ZAP
Form 10-Q/A
August 15, 2013

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

Form 10-Q/A

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

o 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 001-32534

ZAP
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	94-3210624 (I.R.S. Employer Identification Number)
501 Fourth Street Santa Rosa, California (Address of principal executive offices)	95401 (Zip Code))

Registrant’s telephone number, including area code: (707) 525-8658

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 x No o

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

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

As of August 14, 2013 there were 302,518,002 shares outstanding of the registrant’s common stock.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZAP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

ASSETS	June 30, 2013	December 31, 2012
Current assets:		
Cash and cash equivalents	$2,045	$ 1,656
Restricted Cash	15,451	11,763
Notes receivable	217	947
Restricted Notes receivable	-	678
Accounts receivable	7,171	5,736
Inventories, net	9,385	11,152
Prepaid expenses and other current assets	437	502
Total current assets	34,706	32,434
Property, plant and equipment, net	52,125	53,357
Land use rights, net	9,866	9,767
Other assets:		
Investment in joint ventures	334	898
Distribution fees for Jonway Products and Better Worlds Products	10,559	11,279
Intangible assets, net	4,457	4,571
Goodwill	324	324
Due from related party	4,429	3,093
Deposits and other assets	273	241
Total other assets	20,376	20,406
Total assets	$117,073	$ 115,964

See accompanying notes to the unaudited condensed consolidated financial statements

ZAP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current liabilities:		
Short term loans	$13,744	$ 8,754
Senior convertible debt	-	19,693
Accounts payable	20,836	22,386
Accrued liabilities	8,250	8,549
Notes payable	21,842	18,513
Advances from customers	3,153	3,782
Taxes payable	1,313	850
Due to related party	4,380	1,159
Other payables	2,686	3,102
Total current liabilities	76,204	86,788
Long term liabilities:		
Senior convertible debt	20,486	0
Warranty costs	763	229
Total liabilities	97,453	87,017
Commitments and contingencies		
ZAP Shareholders' Equity		
Common stock, no par value; 800 million shares authorized; 302,518,002 and 302,448,325 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	230,097	229,785
Accumulated other comprehensive income	1,527	1,190
Accumulated deficit	(224,464)	(217,421)
Total ZAP shareholders’ equity	7,160	13,554
Non-controlling interest	12,460	15,393
Total equity	19,620	28,947
Total liabilities and equity	$117,073	$ 115,964

See accompanying notes to the unaudited condensed consolidated financial statements

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ZAP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands; except per share data)
(Unaudited)

	For the Three Months ended June 30, 2013	For the Three Months ended June 30, 2012	For the Six Months ended June 30, 2013	For the Six Months ended June 30, 2012
Net sales	$ 12,268	$ 12,705	$ 26,633	$ 24,886
Cost of goods sold	(13,323)	(11,675)	(26,938)	(23,154)
Gross profit	(1,055)	1,030	(305)	1,732
Operating expenses:				
Sales and marketing	2,087	3,469	3,520	5,581
General and administrative	2,543	2,805	4,519	5,296
Research and development	159	814	309	1,093
Total operating expenses	4,789	7,088	8,348	11,970
Loss from operations	(5,844)	(6,058)	(8,653)	(10,238)
Other income (expense):				
Interest expense, net	(803)	(957)	(1,625)	(1,443)
Loss from equity in joint venture	(89)	(152)	(574)	(273)
Other Income	340	231	528	468
Total income (expense)	(552)	(878)	(1,671)	(1,248)
Loss before income taxes	(6,396)	(6,936)	(10,324)	(11,486)
Income tax benefit	12	92	25	130
Net Loss	$ (6,384)	$ (6,844)	$ (10,299)	$ (11,356)
Less: loss attributable to non-controlling interest	2,099	2,282	3,254	3,355
Net loss attributable to ZAP's common shareholders	$ (4,285)	$ (4,562)	$ (7,045)	$ (8,001)
Net Loss	(6,384)	(6,844)	(10,299)	(11,356)
Other Comprehensive income / (Loss)				
Foreign currency translation adjustments	454	34	660	(153)
Net unrealized loss on available for sale securities	-	(67)	-	(541)
Other comprehensive income/(loss)	454	(33)	660	(694)
Total comprehensive income (loss)	(5,930)	(6,877)	(9,639)	(12,050)
Less : Comprehensive loss attributable to non-controlling interest	1,877	2,263	2,931	3,428
Comprehensive loss attributable to ZAP's common shareholders	$ (4,053)	$ (4,614)	$ (6,708)	$ (8,622)
Net loss per share attributable to common shareholders:				
Basic and diluted	$ (0.01)	$ (0.02)	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding:				

Basic and diluted	302,518	298,127	302,518	298,891

See accompanying notes to the unaudited condensed consolidated financial statements

ZAP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operations of the company and its consolidated subsidiaries	$ (10,299)	$ (11,356)
Adjustments to reconcile net loss to cash (used in) operating activities:		
Stock-based employee compensation	312	1,588
Depreciation and amortization	3,284	2,526
Amortization of Distribution fees	720	1,079
Inventory Reserve	493	47
Provision for doubtful accounts	10	50
Loss from joint venture and other investments	576	273
Loss on disposal of equipment	-	10
Deferred tax benefit	(27)	(130)
Amortization of debt discount	793	410
Changes in assets and liabilities: (net of acquisition)		
Accounts receivable	(1,337)	(44)
Notes Receivable	1,442	335
Inventories	1,495	(5,145)
Prepaid expenses and other assets	110	(466)
Due from related parties	2,178	(2,242)
Other Receivables	(38)	-
Accounts payable	(1,961)	4,653
Accrued liabilities	167	(93)
Taxes Payable	393	(557)
Advances from customers	(721)	(269)
Other payables	(554)	89
Net cash used for operating activities	(2,964)	(9,242)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(855)	(1,003)
Net cash flows used in investing activities:	(855)	(1,003)

See accompanying notes to the unaudited condensed consolidated financial statements

ZAP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	For the Six Months ended June 30, 2013	For the Six Months ended June 30, 2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	22,999	18,203
Proceeds from short term borrowing	7,596	3,051
Change in restricted cash	(3,444)	(7,030)
Repayments to related parties	-	(1,886)
Repayments of notes payable	(20,054)	(2,589)
Payments on short term debt	(2,786)	(4,842)
Net cash provided by (used in) financing activities	4,311	4,907
Effect of exchange rate changes on cash and cash equivalents	(103)	(22)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	389	(5,360)
CASH AND CASH EQUIVALENTS, beginning of period	1,656	5,859
CASH AND CASH EQUIVALENTS, end of period	$ 2,045	$ 499
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 804	$ 812
Cash paid during period for taxes	-	-

See accompanying notes to the unaudited condensed consolidated financial statements

ZAP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2013

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

ZAP was incorporated in California in September 1994 (together with its subsidiaries, "the Company," or "ZAP"). ZAP markets advanced transportation, including alternative energy and fuel efficient automobiles, motorcycles, bicycles, scooters, personal watercraft, hovercraft, neighborhood electric vehicles and commercial vehicles. The Company's business strategy has been to develop, acquire and commercialize electric vehicles and electric vehicle power systems, which the Company believes have fundamental practical and environmental advantages over available internal combustion modes of transportation that can be produced commercially on an economically competitive basis. In pursuit of a manufacturing plant and a partner with an existing product line, a distribution and customer support network in China and experience in vehicle manufacturing, ZAP acquired a majority of the outstanding equity in Zhejiang Jonway Automobile Co., Ltd. ("Jonway").

On January 21, 2011, the Company completed the acquisition of 51% of the equity shares of Jonway for a total purchase price of $31.75 million consisting of approximately $29 million in cash and 8 million shares of ZAP common stock valued at $2.7 million. The Company believes that the acquisition will allow it to expand its electric vehicle ("EV") business and distribution network around the world, give it access to the rapidly growing Chinese market for electric vehicles and have competitive production capacity in an ISO 9000 certified manufacturing facility with the capacity and resources to support production of ZAP's electric vehicles and new product line of mini vans and mini SUVs.

Jonway is a limited liability company incorporated in Sanmen County, Zhejiang Province of the People's Republic of China ("the PRC") on April 28, 2004 by Jonway Group Co., Ltd. ("Jonway Group"). Jonway Group is under the control of three individuals, Wang Huaiyi, Alex Wang (the son of Wang Huaiyi) and Wang Xiao Ying (the daughter of Wang Huaiyi and all three individuals collectively referred to as the "Wang Family").

Jonway's approved scope of business operations includes the production and sale of vehicle spare parts, and the sale of UFO licensed SUV vehicles. The principal activities of Jonway are the production and sale of automobile spare parts and the production and distribution of SUVs in China using the consigned UFO license from an affiliate of Jonway Group.

With the completion of the acquisition of a majority interest in Jonway, the combined companies' new product lines include the A380 SUV EV and the minivan EV. Both products leverage the production moldings, the manufacturing engineering infrastructure and facilities currently in place for the gasoline models of these vehicles. Since the acquisition, the companies have been working on developing the joint product line, marketing and sales plans for the 2013 EV product lines.

Jonway received certification of the EV production line by the Chinese electric vehicle authorities, which occurred in February 2013. Meanwhile; the engineering teams from both companies are undertaking extensive testing of the A380 SUV EV at Jonway Auto and ZAP Hangzhou EV research and development center.

Our target is to deliver the EV A380 SUV and EV minivan in the second half of 2013, with the purpose of obtaining the Chinese central government electric vehicle incentives of up to RMB 60,000 or over $9,510 per vehicle. ZAP intends to use the existing manufacturing plant from Jonway that is being upgraded for the production of the electric vehicles and utilizing the existing Jonway models to gain economy of scale and reduce molding investment costs. ZAP also intends to leverage Jonway's distribution and customer support centers in China to support the sales and marketing of its new EV product line. In the meantime, Jonway auto established its two wholly-owned subsidiaries, namely, Taizhou Fuxing Vehicle Sale Co., Ltd. focusing on minivan marketing and distribution in China and Taizhou Vehicle Leasing Co., Ltd focusing on the vehicle leasing business in Taizhou.

ZAP plans to focus on developing new international markets such as Brazil, South Africa, Russia and some of the Central America countries such as Costa Rica, Ecuador and Mexico. These countries are looking for affordable gasoline and electric SUVs and minivans with a competitive price and qualities.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the financial statements of ZAP, and its subsidiaries: Jonway Automobile, Voltage Vehicles, ZAP Stores and ZAP Hong Kong for the three and six months ended June 30, 2013 and 2012 and are prepared in accordance with United States ("U.S.") generally accepted accounting principals ("GAAP"). In these financial statements, "subsidiaries" are companies that are over 50% controlled, the financial statements of which are consolidated with those of the Company. Significant intercompany transactions and balances are eliminated in consolidation; profits from intercompany sales, are also eliminated; non –controlling interests are included in equity. We account for our 37.5% interest in the ZAP Hangzhou Joint Venture using the equity method of accounting.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2013 and 2012 may not be indicative of the results that may be expected for the year ending December 31, 2013 or for any other future period. These unaudited condensed consolidated financial statements and the notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012 filed with the Securities and Exchange Commission (the "SEC") on April 16, 2013 (our "10-K").

