ZOOM TECHNOLOGIES INC
Form 10-K
March 29, 2011

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, 2010

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. correspondence office:

c/o Ellenoff Grossman & Schole LLP
150 East 42nd Street, New York, NY 10017
(Address of Principal Executive Office) (Zip Code)

(917) 609-0333

(*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

o 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

þ No o

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, 2010 (computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was $35,833,771.

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of March 28, 2011 was 15,839,257 shares.

ZOOM TECHNOLOGIES, INC.
FORM 10-K ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010
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CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

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

ITEM 1 — BUSINESS

Corporate Overview

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 a total of 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 also by Nollec Wireless (see next paragraph). 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.

Subsequent to the year ended December 31, 2010, the Company through its wholly-owned 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 paid was $1,818,000.00 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.

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 corporate web site address is

www.zoom.com.

The diagram below summarizes our corporate structure:

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.

Competitive Strengths

We 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 a total of 14 SMT (Surface Mounting Technology) production lines, 12 assembly and testing lines, and about US$5 million (net of depreciation) worth 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 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.

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

. 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 700,000 units of our own branded products in the year 2010 as compared to only about 40,000 units in 2009. We continue to emphasize the importance of the market potentials in tier 3 and tier 4 cities and towns with population from 2,000,000 down to 600,000, as we believe these are areas that offer significant growth. We intend to invest in further expansion of our marketing and sales channels in these smaller cities and rural areas.

Products and Technology

Our main manufacturing subsidiary, TCB Digital, developed and produced GSM and CDMA mobile phones, wireless data modules, cable TV boxes and GPS equipment since 2004, and Gold Lion's Jiangsu Leimone subsidiary has produced this type of electronic equipment since 2008. In 2010, TCB Digital custom made three models of 3G CDMA2000 mobile phones for China Telecom, one of the top mobile operators in China. These models are sold through China Telecom's retail network and carry both logos of China Telecom and our own brand of "Leimone". On the EMS side, we continued to experience increases in volume from our OEM customers such as Beijing Tianyu Langtong which markets its products under the brand name of K-Touch.

Our Major Customers:

	% of Zoom
<u>Major Customers in 2010</u>	

	$ (millions) Revenues	
Beijing Tianyu Langtong Communication Equipment Co. Ltd.	27.9	11%
Beijing Baina Wei'er Science and Technology Co., Ltd.	29.3	12%
Larson Limited	52.3	21%

Major Customers in 2009	$ (millions) Revenues	% of Zoom
Beijing Baina Wei'er Science and Technology Co., Ltd.	57.9	

31%

CEC CoreCast Technology Co., Ltd.

30.5

16%

Our Major Suppliers:

Major Suppliers in 2010	$ (millions)	% of Total
Beijing Beny Wave Science & Technology Co., Ltd.	57.3	24%
Leimone (Tianjin) Industrial Co., Ltd.	63.9	26%
Tianjin 712 Communication and Broadcasting Co., Ltd.	27.6	11%

Major Suppliers in 2009	$ (millions)	% of Total
Beijing Tianyu Communication Equipment Co., Ltd.	42.3	25%
CEC Corecast Technology Co., Ltd.	29.6	17%

Our major customers and suppliers of 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 approach 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 have distributors and after-sales service centers at the national level, provincial level and municipal level in 280 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 repetitively grown 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 believe these municipal agents are better adapted than the provincial distributors to extend their distribution networks into tier 3 and tier 4 markets.

We have commenced the export of mobile phones to overseas markets by setting up a 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.

EMS Business

TCB Digital started providing EMS services to electronic product and mobile phone product OEM customers in 1999. Over the past 11 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 intensely competitive. We face significant 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, and Tianjin Hi-P. We believe that our competitive advantages include our experience in the telecommunications terminal area, our distribution network, in-house and external research and development 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 1,000 EMS manufacturing operators, 100 sales executives, 80 research and development engineers, 100 after-sales service technicians, and other support staff and management personnel. Jiangsu Leimone's manufacturing equipment has been relocated into TCB Digital's facilities. Included in our head count are about 240 persons employed by our R&D subsidiary, Nollec Wireless. Our employees do not have a collective bargaining agreement and we believe our relationship with our employees is good.

