilization of market forces for economic reform, the PRC government continues to exercise significant control over economic growth in China through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and imposing policies that impact particular industries or companies in different ways. For example, efforts by the PRC government to slow the pace of growth of the PRC economy could result in decreased capital expenditure by mobile telecommunication network operators, which in turn could reduce demand for its products.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of mobile communications investments and expenditures in China, which in turn could lead to a reduction in demand for Zoom Operating Group's products and consequently have a material adverse effect on its business and prospects. In particular, any adverse change in the PRC government's policies towards the mobile communications industry may have a material adverse effect on Zoom Operating Group's business.

We may have difficulty establishing adequate management, legal and financial controls in the PRC.

Most PRC companies historically have been less focused on establishing Western style management and financial reporting concepts and practices, as well as modern banking, computer and other internal control systems, than companies in the U.S. and certain other Western countries. We may have difficulty in hiring and retaining a sufficient number of qualified internal control employees to work in the PRC. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data, preparing financial statements, books of account and corporate records, and instituting business practices that meet Western standards.

Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting our ability to convert Chinese Renminbi into foreign currencies and, if Chinese Renminbi were to decline in value, reducing our revenue in U.S. dollar terms.

Our reporting currency is the U.S. dollar and our operations in China use their local currency as their functional currencies. Substantially all of our revenue and expenses are in Chinese Renminbi. We are subject to the effects of exchange rate fluctuations with respect to any of these currencies. For example, the value of the Renminbi depends to a large extent on Chinese government policies and China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to the U.S. dollar had generally been stable and the Renminbi had appreciated slightly against the U.S. dollar. However, on July 21, 2005, the Chinese government changed its policy of pegging the value of Chinese Renminbi to the U.S. dollar. Under the new policy, Chinese Renminbi may fluctuate within a narrow and managed band against a basket of certain foreign currencies. It is possible that the Chinese government could adopt a more flexible currency policy, which could result in more significant fluctuation of Chinese Renminbi against the U.S. dollar. We can offer no assurance that Chinese Renminbi will be stable against the U.S. dollar or any other foreign currency.

Our financial statements are translated into U.S. dollars at the average exchange rates in each applicable period. To the extent the U.S. dollar strengthens against foreign currencies, the translation of these foreign currencies denominated transactions results in reduced revenue, operating expenses and net income for our international operations. Similarly, to the extent the U.S. dollar weakens against foreign currencies, the translation of these foreign currency denominated transactions results in increased revenue, operating expenses and net income for our international operations. We are also exposed to foreign exchange rate fluctuations as we convert the financial statements of our foreign consolidated subsidiaries into U.S. dollars in consolidation. If there is a change in foreign currency exchange rates, the conversion of the foreign consolidated subsidiaries' financial statements into U.S. dollars will lead to a translation gain or loss which is recorded as a component of other comprehensive income. Changes in the functional currency value of these assets and liabilities create fluctuations that will lead to a transaction gain or loss. We have not entered into agreements or purchased instruments to hedge our exchange rate risks, although we may do so in the future. The availability and effectiveness of any hedging transaction may be limited and we may not be able to hedge our exchange rate risks.

The State Administration of Foreign Exchange ("SAFE") restrictions on currency exchange may limit our ability to receive and use our sales revenue effectively and to pay dividends.

Substantial portion of our sales, revenues and expenses are denominated in the Chinese currency, Renminbi. Under PRC law, the Renminbi is currently convertible under the "current account," which includes dividends and trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans. Currently, our PRC operating subsidiary, may purchase foreign currencies for settlement of current account transactions, including payments of dividends to us, without the approval of SAFE, by complying with certain procedural requirements. However, the relevant PRC government authorities may limit or eliminate our ability to purchase foreign currencies in the future. Since a significant amount of our future revenue will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside China that are denominated in foreign currencies.

SAFE restrictions may delay the payment of dividends, since we have to comply with certain procedural requirements and we may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency for the payment of dividends from the profits of WFOE.

Foreign exchange transactions by PRC operating subsidiaries continue to be subject to significant foreign exchange controls and require the approval of or need to register with PRC government authorities, including SAFE. In particular, if we, or our PRC operating subsidiary, borrow foreign currency through loans from us or other foreign lenders, these loans must be registered with SAFE, and if we finance our operations by means of additional capital contributions, these capital contributions must be approved by certain government authorities, including the Ministry of Commerce, or their respective local counterparts. These limitations could affect our ability to obtain foreign exchange through debt or equity financing.

The PRC government also may at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining foreign currency, we may be unable to pay dividends or meet obligations that may be incurred in the future that require payment in foreign currency.

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

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

We may have limited legal recourse under PRC laws if disputes arise under our contracts with third parties.