LIQUIDITY AND RESOURCES

In assessing our liquidity, we monitor and analyze our cash on-hand, liquidation value of our investment in securities, and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations. Our principal sources of liquidity consist of our existing cash on hand and bank facilities from China-based banks for Jonway Auto.

In May 2012, we were approved up to an aggregate of $ 24.3 million of a credit line with the credit exposure of $7.3 million from the Sanmen Branch of CITIC Bank ("CITIC") through Jonway. When drawn down, the credit line will be secured by land and buildings on this land owned by Jonway and guaranteed by Jonway Group. Under the above credit line in November 2012, Jonway borrowed one year short-term loans in the aggregate amount of approximately $7.3 million. The annual interest rate is 6.0%, and the loans are due in November 2013. We have also drawn $5.8 million in the form of notes payable as of June 30, 2013. We deposited 100% cash as restricted cash as collateral for these notes payable. These notes are due in September, October and November 2013. As of June 30, 2013, the total credit exposure of $7.3 million has been fully used. The credit exposure expires in November 2013.

In December 2012, we were approved up to an aggregate of $4.0 million on a credit line with the credit exposure of $4.0 million from Taizhou Bank. This credit line was guaranteed by related parties. As of June 30, 2013, the total outstanding loan under this credit line was $1.6 million which were drawdown in January, February and June 2013 with annual interest rates from 5.92% to 8.53%. The loans are due in July and December 2013. A credit exposure of $2.0 million was used in the form of notes payable of $4.5 million with restricted cash of $2.5 million deposited with the bank. As of June 30, 2013, the remaining credit exposure was $0.4 million. The credit exposure expires in December 2013.

In December 2012, we were approved up to an aggregate of $9.1 million of a credit line with the credit exposure of $4.5 million from Everbright Bank. As of June 30, 2013, $9.0 million was drawn down as notes payable with restricted cash of $4.5 million deposited with the bank. As of June 30, 2013, this credit exposure has been fully used. The credit exposure expires in December 2013.

We were also approved up to an aggregate of $4.8 million on a credit line from Industrial and Commercial Bank of China (ICBC). This credit line was secured by land and buildings on this land owned by Jonway and guaranteed by related parties. By June 30, 2013, the total outstanding loan under this credit line was $4.8 million which was drawdown in February and June 2013, with an annual interest rate is 5.57%. The loans are due in August 2013 through 2014. We have also drawn $2.4 million in the form of notes payable as of June 30, 2013. We deposited 100% cash as restricted cash as collateral for these notes payable. These notes were due in July 2013. The credit line expires in December 2013.

Jonway intends to utilize the credit lines to expand its electric vehicle business as well as other future vehicle models. This includes on-going working capital needs, electric vehicle production equipment requirements, testing, homologation and new EV product molds. These credit lines will also be used to support the company’s expansion plans, with emphasis on its electric vehicle production line facilities in China. Also our principal shareholder, Jonway Group, has agreed to provide the necessary support to meet our financial obligations through May 20, 2014 in the event that we require additional liquidity. In addition, CEVC convertible note which was due August 2013 has been extended to August 2014.

We will require additional capital to expand our current operations and support on-going operating losses until we can reach a larger sales volume in order to absorb operating overhead costs. In particular, we require additional capital to expand our presence across the world, to continue development of our electric vehicle business, to continue strengthening our dealer network and after-sale service centers and expanding our market initiatives. We also require financing the investment for the continued roll-out of new products and to add qualified sales and professional staff to execute on our business plan and pursue our efforts in the research and development of advanced technology vehicles, such as the new ZAP Alias, the electric and other fuel efficient vehicles.

We intend to fund our long term liquidity needs related to operations through the incurrence of indebtedness, equity financing or a combination of both. Although we believe that these sources will provide sufficient liquidity for us to meet our future liquidity and capital obligations, our ability to fund these needs will depend on our future performance, which will be subject in part to general economic, financial, regulatory and other factors beyond our control, including trends in our industry and technological developments.

On May 6, 2013, the U.S. Department of Justice filed a complaint for declaratory and injunctive relief and for civil penalties against the Company. The Company has discontinued the sale of the Xebra vehicles after these 2008 models. The 2008 Xebra vehicles were manufactured by a company called, Fula, based in Shandong Province, China, that ZAP had imported from.

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As previously disclosed in the Company's quarterly report on Form 10-Q filed May 15, 2013, the U.S. Department of Justice filed a complaint for declaratory and injunctive relief and for civil penalties against the Company. The complaint was filed in the U.S. District Court for the District of Columbia as United States v. ZAP; Civil Action No. 13-646. The action was brought under the National Traffic and Motor Vehicle Safety Act of 1966. The complaint alleges that the Company failed to develop and implement a remedy to bring its 2008 ZAP Xebra into compliance with minimum safety requirements; failed to timely and properly notify the National Highway Traffic Safety Administration ("NHTSA") about the vehicle recalls; and was uncooperative and evasive with NHTSA.

ZAP and the United States have reached a settlement of all matters arising out of the facts alleged in the complaint. The settlement is incorporated into a Consent Decree that was entered and approved by the U.S. District Court on July 17, 2013. Pursuant to the Consent Decree, ZAP has agreed to initiate a buy-back program whereby it will offer to provide a refund of $3,100 to each eligible MY 2008 ZAP Xebra owner. The Consent Decree also contains notification and reporting requirements and requires ZAP to take specified actions regarding the disposition of repurchased vehicles and MY 2008 Xebras that remain in ZAP's possession. In accordance with the Consent Decree, the Company has mailed the required notification letters to registered vehicle owners and ZAP Xebra dealers, along with a Refund Request Form. The repurchase offer extends to 691 vehicles that have been sold by ZAP.

NOTE 2- SIGNIFICANT ACCOUNTING POLICIES AND USE OF ESTIMATES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The more significant estimates relate to revenue recognition, contractual allowances and uncollectible accounts, intangible assets, accrued liabilities, derivative liabilities, income taxes, litigation and contingencies. Estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for judgments about results and the carrying values of assets and liabilities. Actual results and values may differ significantly from these estimates.

Concentration of Credit Risk

The Company's operations are all carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC's economy. The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

Financial instruments which subject the Company to potential credit risk consist of its cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with one high credit quality financial institution. Deposits may exceed the amount of insurance provided; however, these deposits typically are redeemable upon demand and, therefore, the Company believes the financial risks associated with these financial instruments are minimal. The Company has not experienced any losses to date on its deposits.

The Company performs ongoing credit evaluations of its customers, and generally does not require collateral on its accounts receivable. The Company estimates the need for allowances for potential credit losses based on historical collection activity and the facts and circumstances relevant to specific customers and records a provision for uncollectible accounts when collection is uncertain. The Company has not experienced significant credit related losses to date.

The Company currently relies on various outside contract manufacturers in China to supply electric vehicles and products for its customers. Although management believes that other contract manufactures could provide similar services and intends to transition its manufacturing to Jonway's facilities in Sanmen, China, but, if these Chinese companies are unable to supply electric vehicles and the Company is unable to transition manufacturing to Jonway's facilities or find alternative sources for these product and services, the Company might not be able to fill existing backorders and/or sell more electric vehicles. Any significant manufacturing interruption could have a material adverse effect on the Company's business, financial condition and results of operations.

Revenue Recognition

The Company records revenues for non-Jonway sales when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists. The Company generally relies upon sales contracts or agreements, and customer purchase orders to determine the existence of an arrangement.
- Sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on the payment terms and whether the sales price is subject to refund or adjustment.
- Delivery has occurred. The Company uses shipping terms and related documents, or written evidence of customer acceptance, when applicable, to verify delivery or performance. The Company's customary shipping terms are FOB shipping point.

- Collectability is reasonably assured. The Company assesses collectability based on creditworthiness of customers as determined by our credit checks and their payment histories. The Company records accounts receivable net of allowance for doubtful accounts and estimated customer returns.

The Company records revenues for Jonway sales only upon the occurrence of all of the following conditions:

- The Company has received a binding purchase order from the customer or distributor authorized by a representative empowered to commit the purchaser (evidence of a sale);
- The purchase price has been fixed, based on the terms of the purchase order;

- The Company has delivered the product from its factory to a common carrier acceptable to the customer; and

- The Company deems the collection of the amount invoiced probable.

The Company provides no price protection. Sales are recognized net of sale discounts, rebates and return allowances.

Stock-based compensation

The Company accounts for stock-based compensation which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes-Merton option pricing model (the "Black-Scholes model"). The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. We estimate forfeitures at the time of grant and revise our estimate in subsequent periods if actual forfeitures differ from those estimates.

The Company accounts for stock-based compensation awards and warrants granted to non-employees by determining the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Income Taxes, which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forward. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized.

ASC 740-10, Accounting for Uncertainty in Income Taxes defines uncertainty in income taxes and the evaluation of a tax position is a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met.

United States federal, state and local income tax returns prior to 2009 are not subject to examination by tax authority.

Foreign Currency Translation

The Company and its wholly owned subsidiary/investments, maintain their accounting records in United States Dollars ("US$") whereas Jonway Auto maintains its accounting records in the currency of Renminbi ("RMB"), being the primary currency of the economic environment in which their operations are conducted.

Jonway Auto's principal country of operations is the PRC. The financial position and results of our operations are determined using RMB, the local currency, as the functional currency. The results of operations and the statement of cash flows denominated in foreign currency are translated at the average rate of exchange during the reporting period. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Due to the fact that cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholder's equity as "Accumulated Other Comprehensive Income."

The value of RMB against US$ and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions, any significant revaluation of RMB may materially affect our financial condition in terms of US$ reporting. The following table outlines the currency exchange rates that were used in creating the consolidated financial statements in this report:

	For the Year ended December 31,	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2013	2012	2013	2012
Balance Sheet items, except for share capital, additional paid in capital and retained earnings (US$/RMB)	$ 6.3090	$6.1807	$6.3197	$6.1807	$6.3197
Amounts included in the statements of operations and cash flow statements (US$/RMB)	$ 6.3079	$6.1807	$6.3101	$6.1807	$6.3255

Loss per Share

Basic and diluted net loss per share is computed by dividing consolidated net loss by the weighted-average number of common shares outstanding during the period. The Company's potentially dilutive shares, which include outstanding common stock options convertible debt and warrants, have not been included in the computation of diluted net loss per share for all periods presented as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share.