ITEM 1A. — RISK FACTORS

The disclosure under the heading "Risk Factors" contained in Item 7 of this Annual Report on Form 10-K is incorporated by reference in this Item 1A.

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 have already paid a deposit of $9.79 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 2011.

ITEM 3 — LEGAL PROCEEDINGS

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 — REMOVED AND RESERVED

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, 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

Year Ended December 31, 2009	High	Low
First Quarter	$ 2.10	$ 0.45
Second Quarter	$ 2.68	$ 1.01
Third Quarter	$ 14.20	$ 1.25
Fourth Quarter	$ 11.29	$ 4.90

As of March 28, 2011 there are 15,839,257 shares of our common stock outstanding. There are 204 shareholders of record and approximately 2,000 shareholders in street or broker name. As of March 28, 2011, the closing price of our stock was $3.39.

Recent Sales of Unregistered Securities

During the year ended December 31, 2010, we sold 2,113,664 shares of unregistered common stock as disclosed in the current report on Form 8-K filed on November 17, 2010.

Dividend Policy

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

Repurchases by the Company

During 2010, we did not repurchase any shares of our common stock on our own behalf or for any affiliated purchaser.

Equity Compensation Plan Information

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

ITEM 6 — SELECTED FINANCIAL DATA

Not required.

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

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

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

Overview

Gold Lion was founded by Mr. Gu Lei in September 2002 in the British Virgin Islands, and Gu was its sole owner of one issued and outstanding share of common stock. Through a resolution of Gold Lion on November 26, 2008, Gold Lion issued 705 shares to Gu and 294 shares to Mr. Du Songtao, resulting in a total of 1,000 issued and outstanding shares of common stock. Pursuant to a pledge agreement dated November 26, 2008, Du pledged his 294 shares to Mr. Cao Wei, with all rights to such shares including voting rights. Consequently, Gu and Cao jointly control 100% of Gold Lion.

On August 2, 2007, Gu founded Profit Harvest in Hong Kong, and in December 2008, 100% ownership of Profit Harvest was transferred to Gold Lion. Profit Harvest is engaged in sale of mobile phone products and components to retailers and other wholesalers.

Pursuant to a capital injection agreement (the "Agreement") by and among Tianjin Communication and Broadcasting Group Co., Ltd. ("TCBGCL"), TCBGCL Labour Union, Hebei Leimone Science and Technology Co., Ltd.("Hebei Leimone"), Tianjin 712 Communication and Broadcasting Co., Ltd.("712"), Beijing Depu Investment Co., Ltd. and other natural person shareholders on May 8, 2007 and a resolution of the shareholder's meeting on June 30, 2007, Hebei Leimone, a company controlled by Gu, acquired 25.1333% of TCB Digital from TCBGCL Labour Union and various natural person shareholders for cash consideration of RMB9,000,000 ($1.34 million). Pursuant to this Agreement, Hebei Leimone and Beijing Depu Investment Co., Ltd., a company controlled by Cao, invested additional RMB15,928,700 and RMB10,377,600 respectively in TCB Digital, bringing the total investment from Hebei Leimone and Beijing Depu Investment Co., Ltd to $4,679,111 (RMB35,306,300). After this additional investment was made as of June 30, 2007, Hebei Leimone and Beijing Depu held a 36.03% and 15% equity interest, respectively of TCB Digital, amounting to a total of 51.03% ownership in TCB Digital. Pursuant to an agreement dated June 30, 2007, Cao irrevocably pledged his 15% equity interest in TCB Digital to Gu for a 29.4% stake in Gu's company. TCB Digital is mainly engaged in research & development, processing, manufacturing, servicing and marketing of mobile handsets, electronic products and communication equipment.