The Chinese government has enacted laws and regulations dealing with matters such as corporate organization and governance, foreign investment, commerce, taxation and trade. However, their experience in implementing, interpreting and enforcing these laws and regulations is limited, and our ability to enforce commercial claims or to resolve commercial disputes is unpredictable. If adverse circumstances arise from our business transactions, we face the risk that the parties may seek ways to terminate the transactions, or may hinder or prevent us from receiving the benefits or enforcing our rights in these transactions. The resolution of these matters may be subject to the exercise of considerable discretion by agencies of the Chinese government, and forces unrelated to the legal merits of a particular matter or dispute may influence their determination. Any rights we may have to specific performance, or to seek an injunction under PRC laws, in either of these cases, are severely limited, and without a means of recourse by virtue of the Chinese legal system, we may be unable to prevent these situations from occurring. The occurrence of any such events could have a material adverse effect on our business, financial condition and results of operations. Although legislation in China over the past 30 years has significantly improved the protection afforded to various forms of foreign investment and contractual arrangements in China, these laws, regulations and legal requirements are relatively new and their interpretation and enforcement involve uncertainties, which could limit the legal protection available to us, and foreign investors, including you. The inability to enforce or obtain a remedy under any of our future agreements could result in a significant loss of business, business opportunities or capital and could have a material adverse impact on our operations.

We must comply with the Foreign Corrupt Practices Act.

We are required to comply with the United States Foreign Corrupt Practices Act, which prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Foreign companies, including some of our competitors, are not subject to these prohibitions. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time to time in mainland China. If our competitors engage in these practices, they may receive preferential treatment from personnel of some companies, giving our competitors an advantage in securing business or from government officials who might give them priority in obtaining new licenses, which would put us at a disadvantage. Although we inform our personnel that such practices are illegal, we cannot assure you that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties.

Due to various restrictions under PRC laws on the distribution of dividends by our PRC operating companies, we may not be able to pay dividends to our stockholders.

The Wholly-Foreign Owned Enterprise Law (1986), as amended and the Wholly-Foreign Owned Enterprise Law Implementing Rules (1990), as amended and the Company Law of the PRC (2006) contain the principal regulations governing dividend distributions by wholly foreign owned enterprises. Under these regulations, wholly foreign owned enterprises, such as the WFOE, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, the WFOE is required to set aside a certain amount of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends except in the event of liquidation and cannot be used for working capital purposes.

Furthermore, if our consolidated subsidiaries in China incur debt on their own in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments. If we or our consolidated subsidiaries are unable to receive all of the revenues from our operations due to these contractual or dividend arrangements, our results of operations may be adversely affected.

If we become directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matter which could harm our business operations, stock price and reputation and could result in a loss of your investment in our stock, especially if such matter cannot be addressed and resolved favorably.

Recently, U.S. public companies that have substantially all of their operations in China, particularly companies like us which have completed so-called reverse merger transactions, have been the subject of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered around financial and accounting irregularities, a lack of effective internal controls over financial accounting, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result of the scrutiny, criticism and negative publicity, the publicly traded stock of many U.S. listed Chinese companies has sharply decreased in value and, in some cases, has become virtually worthless. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effect this sector-wide scrutiny, criticism and negative publicity will have on our company, our business and our stock price. If we become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we will have to expend significant resources to investigate such allegations and/or defend our company. This situation may distract our management from growing our company. If such allegations are not proven to be groundless, our company and business operations will be severely hampered and your investment in our stock could be rendered worthless.

ITEM 1B — UNRESOLVED STAFF COMMENTS

None.

ITEM 2 — PROPERTIES

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

TCB Digital leases properties with a total area of 18,678 square meters in the City of Tianjin, China. TCB Digital believes its existing facilities and equipment are well maintained and in good operating condition, and are sufficient to meet its needs for the foreseeable future. TCB Digital's current lease expires in 2012. We paid a deposit of $10.17 million for a new manufacturing plant which is currently under construction at the Airport Development Zone in Tianjin; and occupancy at the new site is expected in the second half of 2012.

Profit Harvest and CDE jointly lease office space in Hong Kong for our sales, marketing, finance, research, and product development office.

Portables lease commitments are detailed in the Company's accompanying notes to the financial statements, Note 27 - Commitments.

ITEM 3 — LEGAL PROCEEDINGS

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

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

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

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

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

Year Ended December 31, 2011

High

Low

First Quarter

$

	4.69
$	3.28
Second Quarter	
$	5.08
$	2.01
Third Quarter	
$	2.73
$	1.50
Fourth Quarter	

$

2.50

$

0.74

Year Ended December 31, 2010

High

Low

First Quarter

$

8.95

$

		5.41
Second Quarter	$	7.50
	$	4.99
Third Quarter	$	5.75
	$	3.34
Fourth Quarter	$	5.67

$

3.36