Cash and cash equivalents

The Company invests its excess cash in short-term investments with various banks and financial institutions. Short-term investments are cash equivalents, as they are part of the cash management activities of the company and are comprised of investments having maturities of three months or less when purchased. The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents

Restricted Cash

The Company has cash restricted in connection with the issuance of bank acceptance notes to various suppliers of spare parts which were issued through Jonway's banks. To issue these bank acceptance notes to Jonway's suppliers, the banks require a deposit of 50% or 100% of the full amount of such notes which are payable within 6 months from issuance. Upon the maturity date, restricted funds will be used to settle the bank acceptance notes. The restricted cash as shown in the consolidated balance sheets is strictly used by Jonway Auto which is based in China against the bank notes provided by the various Chinese banks that are providing the credit facilities or loans. The credit facilities and loans are used primarily to fund working capital and support the operating losses incurred by Jonway Auto.

Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. Accounting standards establish a three level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair values. For certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amount approximates fair value because of the short maturities. The three levels of inputs are defined as follows:

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Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs other than quoted prices in active markets that are directly or indirectly observable;

Level 3: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions and methodologies that result in management's best estimate of fair value.

The Company records certain assets and liabilities at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally assets are measured at fair value on a nonrecurring basis as a result of impairment changes. Fair value was estimated based on discounted cash flow. Assets measured at fair value on a nonrecurring basis for the period ended June 30, 2013 are summarized below (in thousands):

		June 30, 2013			
Assets		Level 1	Level 2	Level 3	Fair Value Measurements
Long-lived assets- 3-door SUV mold	(1)			$2,560	$ 2,560

(1) Included in "Property, plant and equipment, net" on the face of condensed consolidated balance sheets. The original carrying value was $5.12 million. The Company recognized impairment charges of $2.56 million (included in "impairment loss of long-lived assets" on the face of consolidated statements of operations and comprehensive loss) for the year December 31, 2012. These charges were related to the impairment in the 3-door SUV mold equipment used in the Jonway Auto segment (See Note 2-Accounting for long-lived assets).

The Company believes the reported carrying amounts of its current assets and current liabilities approximate fair value, based upon the short-term nature of these accounts. The fair value of the Company's investment in joint ventures, receivable from related parties and its convertible long-term debt are impracticable to determine.

Accounts Receivable and Notes Receivable

Accounts and note receivable consist mainly of receivables from our established dealer network. A credit review is performed by the Company before the dealer is approved to purchase vehicles form the Company. The Company performs ongoing credit evaluations of its dealers, and generally does not require collateral on its accounts receivable. The Company estimates the need for allowances for potential credit losses based on historical collection activity and the facts and circumstances relevant to specific customers and records a provision for uncollectible accounts when collection is uncertain. The Company has not experienced significant credit-related losses to date. The allowance for doubtful accounts was $222,000 and $201,000 at June 30, 2013 and December 31, 2012, respectively

Inventories

Most of the inventory on the balance sheet consisting of $9.0 million (net value) is in Jonway Auto in China, ZAP's Inventories of approximately half a million out of the total consist primarily of vehicles, both gas and electric, parts and supplies, and finished goods and are carried at the lesser of lower of cost (first-in, first-out basis for ZAP and moving average basis for Jonway) or market (net realizable value or replacement cost). The Company maintains reserves for estimated excess, obsolete and damaged inventory based on projected future shipments using historical selling rates, and taking into account market conditions, inventory on-hand, purchase commitments, product development plans and life expectancy, and competitive factors. If markets for the Company's products and corresponding demand were to decline, then additional reserves may be deemed necessary. Any changes to the Company's estimates of its reserves are reflected in cost of goods sold within the statement of operations during the period in which such changes are determined by management.

As of June 30, 2013, ZAP has reserved $789,542 of its vehicle inventory that is held by former Co-CEO and current ZAP Director, Steve Schneider on the River Road property that was being leased by ZAP from Mr., Schneider. Mr. Schneider took this inventory without ZAP authorization before and after an illegal and failed attempt to take control of ZAP. He refuses to release the inventory. During the attempted takeover, $116,090 was diverted to a bank account set up by a former employee and board directors, Mark Abdou and Alex Wang. To date, we have recovered $22,770 of these diverted funds. The balance of $93,320 has not been recovered.

Property and equipment

Property and equipment consists of land, building and improvements, machinery and equipment, office furniture and equipment, vehicles, and leasehold improvements which are almost all in Jonway Auto in China. ZAP does not own any property or any significant amount of equipment in the U.S. Property and equipment is stated at cost, net of accumulated depreciation and amortization, and is depreciated or amortized using straight-line method over the asset's estimated useful life. Costs of maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives are as follows:

Machinery and equipment	5-10 years (Jonway 10 years)
Computer equipment and software	3-5 years
Office furniture and equipment	5 years
Vehicles	5 years
Leasehold improvements	10 years or life of lease, whichever is shorter
Building and improvements	20-30 years (Jonway 20 years)

Land use Rights

Under PRC law, all land in the PRC is permanently owned by the government and can not be sold to an individual or company but companies can purchase the land use rights for the specified period of time, as in our industry the industrial purpose has a useful life of 50 years. The government grants individuals and companies the right to use parcels of land for specified periods of time. These land use rights are sometimes referred to informally as "ownership". Land use rights are stated at cost less accumulated amortization. Amortization is provided over the respective useful lives, using the straight –line method. Estimated useful life is 50 years, and is determined in the connection with the term of the land use right.

Long-lived assets

Long-lived assets are comprised of property and equipment and intangible assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or by the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flow and fundamental analysis. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value. There are no impairment losses of long-lived assets for the periods ended June 30, 2013 and $2.6 million of impairment loss for the year ended December 31, 2012, respectively.

Intangible Assets-Finite

Intangible assets consist of patents, trademarks, land use rights, government approvals and customer relationships (including client contracts). For financial statement purposes, identifiable intangible assets with a defined life are being amortized using the straight-line method over the estimated useful lives of seven years for the EPA license and 2 years for the customer relationships. Costs incurred by the Company in connection with patent, trademark applications and approvals from governmental agencies such as the Environmental Protection Agency, including legal fees, patent and trademark fees and specific testing costs, are expensed as incurred. Purchased intangible costs of completed developments are capitalized and amortized over an estimated economic life of the asset, generally seven years, commencing on the acquisition date. Costs subsequent to the acquisition date are expensed as incurred.

Goodwill and Intangible Assets – Indefinite

Goodwill and intangible assets determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance applicable accounting principles. The Company assesses annually whether there is an indication that goodwill is impaired, or more frequently if events and circumstances indicate that the asset might be impaired during the year. The Company performs its annual impairment test in the fourth quarter of each year. Calculating the fair value of the reporting units requires significant estimates and assumptions by management. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, there is an indication that the reporting unit goodwill may be impaired and a second step of the impairment test is performed to determine the amount of the impairment to be recognized, if any.

Product warranty costs

The Company provides 30 to 90 day warranties on its personal electric products, including the ZAPPY3 and the Zapino scooters, six month warranties for the Xebra®, the ZAPTRUCK XL, the ZAPVAN Shuttle vehicles, and a six month warranty for Xebra® vehicles repaired by ZAP pursuant to its product recall. The Company records the estimated cost of the product warranties at the time of sale using the estimated costs of products warranties based on historical results. The estimated cost of warranties has not been significant to date. Should actual failure rates and material usage differ from our estimates, revisions to the warranty obligation may be required.

Jonway provides a 2-year or 60,000 kilometer warranty for its SUV products. Jonway records the estimated cost of the product warranties at the time of sale using the estimated cost of product warranties based on historical results. The estimated cost of warranties has not been significant to date. Should actual failure rates and material usage differ from our estimates, revisions to the warranty obligation may be required.

Comprehensive loss

Comprehensive loss represents the net loss for the period plus the results of certain changes to shareholders' equity that are not reflected in the consolidated statements of operations. The Company's comprehensive loss consists of net losses, foreign currency translation adjustments and unrealized net losses on investments.

Risks and Uncertainties

A substantial portion of the company's operations are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy. The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The company's results may be adversely affected by interpretations with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

Recent Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05 Topic 830 – Foreign Currency Matters ("ASU 2013-05"). ASU 2013-05 resolves the diversity in practice about whether Subtopic 810-10, Consolidation—Overall, or Subtopic 830-30, ASU 2013-05 applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. ASU 2013-02 becomes effective for the company prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

In April 2013 the FASB has issued Accounting Standards Update (ASU) No. 2013-4, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is fixed at the Reporting Date. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among it co-obligors and any additional amount the reporting entity expects to pay on behalf of it co-obligors. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this standard to have a material impact on the Company's unaudited condensed consolidated financial position and results from operations.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carry forward, A Similar Tax Loss, or a Tax Credit Carry forward Exists (A Consensus the FASB Emerging Issues Task Force). ASU 2013-11 provides guidance on financial statement presentation of unrecognized tax benefit when a net operating loss Carr forward, a similar tax loss, or a tax credit carry forward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carry forwards in the same tax jurisdiction as of the reporting date. This amendment is effective for public entities for fiscal years beginning after December 15, 2013 and interim periods within those years. The company does not expect the adoption of this standard to have a material impact on the Company's unaudited condensed consolidated financial position and results of operations.

The FASB has issued Accounting Standards Update (ASU) No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect the adoption of this standard to have a material impact on the Company's unaudited condensed consolidated financial position and results of operations.

NOTE 3– INVENTORIES, NET

Inventories are summarized as follows (in thousands):

Inventory		June 30, 2013		December 31, 2012
Work in Process	$	2,183	$	2,155
Parts and supplies		3,981		4,178
Finished goods		6,134		7,144
		12,298		13,477
Less - inventory reserve		(2,913)		(2,325)
Inventories, net	$	9,385	$	11,152

Changes in the Company's inventory reserve are as follows (in thousands):

Provision

	June 30, 2013	December 31, 2012
Balance opening period	$ 2,325	$ 1,577
Current provision for Jonway Auto	415	-
Current provision for inventory ZAP-net	173	748
Balance end of period	$ 2,913	$ 2,325

NOTE 4 - Property, plant and equipment, net

Property, plant and equipment, are summarized as follows (in thousands):

	June 30, 2013	December 31, 2012
Buildings and improvements	$ 20,816	$ 20,725
Machinery and equipment	49,543	48,081
Office furniture and equipment	510	499
Leasehold improvements	37	37
Vehicles	898	872
	71,804	70,214
Less: accumulated depreciation and amortization	(19,679)	(16,857)
	$ 52,125	$ 53,357

Four pieces of land were acquired from the acquisition of Jonway auto in 2011, all land in the People's Republic of China is government owned and cannot be sold to any individual or company. However, the government grants the user a "land use right" (the Right) to use the land. The Company has the right to use the land for 50 years and amortized the Right on a straight-line basis over the period of 50 years. Intangible assets consist of the following:

	June 30, 2013	December 31, 2012
Land use right	$ 10,658	$ 10,558
Software	108	97
	10,766	10,655
Less: accumulated amortization	(786)	(657)

Less: accumulated Translation Adjustments	(114)	(231)
	$ 9,866	$ 9,767

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As of June 30, 2013, estimated future amortization expense for intangibles assets, subject to amortization, is as follows (in thousands):

Year	Amortization Expense
2013	$ 129
2014	242
2015	242
2016	242
2017	242
Thereafter	8,769
	$ 9,866

Depreciation and amortization expense of property, plant and equipment, as well as land use rights and software was approximately $1.5 million and $1.2 million for the three months, $3.1 million and $2.3 million for the six months ended June 30, 2013 and 2012, respectively.