On November 30, 2007, Gold Lion and GD Industrial Company signed a share transfer agreement pursuant to which GD Industrial Company transferred 60% equity of Nantong Zong Yi Kechuang Digital Camera Technology Co., Ltd. for cash consideration of $10,273 to Gold Lion. In July 2008, the company's name was changed to Jiangsu Leimone Electronic Co., Ltd., or Jiangsu Leimone. In January 2008, Gold Lion invested $5,074,226 (HK$38,800,000) in Jiangsu Leimone to increase Gold Lion's ownership in Jiangsu Leimone to 80%. Pursuant to the share transfer agreement by and between Gold Lion and Nantong Zong Yi Investment Co., Ltd. dated November 26, 2008, Gold Lion acquired the remaining 20% equity interest of Jiangsu Leimone from Nantong Zong Yi Investment Co., Ltd. for cash consideration of $103,214 (HK$800,000). After this transaction, Gold Lion obtained 100% ownership of Jiangsu Leimone. Jiangsu Leimone is engaged in the R&D and production of electronic assemblies, 3G mobile handsets, wireless communication modules, GPS receivers and computer software.

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

On September 8, 2009 the shareholders of Zoom Technologies, Inc. ("Zoom") approved of the share exchange agreement between Zoom and Gold Lion. On September 22, 2009 the merger transaction was effectuated and Zoom owns 100% of Gold Lion and its subsidiaries, and the historical and future financial results of Gold Lion became that of Zoom; through the 100% ownership of Jiangsu Leimone, we owned 51.03% of TCB Digital as of September 22, 2009. Mr. Gu, who holds an option to acquire an additional 28.97% of the outstanding capital stock of TCB Digital, pursuant to the share exchange agreement and the approval of the majority of the stockholders of the Company, agreed to provide Mr. Gu the option to exchange the additional 28.97% interest in TCB Digital for an additional 2,402,576 shares of our common stock. As of March 31, 2010, Mr. Gu exercised this option, and as a result our Company's ownership of TCB Digital was increased to 80%.

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

On January 4, 2011, the Company acquired 100% ownership of Celestial Digital Entertainment, Ltd., ("CDE") a mobile platform video game development company based in Hong Kong. The consideration paid was $1,818,000.00 to be divided by the Volume Weighted Average Closing Price of the Company's shares for the 10 consecutive trading days leading up to the day before the date of 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 Company's wholly-own subsidiary in Hong Kong, Profit Harvest, was the acquiring entity.

On January 6, 2011, the Company filed with the Secretary of State of Delaware, an Amended and Restated Certificate of Incorporation that indicates 1) the Company's authorized common stock has been increased from 25,000,000 to 35,000,000 shares, and 2) a new class of preferred stock has been added with 1,000,000 shares authorized to be issued. Both the increase of authorized common stock and the addition of a new class of preferred stock were approved by shareholders at the 2010 Annual Meeting of Shareholders held on December 10, 2010

The business of Zoom is the businesses of a) Gold Lion, which is comprised of the businesses of Gold Lion's operating subsidiaries, which are TCB Digital, Jiangsu Leimone Electronics Co., Ltd. ("Jiangsu Leimone") and Profit Harvest which serves as sales and marketing arm of TCB Digital and owns Celestial Digital Entertainment, a mobile platform video game developer based in Hong Kong, and Jiangu Leimone serves as a complimentary and supplemental manufacturing arm for TCB Digital, and as such, substantially most of the business of Zoom is generated by the business of TCB Digital, and b) Silver Tech Enterprises, Ltd. (a BVI holding company) which owns 100% of Ever Elite Corporation, Ltd. (a Hong Kong holding company) which owns 100% of Nollec Wireless.

Plan of Operation

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

- Zoom intends to continue to manufacturer and deliver its products and services in China, including EMS business for OEM customers and development of our brand of "Leimone" phones;

- Zoom will gradually increase its investment in the 2.5G-3G mobile communications business;

- Zoom will continue to customize mobile phones in cooperation with the main mobile operators in China; and

- Zoom will continue to build our export business beyond Asia.