NOTE 5- INTANGIBLE ASSETS, NET & GOODWILL

The goodwill and intangible assets at June 30, 2013 and 2012 are summarized as follows (in thousands):

	Useful Life (In Years)	Net Book Value December 31, 2012	Amortization and accumulated translation adjustments ("ATA") for the six months ended June 30, 2013	Net Book Value June 30, 2013
Patents and Trademarks	7	$ 52	$ (11)	$ 41
Customer Relationships	8.5	600	(34)	566
Developed Technology	7	1,567	(119)	1,448
In Process Technology	(a)	183	4	187
Trade name	(a)	2,169	46	2,215
Intangibles		$ 4,571	$ (114)	$ 4,457
Goodwill		$ 324	$ -	$ 324

(a) The in process technology and trade name have been determined to have an indefinite life.

Amortization expense was approximately$108,000 and $216,000 for the three and six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, estimated future amortization expense for intangibles assets, subject to amortization, is as follows (in thousands):

Year ended December 31,	Amortization Expense
2013	$ 212
2014	424
2015	407
2016	402
2017	402
Thereafter	208
	$ 2,055

NOTE 6 - DISTRIBUTION AGREEMENTS

Distribution agreements are presented below (in thousands):

	June 30, 2013	December 31, 2012
Better World Products-related party	$ 2,160	$ 2,160
Jonway Products	14,400	14,400
	16,560	16,560
Less amortization	(6,001)	(5,281)
	$ 10,559	$ 11,279

Amortization expense related to these distribution agreements for the three months ended June 30, 2013 and 2012 were $360,000 and $560,000, respectively. Amortization expense related to these distribution agreements for the six months ended June 30, 2013 and 2012 were $720,000 and $1.1 million, respectively. Amortization is based over the term of the agreements. The estimated future amortization expense, as follows (in thousands):

Year ended December 31,	
2013	$ 720
2014	1,440
2015	1,440
2016	1,440
2017	1,440
Thereafter	4,079
Total	$ 10,559

Distribution Agreement with Better World, Ltd

On January 15, 2010, ZAP entered into a Stock Purchase Agreement with a related party, Better World, Ltd., a British Virgin Islands company, whereby the Company issued 6 million shares of its common stock valued at $2.16 million in exchange for an agreement on terms relating to rights to the distribution of Better World products, such as charging stations for electric vehicles both in the U.S. and internationally. Priscilla Lu, Chairman of the Board of Directors of ZAP, is also General Partner of Better World, Ltd.

Distribution Agreement with Goldenstone Worldwide Limited for Jonway Products

On October 10, 2010, ZAP entered into an International Distribution with Goldenstone Worldwide Limited as the distributor of Jonway products such as gas SUV's and gas and electric motor scooters, both in the U. S. and internationally. In connection with the distribution agreement the Company also issued 30 million shares of ZAP common stock valued at $14.4 million. The Jonway Group had previously granted exclusive worldwide distribution of Jonway products to Goldenstone Worldwide Limited. ZAP acquired a 51% equity interest in Jonway Auto but this equity interest did not include the worldwide distribution rights for Jonway Products. Therefore it was necessary for ZAP to acquire distribution rights for Jonway Products.

NOTE 7– INVESTMENT IN JOINT VENTURES

On December 11, 2009, the Company entered into a Joint Venture Agreement to establish a new US-China company incorporated as ZAP Hangzhou to design and manufacture electric vehicle and infrastructure technology with Holley Group, the parent company of a global supplier of electric power meters and Better World. Priscilla Lu, Ph.D., who is the current Chairman of the Board of ZAP, is also a director and General Partner of Cathaya Capital, which is a shareholder of Better World. In January of 2011, Holley Group's interest in ZAP Hangzhou was purchased by Jonway Group. ZAP and Better World each own 37.5% of the equity shares of ZAP Hangzhou, and Jonway Group owns 25% of the equity shares of ZAP Hangzhou. The joint venture partners have also funded the initial capital requirements under the agreement for a total of $3 million, of which ZAP's portion is $1.1 million.

In November 2011, Jonway and ZAP Hangzhou jointly set up Shanghai Zapple Electric Vehicle Technologies Co., Ltd. (Shanghai Zapple) with registered capital of RMB 20 million. Jonway and ZAP Hangzhou each own 50% of the equity share of Shanghai Zapple. Jonway injected RMB 5 million into this joint venture and ZAP Hangzhou injected RMB 3 million. Shanghai Zapple's approved scope of business includes: technical advice, technical development, technical services, technology transfer regarding electric vehicle technology, auto technology, energy technology, material science and technology, sale of commercial vehicle and vehicle for nine seats or more, auto parts, auto supplies, lubricant, mechanical equipment and accessories, business management consulting, industrial investment, exhibition services, business marketing planning, car rental (shall not be engaged in financial leasing), import and export of goods and technologies.

The carrying amount of the joint ventures is as follows:

	ZAP Hangzhou	Shanghai Zapple	Total
Balance as of December 31, 2011	$ 554	$ 736	$ 1,290
Less: investment loss	(123)	(280)	(403)
CTA	6	5	11
Balance as of December 31, 2012	$ 437	$ 461	$ 898
Less: Investment loss	(103)	(461)	(564)
Balance as of June 30, 2013	$ 334	$ --	$ 334

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The Company recorded a loss of $103,000 and $136,000 in ZAP Hangzhou for the six months ended June 30, 2013 and 2012, respectively. The Company recorded a loss of $83,000 and $85,000 in ZAP Hangzhou for the three months ended June 30, 2013 and 2012, respectively. Due to the suspension of Shanghai Zapple operations, the company recorded a loss of $461,000 in Shanghai Zapple for the six months ended June 30, 2013. These losses relate to investment in non-consolidated joint ventures accounted for under the equity method of accounting because the company does not have control.

Summarized financial information of Hangzhou ZAP and Shanghai Zapple are as follows: (in thousands)

	June 30, 2013	December 31, 2012
Shanghai Zapple		
Total assets	$ --	$ 1,472
Total liabilities	--	867
Revenue	--	-
Hangzhou ZAP		
Total assets	1,300	1,682
Total liabilities	16	118
Revenue	$ 81	$ 922

NOTE 8 –LINE OF CREDIT, SHORT TERM DEBT AND BANK ACCEPTANCE NOTES

Line of credit (Credit Exposure)

In March, 2012, Jonway was approved up to an aggregate of $0.8 million of credit line from a Sanmen local Bank. As of December 31, 2012, this credit line was fully used. The credit line was repaid and expired in March 2013.

In May 2012, we were approved up to an aggregate of $ 24.3 million of a credit line with the credit exposure of $7.3 million from the Sanmen Branch of CITIC Bank (“CITIC”) through Jonway. When drawn down, the credit line will be secured by land and buildings on this land owned by Jonway and guaranteed by Jonway Group. Under the above credit line in November 2012, Jonway borrowed one year short-term loans in the aggregate amount of approximately $7.3 million. The annual interest rate is 6.0%, and the loans are due in November 2013. We have also drawn $5.8 million in the form of notes payable as of June 30, 2013. We deposited 100% cash as restricted cash as collateral for these notes payable. These notes are due in September, October and November 2013. As of June 30, 2013, the total credit exposure of $7.3 million has been fully used. The credit exposure expires in November 2013.

In December 2012, we were approved up to an aggregate of $4.0 million on a credit line with the credit exposure of $4.0 million from Taizhou Bank. This credit line was guaranteed by related parties. As of June 30, 2013, the total outstanding loan under this credit line was $1.6 million which were drawdown in January, February and June 2013 with an annual interest rates from 5.92% to 8.53%. The loans are due in July and December 2013. A credit exposure of $2.0 million was used in the form of notes payable of $4.5 million with restricted cash of $2.5 million deposited with the bank. As of June 30, 2013, the remaining credit exposure was $0.4 million. The credit exposure expires in December 2013.

In December 2012, we were approved up to an aggregate of $9.1 million of a credit line with the credit exposure of $4.5 million from Everbright Bank. As of June 30, 2013, $9.0 million was drawn down as notes payable with restricted cash of $4.5 million deposited with the bank. As of June 30, 2013, this credit exposure has been fully used. The credit exposure expires in December 2013.

We were also approved up to an aggregate of $4.8 million on a credit line from Industrial and Commercial Bank of China (ICBC). This credit line was secured by land and buildings on this land owned by Jonway and guaranteed by related parties. By June 30, 2013, the total outstanding loan under this credit line was $4.8 million which were drawdown in February and June 2013, with an annual interest rate of 5.57%. The loans are due in August 2013 through 2014. We have also drawn $2.4 million in the form of notes payable as of June 30, 2013. We deposited 100% cash as restricted cash as collateral for these notes payable. These notes are due in July 2013. The credit line expires in December 2013.

Short term debt

Under the above mentioned credit line with credit exposure of $7.3 million granted by CITIC, Jonway entered into a Credit Agreement with CITIC for a revolving short term bank loan in the aggregate amount of approximately $1.6 million which was drawn down on May 25, 2012. The annual interest rate is 8.05% and was repaid in December, 2012. In November 2012, Jonway borrowed another one year short-term loan in the aggregate amount of approximately $7.3 million from CITIC under the credit line. The annual interest rate is 6.60%, and expires in November 2013. The loan is secured by a Maximum Amount Mortgage Contract by and between Jonway and CITIC dated May 25, 2012 in which land use right and a building at a total carrying amount of $5.8 million as of June 30, 2013 has been pledged as security for this loan.

In December 2012, Jonway entered into two short-term loans with Taizhou Bank for the aggregating amount of $1.6 million. The annual interest rates are 8.06% and 8.46% respectively, and the loans are due in February and June 2013, respectively. The loans are guaranteed by Jonway Group, shareholder Huaiyi Wang and his two families as well as restricted cash of $0.1 million In February 2013; $0.8 million was renewed and expires in July 2013. In June 2013, $0.8 million was renewed and expires in December 2013

In January and February, 2013, Jonway borrowed $1.4 million and $3.4 million, respectively, from Industrial and Commercial Bank of China (ICBC). $1.4 million expires in January 2014 and $3.4 million expires at various dates during 2013 from May 2013 through December 31, 2013. In May 2013, $1.1 million was renewed and expires in June 2014. The annual interest rate is 6.90%. The loans are guaranteed by shareholders Alex Wang and Huaiyi Wang, with collateral pledged by land use right and buildings at a carrying amount of approximately $3.3 million.

The weighted average annual interest rate was 7.11% and 7.77% for the three and six months ended June 30, 2013 and 2012 respectively.

	June 30, 2013	December 31, 2012
Loan from CITIC bank	$7,280	$ 7,333
Loan from ICBC	4,854	--
Loan from Taizhou Bank	1,610	1,585
Loan from Pay-Ins Prem	-	36
	$13,744	$ 8,754

Bank Acceptance Notes

As of June 30, 2013, the Company has bank acceptance notes payable in the amount of $21.8 million. The notes are guaranteed to be paid by the banks and are usually for a short-term period of six (6) months. The Company is required to maintain cash deposits of 50% or 100% of the notes payable with these banks, in order to ensure future credit availability. As of June 30, 2013, the restricted cash for the notes was $15.3 million.

	June 30, 2013	December 31, 2012
a) Bank acceptance notes payable to China Everbright bank	$9,061	$ 6,334
b) Bank acceptance notes payable to Taizhou bank	4,530	4,627
c) Bank acceptance notes payable to CITIC bank	5,824	5,608
d) Bank acceptance notes payable to ICBC	2,427	--
e) Bank acceptance notes payable to Yinzuo bank	--	1,268
f) Bank acceptance notes payable to Shanghai Pudong development bank	--	677
	$21,842	$ 18,513

a. Notes payable to China Everbright bank have various maturity dates from July, 2013 to December 2013. The notes payable are guaranteed by land use right and a building at a total carrying value of $1.5 million. The Company is also required to maintain cash deposits at 50% of the notes payable with the bank, in order to ensure future credit availability.

b. Notes payable to Taizhou bank have various maturity dates from July 2013 to October, 2013. The Company is required to maintain cash deposits at 50% or 100% of the notes payable with the bank, in order to ensure future credit availability.

c. Notes payable to CITIC bank have various maturity dates from September, 2013 to November, 2013. The Company is required to maintain cash deposits at 100% of the notes payable with the bank, in order to ensure future credit availability.

d. Notes payable to ICBC will be due in July 2013. The Company is required to maintain cash deposits at 100% of the notes payable with the bank, in order to ensure future credit availability.

e. Notes payable to Yinzuo bank include 21 bank acceptance notes which expired in March 2013. The Company was required to maintain cash deposits at 50% of the notes payable with the bank, in order to ensure future credit availability.

f. On March 13, 2012 the Company and Shanghai Pudong Development Bank signed bank acceptance note agreement for $676,811. This bank note facility was issued to Jonway Auto's suppliers and secured by a letter of credit, valued at $676,811, of which Jonway Auto was a beneficiary. The bank acceptance notes expired on March 13, 2013.

In July and August, 2013, approximately $9.3 million of notes payable matured. and approximately $7.3 million of notes payable were issued. The new notes payable will be due in January and February 2014. The Company is required to maintain cash deposits at 50% or 100% of the notes payable with the bank.

SENIOR CONVERTIBLE DEBT - China Electric Vehicle Corporation ("CEVC") Note

On January 12, 2011, the Company entered into a Senior Secured Convertible Note and Warrant Purchase Agreement (the "Agreement") with China Electric Vehicle Corporation ("CEVC"), a British Virgin Island company whose sole shareholder is Cathaya Capital, L.P., a Cayman Islands exempted limited partnership ("Cathaya"). Priscilla Lu is the chairman of the board of directors of ZAP, a managing partner of Cathaya and a director of CEVC.

Pursuant to the Agreement, (i) CEVC purchased from the Company a Senior Secured Convertible Note (the "Note") in the principal amount of US$19 million, as amended, (ii) the Company issued to CEVC a warrant (the "Warrant") exercisable for two years for the purchase up to 20 million shares of the Company's Common Stock at $0.50 per share, as amended (iii) the Company, certain investors and CEVC entered into an Amended and Restated Voting Agreement that amended and restated that certain Voting Agreement, dated as of August 6, 2009 that was previously granted to Cathaya Capital L.P., (iv) the Company, certain investors and CEVC entered into an Amended and Restated Registration Rights Agreement that amended and restated that certain Registration Rights Agreement, dated as of August 6, 2009, that was previously granted to Cathaya Capital L.P which grants certain registration rights relating to the Note and the Warrant, and (v) the Company and CEVC entered into a Security Agreement that secures the Note with all of the Company's assets other than those assets specifically excluded from the lien created by the Security Agreement.

The Note which initially was scheduled to mature on February 12, 2012 but was extended to August 12, 2013 according to the representation letter dated March 21, 2012 from CEVC and accrues no interest with this new extension. On March 22, 2012, ZAP entered into an amendment to the note which extended the maturity date of the note from August 12, 2012 to August 12, 2013. This amendment adjusted the rate at which the note would convert into shares of ZAP Common Stock or shares of capital stock of Zheijiang Jonway Automobile, Co. Ltd. held by ZAP. In addition, the warrant issued in connection with the CEVC note was amended to change the terms of conversion and to extend the maturity date until February 12, 2014. The interest accrued through the maturity date of February 12, 2012 in the amount of $1.7 million has been added to the existing principal. The total amount of the convertible note is approximately $20.7 million with a new maturity date of August 12, 2013. The note accrues interest at a rate per annum of 8% effective from February 12, 2012.

The note is convertible upon the option of CEVC at any time, into (a) shares of Jonway capital stock owned by ZAP at a conversion rate of 0.003743% of shares of Jonway capital stock owned by ZAP for each $1,000 principal amount of the Note being converted or (b) shares of ZAP common stock at a conversion rate of 4,435 shares of common stock for each $1,000 principal amount of the Note being converted.,

Since the value of the common stock into which the above-mentioned note is converted is greater than the proceeds for such issuance, a beneficial conversion feature totaling $19 million was recorded. During 2011, a total of $16.9 million in amortization was recorded and charged to interest expense and the remaining balance of $2.1 million of the discount was offset against the Company's equity account due to the note extension to August 12, 2013. This convertible note has been extended until August 12, 2014.

NOTE 9-STOCK-BASED COMPENSATION

Services performed and other transactions settled in the company's common stock are recorded at the estimated fair value of the stock issued if that value is more readily determinable, than the fair value of the consideration received.

We have stock compensation plans for employees and directors. We recognize the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. All of our stock-based compensation is accounted for as an equity instrument.

-	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding December 31, 2012	28,691	$0.44	5.0	--
Options granted under the plan	--			--
Options forfeited and expired	--			--
Options exercisable and Outstanding at June 30, 2013	28,691	$0.44	4.5	--

Aggregate intrinsic value is the sum of the amounts by which the quoted market price of our stock exceeded the exercise price of the options at June 30, 2013 for those options for which the quoted market price was in excess of the exercise price ("in-the-money– options"). There were no options in the money at June 30, 2013.

As of June 30, 2013, total compensation cost of unvested employee stock options is $312,000. This cost is expected to be recognized through September 30, 2016. We recorded no income tax benefits for stock-based compensation expense arrangements for the three and six months ended June 30, 2013, as we have cumulative operating losses.

NOTE 10 – SEGMENT REPORTING

Operating Segments

Accounting Standards Codification ("ASC") Topic 280, Segment Reporting ("ASC 280"), establishes standards for the way public business enterprises report information about operating segments. ASC 280 also establishes standards for related disclosures about products and services, geographic areas and major customers.

In accordance with ASC 280, the Company has identified four reportable segments consisting of Jonway Vehicles, Advanced Technology Vehicles, Consumer Product and Car Outlet. The Jonway Vehicles segment represents sales of the gas fueled Jonway A380 three and five-door sports utility vehicles and spare parts principally through distributors in China. The Advanced Technology Vehicles segment represents sales and marketing outside of China of the ZAPTRUCK XL, the ZAPVAN Shuttle and the Xebra® Sedan and will transition to selling mostly Jonway's EV A380SUV and EV minivan in 2013. The Consumer Product segment represents rechargeable portable energy products, our Zapino scooter, and our ZAPPY3 personal transporters. Our Car Outlet segment represents operation of a retail car outlet that sells pre-owned conventional vehicles and advanced technology vehicles. These segments are strategic business units that offer different services. They are managed separately because each business requires different resources and strategies. The Company's chief operating decision making group, which is comprised of the Chief Executive Officer and the senior executives of each of ZAP's strategic segments, regularly evaluate the financial information about these segments in deciding how to allocate resources and in assessing performance.

The performance of each segment is measured based on its profit or loss from operations to ZAP before income taxes. Segment results are summarized as follows (in thousands):

	Jonway Conventional Vehicles	Electric Consumer Products	Car outlet	Advanced Technology Vehicles	Total
For the three months ended June 30, 2013 :					
Net sales	$ 11,983	$264	$--	$21	$12,268
Gross profit (loss)	$ (995)	$17	$--	$(77)	$(1,055)
Depreciation and amortization	$ 1,743	$296	$--	$--	$2,039
Net profit (loss)	$ (4,283)	$(1,851)	$(174)	$(76)	$(6,384)
Total assets	$ 95,106	$21,704	$--	$263	$117,073
For the three months ended June 30, 2012					
Net sales	$ 12,381	$272	$42	$10	$12,705
Gross profit (loss)	$ 899	$45	$33	$53	$1,030
Depreciation and amortization	$ 742	$547	$2	$7	$1,298
Net loss	$ (4,651)	$(2,077)	$(94)	$(22)	$(6,844)
Total assets	$ 81,906	$44,222	$631	$319	$127,078
For the six months ended June 30, 2013 :					
Net sales	$ 26,218	$387	$-	$28	$26,633
Gross profit (loss)	$ (346)	$67	$-	$(26)	$(305)
Depreciation and amortization	$ 2,690	$1,313	$-	$1	$4,004
Net profit (loss)	$ (6,641)	$(3,456)	$(174)	$(28)	$(10,299)
Total assets	$ 95,106	$21,704	$-	$263	$117,073
For the six months ended June 30, 2012					
Net sales	$ 24,370	$386	$114	$16	$24,886
Gross profit (loss)	$ 1,622	$73	$40	$(3)	$1,732
Depreciation and amortization	$ 2,494	$1,093	$4	$14	$3,605
Net loss	$ (6,842)	$(4,196)	$(128)	$(190)	$(11,356)
Total assets	$ 81,906	$44,222	$631	$319	$127,078

Operating segments do not sell products to each other, and accordingly, there is no inter-segment revenue to be reported.