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

The Company recognizes revenue when the following criteria are met:

(i) persuasive evidence of an arrangement exists;

(ii) delivery has occurred or services were rendered;

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

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

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

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

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

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

b. The buyer can be expected to satisfy all obligations under the contract.

c. The contractor can be expected to perform all contractual obligations.

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

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

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

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 adjust 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.

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.

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. The Company's long-term investment of $65,816 in Tianjin Tong Guang Microelectronics Co., Ltd. ("TTGM") had been entirely impaired as of December 31, 2009.

Results of Operations for the years ended December 31, 2010 & 2009

2010

2009

Increase /

(Decrease)

%

Net revenue

$

252,589,072

$

189,055,742

$

63,533,330

33.6

%

Cost of sales

(224,884,782

)

(177,653,678

)

47,231,104

26.6

%

Gross profit

27,704,290

11,402,064

16,302,226

143.0

%

Selling, general and administrative expenses

(6,605,606

)

(3,105,673

)

3,499,933

112.7

%

Research and development expense	(3,251,209)
	-0-
	3,251,209.
	n.a.

Other income/(expenses)-net	
	(1,005,846
)	
	(641,681
)	
	364,165
	56.8
%	

Profit before income taxes and non-controlling interest	
	16,841,629
	7,654,710
	9,186,919
	120.0
%	

Income tax expense	(3,832,772)	(1,231,180)	2,601,592	211.3%

Non-controlling interest

(183,253

)

(180,383

)

2,870

1.6

%

Net income attributable to stockholders	
	12,825,604
	6,243,147
	6,582,457

105.4

%

Other comprehensive income Zoom Technologies

650,230

(32,852

)

683,082

n.a.

Comprehensive income Zoom Technologies

$

13,475,834

$

6,210,295

$

7,471,945

120.3

%

11

Other key indicators (Percent of Net Sales)	Years Ended December 31 2010	2009	Change
Cost of sales	89.0%	94.0%	-5.0%
Gross margin	11.0%	6.0%	5.0%
Selling, general and administrative expenses	2.6%	1.6%	1.0%
Net margin	5.1%	3.3%	1.8%

Revenues

Our revenues were $252,589,072 for the year ended 2010, representing an increase of 33.6% or $63,533,330 as compared to $189,055,742 for 2009. The increase of revenues as compared to the previous last year was mainly due to increase in orders from the domestic EMS customers, also increase in the sales of our own brand products and the acquisition of Nollec Wireless on June 1, 2010.

Our main manufacturing facility, TCB Digital, is located in Tianjin City. TCB Digital manufactures digital communication and consumer electronic products with 14 SMT (Surface Mount Technology) lines and 12 assembly and test lines. Manufacturing equipment from our Jiangsu Leimone facilities were relocated to TCB Digital in April 2010. Our Company's combined production was approximately about 10.4 million units in 2010 and 8.6 million units in 2009. Manufacturing of mobile phones is broken into two main segments: 1) Non-consignment EMS where we procure all of the components for our customers, and our revenues comprise of the cost of the materials plus our manufacturing fee, and 2) Consignment EMS where our customers provide the components and our revenues is our manufacturing fee. We also produced and sold our own products under the brand of "Leimone."

The following table shows our production activities by segments.

Production units (in thousands) by each activity	2010	2009
Non-Consignment EMS	2,886	2,000
Consignment EMS	6,806	6,500
Other sales	0	0
Own brand "Leimone" phones	708	100
Total	10,400	8,600

The following table shows the breakdown of revenues by segments.

Percentage of revenues by each activity	2010	2009
Non-Consignment EMS	76%	87.7%

Consignment EMS	7%	7.8%
Design Revenues	2%	0%
Phone Sales (Leimone brand)	15%	4.5%
Total	100%	100%

Cost of sales

For the year 2010, Zoom's cost of sales was $224,884,782 or 89.0% of revenues. The cost of sales compared to revenues decreased by 5.0% year over year. The main reason for the decrease in this ratio was that the sales of our own brand products contributed a larger percentage to total revenues, and such own brand sales enjoyed a higher profit margin than the EMS activities.