Customer information

Approximately 98% of our revenues for the three and six months ended June 30, 2013 respectively are from sales in China. Jonway Auto distributes its products to an established network of over 50 factory level dealers in China with some contributing more than 10% of our consolidated revenue

NOTE 11– RELATED PARTIES

Due from (to) related parties

Amounts due from related parties are principally for advances in the normal course of business for parts and supplies used in manufacturing.

Amount due from related parties are as follows:

	June 30, 2013	December 31, 2012
Sanmen Branch of Zhejiang UFO Automobile Manufacturing Co., Ltd	$ 4,301	$ 3,093
ZAP Hangzhou	128	-
Total	$ 4,429	$ 3,093

Amount due to related parties are follows:

	June 30, 2013	December 31, 2012
Jonway Group	$ 3,203	$ 122
Jonway Motor Cycle	261	181
Taizhou Huadu	603	431
Shanghai Zapple	--	36
ZAP Hangzhou	--	147
Betterworld	165	152
Cathaya Capital	148	90
Total	$ 4,380	$ 1,159

Promissory notes and Down Payment on Convertible Note from Jonway Group

On December 11, 2011, ZAP entered into a Down Payment Convertible Note agreement with Jonway Group pursuant to which ZAP may borrow $3 million for the production of seventy-five Alias electric vehicles to be delivered and sold in 2012. The unpaid principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. Upon the completion of selling seventy-five Alias vehicles, ZAP will repay the unpaid principal, together with any then unpaid and accrued interest, on or before December 31, 2012. Repayment shall be made at the option of Jonway Group in the form of either cash or ZAP's Common Stock priced as of the date the principal was deposited into Jonway's bank account on behalf of ZAP. As of June 30, 2013, no advance has been made to ZAP from Jonway Group.

Transactions with Jonway Group

Jonway Group is considered a related party as the Wang Family, one of the shareholders of the Company, has controlling interests in Jonway Group. Jonway Group supplies some of the plastic spare parts to Jonway and gave guarantees on Jonway short term bank facilities from China-based banks. For the six months ended June 30, 2013 and 2012, Jonway made purchases from Jonway Group of $671,000 and $766,000. For the three months ended June 30, 2013 and 2012, Jonway made purchases from Jonway Group of 355,000 and $429,999.

Jonway Agreement with Zhejiang UFO

Based on a contract by and among Zhejiang UFO, Jonway Group and Jonway dated as of January 1, 2006, Zhejiang UFO has authorized Jonway to operate its Sanmen Branch to assemble and sell UFO branded SUVs for a period of 10 years starting from January 1, 2006.

According to the contract, Jonway shall pay Zhejiang UFO a variable contractual fee which is calculated based on the number of SUVs that Jonway assembles in the Sanmen Branch every year, at the following historical rates:

The first 3,000 vehicles	$44 per vehicle
Vehicles from 3,001 to 5,000	$30 per vehicle
Vehicles over 5,000	$22 per vehicle

Zhejiang UFO is considered a related party because the Wang Family, who are shareholders of Jonway, has certain non-controlling equity interests in Zhejiang UFO. Jonway has obligation to pay such fees based on the number of SUVs assembled by Zhejiang UFO.

Other Related Party Transactions

For the six months ended June 30, 2013 and 2012, Jonway purchased spare parts at the amount of $725,000 and $672,000 from Taizhou Huadu, respectively. For the three months ended June 30, 2013 and 2012, Jonway purchased spare parts at the amount of $484,000 and $473,000 from Taihou Huadu.

NOTE 12-INCOME TAXES

The Company is subject to United States of America (“US”) and People’s Republic of China (“PRC”) profit tax.

US

The Company is incorporated in the United States of America and is subject to United States federal taxation. No provisions for income taxes have been made as the Company has no taxable income for the year. The applicable income tax rate for the Company for the three months ended June 30, 2013 and 2012 was 35%, respectively. No tax benefit has been realized since a valuation allowance has offset the deferred tax asset resulting from the net operating losses.

PRC

Effective January 1, 2008, the PRC Enterprise Income Tax Law, EIT Law, and Implementing Rules impose unified enterprise income tax rate of 25% on all domestic-invested enterprises and foreign investment enterprises in PRC, unless they qualify under certain limited exceptions. As such, the Company's subsidiary in PRC is subject to an enterprise income tax rate of 25%.

No provisions for income taxes have been made as the Company has no taxable income for the periods. $14,000 and $27,000 of tax benefits were recognized due to the change in the deferred tax assets in the three and six months ended June 30, 2013, respectively.

Loss before income taxes consisted of:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
US	$(2,099)	$(2,193)	$(3,656)	$(4,514)
PRC	(4,297)	(4,743)	(6,668)	(6,972)
	$(6,396)	$(6,936)	$(10,324)	$(11,486)

Benefit of income taxes consisted of

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Current provision				
US	$(2)	$-	$(2)	$-
PRC	-	-	-	-
Total Current	$(2)	$-	$(2)	$-
Deferred Benefit				
US	$-	$-	$-	$-
PRC	14	92	27	130
Total Deferred benefit	14	92	27	130
Total benefit for income taxes	$12	$92	$25	$130

NOTE 13– LITIGATION

1. On January 11, 2013, Cathaya Capital, L.P., a ZAP shareholder ("Cathaya"), and Priscilla Lu, Chairman of the ZAP Board of Directors ("Lu") (collectively "Plaintiffs"), filed a lawsuit in the Superior Court of California, County of Los Angeles, styled Cathaya Capital, L.P. et al. v. ZAP, et al., Case No. BC499106 (the "Cathaya Lawsuit"). By the Cathaya Lawsuit, Plaintiffs, derivatively on behalf of the nominally-named defendant ZAP, asserted claims for breach of fiduciary duty and conversion against the following three members of the ZAP Board of Directors: Mark Abdou, Steven Schneider and Wang Gang a/k/a Alex Wang (the "Minority Board Member Defendants"). In addition, Plaintiffs, derivatively on ZAP's behalf, sought declaratory and injunctive relief against the Minority Board Member Defendants for their alleged tortuous misconduct and breaches of fiduciary duty. Plaintiffs also asserted causes of action on their own behalf pursuant to California Corporations Code sections 304 and 709, for a judgment as to the rightful composition of the Board and to remove the Minority Board Member Defendants from the Board.

On February 19, 2013, the Minority Board Member Defendants filed a Cross-Complaint in the Cathaya Lawsuit (the "Cross-Complaint"). In the Cross-Complaint, the Minority Board Member Defendants joined in bringing a cross-claim for a determination as to the rightful composition of the Board pursuant to California Corporations Code section 709. (On March 14, 2013, Wang Gang a/k/a Alex Wang filed a Request for Dismissal withdrawing as a cross-complainant.) Wang was eventually dismissed from the lawsuit. The Cross-Complaint also asserts the following purported claims: (1) Steven Schneider's claim for "breach of promise" against Pricilla Lu based on an alleged August 2009 oral promise that ZAP would provide Steven Schneider with a more favorable employment contract; (2)

Steven Schneider's claim for "breach of agreement to negotiate in good faith" against ZAP, based on ZAP's alleged failure in August 2009 to negotiate an employment contract with Steven Schneider; (3) Mark Abdou's claim against ZAP alleging that ZAP breached a Director Agreement with Mark Abdou ("Abdou Director Agreement") by failing to pay all compensation allegedly due there under; (4) Mark Abdou's claim for "breach of the covenant of good faith and fair dealing" against ZAP based on the alleged breaches of the Abdou Director Agreement; and (5) a claim against Lu for tortuous interference with contractual relations (although the Cross-Complaint is unclear as to who is bringing the tortuous interference claim against Lu and the factual basis for the claim). The Cross-Complaint seeks an unspecified amount of damages and other consideration.

On March 22, 2013, Plaintiffs/Cross-Defendants' Cathaya and Lu filed a Demurrer to the Cross-Complaint, which is set for hearing on June 27, 2013. ZAP also filed a Demurrer. In response to these two Demurrers, on June 25, 2013, Abdou and Schneider filed an Amended Cross-Complaint. The allegations in the Amended Cross-Complaint remain substantially the same as those set forth above.

On July 30, 2013, ZAP and Plaintiffs/Cross-Defendants' Cathaya and Lu filed separate Demurrers to the Cross-Complaint, both of which are set for hearing on September 23, 2013.

ZAP intends to vigorously defend the Amended Cross-Complaint and to file a Cross-Complaint against Schneider and Abdou, and possibly others (except for Wang).

2. Integrity Automotive, LLC and Randall Waldman v. ZAP Motor Manufacturing,

Inc., et al., Complaint filed on March 2, 2010, Case No. 10 CI-01383 in the Jefferson Circuit Court, Division Ten, of the Commonwealth of Kentucky. The Complaint alleges causes of action for civil conspiracy, breach of fiduciary duties, conversion, and breach of contract and that the Defendants conspired against plaintiffs in connection with certain business transactions in Kentucky. Although no specific monetary demand is included, the Complaint seeks punitive damages, actual damages, and interest. All of the defendants answered and cross-complained on March 29, 2010, and discovery was served on plaintiffs requiring responses in early May 2010. The Company intends to defend itself vigorously in this matter and has learned that plaintiff Randall Waldman was arrested in Kentucky in late April, 2010, and charged with felonious criminal conduct. The Court indicated intent to dismiss the case for failure to prosecute in early 2012 but the plaintiffs retained new counsel and successfully opposed the dismissal. There has been no activity in the case that we are aware of in the past several months.

3. Rainbow Cycle & Marine & Siloam Springs Cycle, v. Voltage Vehicles, Arkansas Motor Vehicle Commission, Case No. 10-008. On April 1, 2010, Rainbow Cycle & Marine & Siloam Spring Cycle (the "Dealer"), an automobile dealer in the State of Arkansas, submitted a complaint to the Arkansas Motor Vehicle Commission (the "Commission") regarding 6 Xebra vehicles purchased from the Company in 2008, each at the price of $8,750.00. The Dealer requested that the Commission order the Company to refund all monies paid by the Dealer to the Company for the vehicles, to pay all transportation costs, and in addition to assess penalties and interest charges against the Company in an unspecified amount. The Commission issued a Notice of Hearing on August 11, 2010, setting a hearing for September 15, 2010 on the Dealer's Complaint. The Company responded with a Motion to Dismiss, which the Commission set for hearing on December 15, 2010 and at the same time continued the hearing on the Dealer's Complaint to the same date. After the hearing, the Commission ruled that the Company was required to refund the Dealer's purchase price for the vehicles and to pay for transportation of the vehicles off of the Dealer's premises. In response, the Company's local counsel filed a Petition for Judicial Review on March 1, 2011 in the Circuit Court of Pulaski County, State of Arkansas, challenging the Commission's decision. On November 11, 2011, the Circuit Court upheld the decision of the Commission, and the Company filed a notice of Appeal on December 16, 201 1, and the Arkansas Supreme Court reversed and remanded to the Commission for further proceedings on October 11, 2012. There has been no subsequent activity in this matter since that time of which we are aware. In the event of a final, unfavorable outcome, the potential loss to the Company associated with the refund would be approximately $57,000.

4 Long v. ZAP, et al., Case No. SW-250380, filed in the Superior Court of the State of California, County of Sonoma on September 20, 201 1. The Complaint alleges causes of action for injunctive relief and damages for breach of contract, breach of the implied covenant of good faith and fair dealing, failure to pay wages, wrongful termination, fraud, defamation, and illegal recording in violation of privacy rights. Included as defendants are ZAP, Jonway, Steve Schneider, William Hartman, and Priscilla Lu. The Company entered into a settlement agreement with the plaintiff in early September, 2012 and made an installment payment on September 21, 2012. The case against the Company was settled in December, 2012. The suit against individual defendants, Schneider, Hartman, and Lu is on-going.

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5 Alvarez Lincoln - Mercury, Inc. vs. ZAP, Voltage Vehicles, Liuzhou Wuling

Motors Co., Ltd., Pricilla Lu, and Steve Schneider, Complaint filed on May 30, 2012, in the Superior Court of the State of California, County of Riverside, Case No. RIC 1208152. The Complaint alleges causes of action for breach of written contract; money had and received fraud by intentional misrepresentation, fraud by concealment, and fraud by negligent misrepresentation. The allegations contained in the Complaint include a claim that plaintiff believed it was purchasing 2010 model year vehicles but that in fact the vehicles were model year 2009. No trial date has as yet been set, and the parties continue to negotiate a possible resolution. The Company intends to vigorously defend itself in this matter if plaintiff refuses to enter into a reasonable settlement.

6. Susan Sher v. ZAP, Case No. SCV-253158, filed on February 1, 2013, in the Superior Court of California, County of Sonoma. The Complaint alleges causes of action for breach of implied warranty and reimbursement under the California "Lemon Law" statutes. The Complaint contains allegations that ZAP failed to repair a 2008 Xebra purchased by plaintiff in violation of the statutes and an implied warranty of merchantability. This case was settled on May 29, 2013.

7. A letter was received in May 2012 from a shareholder regarding various prior transactions of the Company which the Company is working to address and clarify. A tolling agreement was reached between the Company and shareholder on October 22, 2012 under which ZAP, through its legal counsel shall provide a written summary of the actions taken during the preceding month with respect to the matters regarding the prior transactions in question by the shareholder. These transactions include, but are not limited to, a) ZAP, Jonway Group, Jonway Auto and Cathaya Capital shall each in all respects comply with their executory obligations with respect to the continued funding of ZAP, b) resolve the litigation regarding the former contracted employee, c) use reasonable efforts to defend, compromise and/or settle any pending and future litigations and ZAP shall use all reasonable efforts to cause all officers, directors and such other individuals who are or were employees, agents or representatives of ZAP to fully cooperate in the defense of future arbitrations or litigations. This agreement is binding through December 31, 2015.

Other Regulatory Compliance Matters

ZAP has filed with the National Highway Transportation Safety Agency (NHTSA) that it is in non compliance with Department of Transportation (DOT) requirements potential hazard may exist because the Model -Year 2008 XEBRA sedan and pickup does not stop in the required distance at 30 miles per hour and the master cylinder does not have separate brake fluid reservoirs with proper labeling and other miscellaneous non compliance issues. A public hearing was held in Washington DC on October 9, 2012 that allowed the DOT to take comments from the public and from their inside officers for consideration in their determination of whether ZAP has made a reasonable effort to 1) notify dealers and purchasers of the brake recall and 2) provide a remedy to the public to correct the brake problem. There were recommendations at the public hearing from DOT staff testifying at the hearing that ZAP should be subject to penalties and be required to repurchase the MY 2008 Xebra vehicles. ZAP has contracted with an independent testing facility to test the remedy that ZAP believes will correct the stopping distance problem, the duel brake fluid reservoir with correct labeling and other miscellaneous non compliance issues.

On November 16, 2012 ZAP received notification from the Office of Chief Counsel of the National Highway Traffic Safety Administration (“NHTSA”) containing Findings, Conclusions, and Order on ZAP’s Failure to Reasonably Meet its Recall Remedy and Notification Requirements (“Order”), dated November 13, 2012, related to the recall of ZAP’s model year 2008 Xebra, an electric three-wheeled motor vehicle with an enclosed sedan or truck body style.

NHTSA determined that ZAP has not reasonably met its recall remedy and notification requirements and was ordered to remedy the model year 2008 Xebra by, among other things, refunding the purchase price, less reasonable allowance for depreciation, providing notice of this refund remedy to model year 2008 Xebra owners, purchasers, and dealers, and picking up and disposing of each recalled vehicle at ZAP's sole expense. NHTSA determined that the average market price of a model year 2008 Xebra as of October 12, 2012 to be $3,100. The order stated a total of 691 model year 2008 Xebra vehicles are subject to this remedy. ZAP's internal records indicate that 691 vehicles were imported into the U.S. by ZAP, of which 627 were shipped to customers located in the U.S.

The Company has accrued for estimated expenses related to above claims.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Guarantees

Jonway Auto guaranteed certain financial obligations of outside third parties including suppliers to support our business and economic growth. Guarantees will terminate on payment and/or cancellation of the obligation once it is repaid. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. Maximum potential payments under guarantees total $6.8 million at June 30, 2013. The guarantee expires in November 2013. Our performance risk under these guarantees is reviewed regularly, and has resulted in no changes to our initial valuations.

NOTE 15 – SUBSEQUENT EVENTS

In July and August 2013, the company repaid $0.8 million of short term loans to Taizhou Bank and $1.1 million to ICBC. In the same period, the company obtained $1.3 million short term loans at and interest rate of 7.05% and 7.41% from Taizhou Bank. The loans are guaranteed by related party and will be due in January and February 2014.

In July and August 2013, approximately $9.3 million of notes payable matured and approximately $7.3 million of notes payable were issued. The new notes payable will be due in January and February 2014.

Effective August 6, 2013, Benjamin Zhu, for personal reasons, resigned as the Company's Corporate Secretary and its Chief Financial Officer. The Company has appointed Chi Kwong Fung as the Company's new Finance Director and interim Chief Financial Officer pending the Company's hiring of a Chief Financial Officer. Mr. Fung most recently served as Senior Finance Manager for SF Express (Group) Co. Limited. He served as Financial Controller for Carlo Castello Management & Accounting Services Ltd. For thirteen years, Mr. Fung was the Finance Manager for T.G. Battery Co. (Hong Kong) Limited. Mr. Fung has had extensive years managing the finances of the factories of T.G. Battery Co., a joint venture of Toshiba and a Singapore listed company. At this company, he managed the finances of five production plants. He holds a CPA, a MBA from Henley College in the UK, and a Masters in Law from Hong Kong University in Corporate and Finance Law

Charles Schillings, the Company's Co-Chief Executive Officer, has been appointed as Corporate Secretary.

On August 7, 2013, the 2013 annual meeting of shareholders was held at the San Francisco Airport Marriott Waterfront, 1800 Old Bayshore Highway, Burlingame, CA. According to the 2013 annual meeting of the shareholders, the following individuals were elected as directors to serve until the next annual meeting of shareholders or until their respective successors have been duly qualified and elected:

Priscilla M. Lu

Goman Chong
Co Tuong Nguyen
Wang Huai Yi
Wang Gang (Alex)

The CEVC convertible note has been extended to August 12, 2014.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

This quarterly report including the following management's discussion and analysis, and other reports filed by the registrant from time to time with the securities and exchange commission (collectively the "filings") contain forward-looking statements which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. you can generally identify forward-looking statements through words and phrases such as "seek", "anticipate", "believe", "estimate", "expect", "intend", "plan", "budget", "project", "may be", "may contin result", and similar expressions. When reading any forward-looking statement you should remain mindful that all forward-looking statements are inherently uncertain as they are based on current expectations and assumptions concerning future events or future performance of our company, and are subject to risks, uncertainties, assumptions and other factors relating to our industry and results of operations, including but not limited to the following factors:

- our ability to establish, maintain and strengthen our brand;
- our ability to successfully integrate acquired subsidiaries, particularly Jonway, into our company and business;
- our ability to maintain effective disclosure controls and procedures;
- our limited operating history, particularly of ZAP and Jonway on a consolidated basis;
- whether the alternative energy and gas-efficient vehicle market for our electric products continues to grow and, if it does, the pace at which it may grow;
- our ability to attract and retain the personnel qualified to implement our growth strategies;
- our ability to obtain approval from government authorities for our products;
- our ability to protect the patents on our proprietary technology;
- our ability to fund our short-term and long-term financing needs;
- our ability to compete against large competitors in a rapidly changing market for electric and conventional fuel vehicles;
- changes in our business plan and corporate strategies; and
- Other risks and uncertainties discussed in greater detail in various sections of this report, or set forth in part I, Item 1A of our Annual Report on Form 10-K under the heading “Risk Factors”.

Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended or planned.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made in our filings. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this report to reflect new events or circumstances unless and to the extent required by applicable law.

In this quarterly report on Form 10-Q the term “ZAP” refers to ZAP, the term “Jonway” refers to Zhejiang Jonway Automobile Co. Ltd., of which ZAP owns 51% of the equity shares, “ZAP Jonway” refers to both ZAP and Jonway on a consolidated basis, and “we,” “us” and “our” refer to ZAP or ZAP Jonway, as the context indicates.

Recent Developments

In May 2012, Jonway Auto established two wholly owned subsidiaries, Taizhou Fuxing Vehicle Sale Co., Ltd. focusing on minivan marketing and distribution in China and Taizhou Vehicle Leasing Co., Ltd. focusing on the vehicle leasing business in Taizhou, China. ZAP believes these subsidiaries will facilitate its business diversification and new business model development.

ZAP operates its business in four reportable segments: Jonway Conventional Vehicles, Advanced Technology, Consumer Product and Car Outlet. We are in the process of liquidating the assets of the Car Outlet. These segments are strategic business units that offer different services. They are managed separately because each business requires different resources and strategies. The Jonway Conventional Vehicle Segment represents the manufacture and sales of vehicles through distributors in China and abroad. The Advanced Technology segment represents the sales activity of advanced technology vehicles to ZAP dealers throughout the U.S. The Consumer Product segment represents sales of our ZAPPY 3, a three wheeled electric scooter, and the overall corporate expenses of ZAP. Many of these expenses relate to the overall development of our core business, electric consumer products.

The board of ZAP has demanded that CO-CEO Alex Wang resolve the conflict of interest in Jonway Group's purchase of the Aptera assets and the formation of the new company Aptera (same name as the product) in the USA. Alex Wang has agreed to transfer the asset ownership of Aptera to Jonway Auto, but this currently remains unresolved.