Selling, general and administrative expenses

Sales and marketing expenses mainly represent salaries of sales personnel, and marketing and transportation costs. General and administrative expenses primarily consisted of compensation for personnel, depreciation, travel expenses, rental, materials expenses related to ordinary administration, fees for professional services and also non-cash equity based compensation charges.

For 2010, selling, general and administrative expenses were $6,605,606 or 2.6% of revenues as compared to $3,105,673 or 1.6% of revenues for 2009. Included in such expenses in 2010 and 2009 were non-cash equity-based compensation charges of $1,688,372 and $44,480, respectively. The non-cash equity-based compensation charges were expenses due to common stock issued for services and charges calculated based on a Black-Schole valuation model for stock options granted to employees, directors and contractors.

Research and development expense

For 2010 we incurred R&D expenditures in the amount of $3,251,209 by our Nollec Wireless subsidiary for developmental costs in software and phone design. We did not have any R&D expenditures in 2009.

Other income and (expenses)-net

Zoom's other expenses-net were $1,005,846 in 2010 which represented an increase of $364,165 or 56.8% from $641,681 in 2009. Other expenses mainly consisted of interest expense that the company incurred for its loans and the net of such interest payments were $1,134,898 and $1,040,538 for the years 2010 and 2009 respectively.

Net income

For 2010, Zoom's net income was $12,825,604 with a net profit margin of 5.1%, representing an increase of $6,582,457 or 105.4% over net income in 2009 of $6,243,147 with a net profit margin of 3.3%. The increase in net income is mainly due to the increases in both our EMS segment and sales of our own brand phones. The increase in net margin is due to the increased proportion of revenues from sales of our own brand products which carry a higher profit margin than the EMS business.

Other comprehensive income

For 2010, our other comprehensive income was $650,230 while there was comprehensive loss of ($32,852) for 2009. Other comprehensive income resulted from foreign currency exchange changes particularly the Renminbi's appreciation against the U.S. dollar resulting from our conversion of RMB into US$ for reporting; and we may report an expense or an income depending on changes in the exchange rate.

Liquidity and Capital Resources

Zoom generally finances its operations from cash flow generated internally, equity fundraising and short-term loans from domestic banks due in less than one year and with annual interest rates between 5.3% to 8.4%. As of December 31, 2010, we had cash and cash equivalents of $6,374,103 which represented an increase of $4,901,803 from $1,472,300 as of December 31, 2009. We also had $13,503,122 in restricted cash at the end of 2010; such restricted cash was deposits in banks as collateral for the banks to issue banker's acceptances.

The net cash provided by operating activities in 2010 was $11,055,057 as compared to the net cash used in operating activities for 2009 of $11,241,031. The net cash inflow from operating activities in 2010 was mainly due to the net income for the year of 2010 including noncontrolling interest totaling $13,008,857, increase in accrued expenses of $2,546,076, and reduction in advances to suppliers of $8,700,946. Uses of cash included increase in accounts receivable of $3,111,813, decrease in accounts payable of $1,019,655 and increase in related parties advances of $12,309,184. See Note 17 — Related Party Transactions.

Net cash used for investing activities amounted to $9,714,854 in 2010 which primarily consisted of payment for construction of new manufacturing facilities. Since ownership of the facilities cannot be transferred until construction is completed, the amount paid is recorded as construction in progress deposit.

Net cash provided by financing activities was $3,530,370 in the year ended December 31, 2010 which included an inflow from the sale of common stock and exercising of warrants and options in the net total amount of $8,194,413; net proceeds from short-terms loans of $4,568,954, a net outflow to related party borrowings of $9,734,553 and proceeds from notes payable in the amount of $501,556.

On May 28, 2010, the Company sold 166,667 shares of newly issued common stock pursuant to a registration statement on Form S-3. The shares were sold at the price of $6.00 per share. The placement agent for the transaction was paid a 4% commission and granted 6,667 warrants exercisable at $6.90 per share. Legal fees incurred for this transaction amounted to $80,45