Results of Operations

The following table sets forth, as a percentage of net sales, certain items included in ZAP's Statements of Operations (see Financial Statements and Notes) for the periods indicated:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
Statements of Operations Data:								
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	108.6	%	91.9	%	101.1	%	93.0	%
Operating expenses	39.0	%	55.8	%	31.3	%	48.1	%
Loss from operations	47.6	%	47.7	%	32.5	%	41.1	%
Net loss attributable to ZAP	34.9	%	35.9	%	26.5	%	32.2	%

These results of operations that have been derived from our financial statements, which were prepared in accordance with accounting principles generally accepted in the United States of America and that include the results of operations of Jonway since the date of ZAP's acquisition of 51% of the equity shares of Jonway on January 21, 2011.

Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012

Net sales for the three months ended June 30, 2013 were $12.3 million as compared to $12.7 million for the three months ended June 30, 2012.

Jonway Auto's revenue for the three months ended June 30, 2013 decreased by $0.4 million from $12.4 million for the quarter ended June 30, 2012 compared to $12.0 million for the quarter ended June 30, 2013. The sales volume decreased due to the following factors: (i) more SUV models were launched into market by China-based auto makers, which intensified the competition, (ii) Although Jonway 's upgraded A380, which was launched into the market to compete with these competitors, the resulting sales volume ramped up in this 2nd quarter did not reach the expected volume (iii) increasing oil prices in China affected customer demand and (iv) China's overall economic condition worsened during the quarter (the GDP increase rate for this quarter compared to same quarter in 2012 was 7.5%, which is unexpected low).

Net sales of our Advanced Technology segment increased by $11,000 from $10,000 to $21,000 for the three months ended June 30, 2013 and 2012, respectively. The increase is primarily due to sales of inventory that we discontinued and liquidated. This is still far below our projections due to the tight United States credit market and general economic conditions negatively impacting our dealer sales in 2012. We also began the transition of moving our operations from the U.S. to China and switching suppliers for advanced technology vehicles from outside contract manufacturers to our auto manufacturing plant in China.

Our retail car lot has been effectively closed. We are discontinuing this business segment. We had no sales from this segment in 2013 as compared to $42,000 in sales for the three months ended June 30, 2012. We have closed the retail car lot and are currently settling our assets and inventory with Mr. Schneider, who is illegally holding these assets until his claims are settled.

In our Consumer Product segment, sales decreased $8,000, from $272,000 to $264,000 for the three months ended June 30, 2013 and 2012 respectively. The steady sales volume is primarily due to a bulk sale to a major customer of our ZAPPY 3 electric scooters.

Gross profit decreased by $2.1 million from a gross profit of $1.0 million for the three months ended June 30, 2012 to a gross loss of $1.1 million for the three months ended June 30, 2013. Our margins declined from 8.1% to a negative 8.6%.

Jonway Auto's gross profit decreased by $1.9 million from a gross profit of $899,000 in the second quarter of 2012 to a gross loss of $995,000 for the second quarter ended June 30, 2013. The decrease was primarily due to a new price reduction program for the existing SUV models, which resulted in lower gross profit contributions in the three months ended June 30, 2013, while the Company launched upgraded models. In order to deal with increasing competition in the SUV market in China, Jonway Auto initiated its price reduction program to end users throughout the three months ended June 30, 2013.

Advanced Technology vehicles gross profit decreased $130,000 from a gross profit of $53,000 for the three months ended June 30, 2012 to a gross loss of $77,000 for the three months ended June 30, 2013. The decrease was primarily due to selling vehicles at lower that cost to generate cash flow on obsolete inventory.

Our retail car lot gross profits decreased by $33,000 from $33,000 for the three months ended June 30, 2012 to $0 for the three months ended June 30, 2013. We have closed the retail car lot.

The Consumer Products segment experienced a decrease in gross profit of $28,000 from a gross profit of $45,000 in the three months ended June 30, 2012 to $17,000 in the three months ended June 30, 2013. The decrease was due to reduced selling prices to generate cash flows on obsolete inventory.

Sales and marketing expenses decreased $1.4 million from $3.5 million for the three months ended June 30, 2012, to $2.1 million for the three months ended June 30, 2013. As a percentage of sales the expense decreased from 27.3% for the three months ended June 30, 2012 to 17% for the three months ended June 30, 2013 due to an overall decrease in sales and marketing expenses.

General and administrative expenses decreased by $0.3 million from $2.8 million for the three months ended June 30, 2012 to $2.5 million for the three months ended June 30, 2013. The decrease was primarily a result of reductions in ZAP US operations due to the following: (i) less salaries and wages due to transferring of various functions to Jonway China, and (ii) less professional fees in 2013. The general and administrative expenses in Jonway were also reduced due to the cost control in various administrative functions.

Research and development expenses decreased by $655,000 from $814,000 for the three months ended June 30, 2012 to $ 159,000 for the three months ended June 30, 2013. The decrease was primarily due to fewer projects scheduled for the second quarter of 2013. In the prior year's quarter ended June 30, 2012, we incurred Research and Development fees relating to refinement of the automatic transmission for Jonway's three and five door sport utility vehicles.

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Interest expense decreased by $154,000 from $957,000 in second quarter 2012 to $803,000 in the second quarter of 2013. In 2013, the amortization of the previous year's discount on the convertible debt was significantly higher and we are incurring interest on our notes and short term borrowings.

Other income increased by $109,000 from $231,000 for the three months ended June 30, 2012 to $340,000 for the three months ended June 30, 2013. This amount mainly represents an increase in the sales of metal scrap and an increase of interest income.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Net sales increased by $1.7 million from $24.9 million for the six months ended June 30, 2012 to $26.6 million in June 30, 2013.

Jonway auto's revenue for the six months ended June 30, 2013 increased by $1.8 million from $24.4 million for the six months ended June 30, 2012 to $26.2 million for the six months ended June 30, 2013. The sales volume decreased due to the following factors: (i) :more SUV models were launched into market by China-based auto makers, which intensified the competition, (ii) Jonway 's upgraded A380 did not launch into market in time to compete with these competitors (iii) increasing oil prices in China affected customer demand and (iv) China's overall economic condition worsened during the 1st half of 2013 (the GDP increase rate for this 1st half of 2013 compared to same period in 2012 was 7.6%, which is the lowest level in the past three years).

Sales in the Advanced Technology segment increased by $12,000 from $16,000 in 2012 to $28,000 in 2013 for the six months ended June 30. We sold discontinued models and obsolete stock to generate cash flows.

We experienced no increase in sales of consumer products comparing the first six months of 2012 to the first six months of 2013.

Our retail car lot experienced a decrease in sales of $115,000 from $115,000 in 2012 to $0 in 2013. The decrease was due to us closing the retail car lot.

Gross profit decreased by $2.0 million from $1.7 million for the Six Months ended June 30, 2012 to a gross loss of $0.3 million for the six months ended June 30, 2013. The decrease in gross profit in the six months ended June 30, 2013 principally related to the lower profits on the manufacturing of Jonway Auto's vehicles.

Jonway auto's gross profit decreased by $1.9 million from $1.6 million for the first six months of 2012 to a gross loss of $0.3 million for the six months ended June 30, 2013. The decrease was primarily due to a new price reduction program to its existing models while the upgraded models with higher gross profit were not launched into market in the six months ended June 30, 2013. In order to deal with the increasing competition in SUV market in China, Jonway auto initiated its price reduction program to end users throughout the first six months of 2013. This resulted in a decrease of the ex-factory price to dealers by RMB 6,000 or over $950.

In our Advanced Technology segment our gross profit decreased by $23,000 from a gross loss of $3,000 for the six months ended June 30, 2012 to a gross loss of $ 26,000 for the six months ended June 30, 2013. The decrease was due to selling obsolete and discontinued models at lower that cost to generate cash flows.

In our Consumer Products segment we experienced a slight decrease of $6,000 in gross profits from a gross profit of $73,000 in 2012 to a gross profit of $67,000 in 2013. The decrease was due to the increase in costs of or Zappy pro flex that we did not pass on to our customers until the 3rd Quarter 2013.

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Gross profits in our retail car lot decreased by $40,000 from $40,000 for the Six Months ended June 30, 2012 to $0 for the Six Months ended June 30, 2013. We have closed this segment of our business.

Sales and marketing expenses in the first Six Months of 2013 decreased by $2.1 million from $5.6 million in 2012 to $3.5 million in 2013. As a percentage of sales the expense decreased from 22.4% for the six months ended June 30, 2012 to 13.2% for the six months ended June 30, 2013. The lower sales and marketing expenses for the six months ended June 30, 2013 were contributed by the savings in advertisement expenses due to the termination of one major contract. The company has been continuously trying to save the expenditure since early 2012

General and administrative expenses for the Six Months ended June 30, 2013 decreased by approximately $0.8 million, from $5.3 million in 2012 to $4.5 million in 2013. The decrease was due to the following: The decrease was primarily a result of reductions in ZAP US operations due to the following: (i) less salaries and wages due to transferring of various functions to Jonway China, and fewer professional fees in 2013. The general and administrative expenses in Jonway were also reduced due to the cost control in various administrative functions.

Research and development expenses decreased by $0.8 million from $1.1 million in 2012 to $0.3 million in 2013. The decrease was the result of fewer projects scheduled for the first six months of 2013.

Interest expense, net increased by $0.2 million from an interest expense of $1.4 million for the first Six Months of 2012 to interest expense of $1.6 million in the Six Months ended June 30, 2013.The increase was due to increased borrowings in China.

Other income (expense) increased $60,000 from $468,000 for the first six months of 2012 to other income of $528,000 for the first six month of 2013. The increase was due to more sales of scrap metal by Jonway Auto.

Net loss for the six Months ended June 30, 2013 was $10.3 million loss compared to an $11.4 million loss for the six months ended June 30, 2012.

Liquidity and Capital Resources

In assessing our liquidity, we monitor and analyze our cash on-hand, liquidation value of our investment in related party securities, and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations. At June 30, 2013, we believe that we will have sufficient liquidity required to conduct operations through August 15, 2014.

In January 2011, ZAP issued $19 million of convertible debt to China Electric Vehicle Corporation ("CEVC") to make a partial payment in connection with the Jonway Acquisition. On March 31, 2012, ZAP entered into an amendment to the note which extended the maturity date of the note from August 12, 2012 to August 12, 2013. This amendment changed the terms of the note requiring adjustment of the conversion price of note for dilutive issuances by ZAP. In addition, the warrant issued in connection with the CEVC note was amended to change the terms of conversion and to extend the maturity date until February 12, 2014. The interest accrued through the maturity date of February 12, 2012 in the amount of $1.7 million has been added to the existing principal. The total amount of the convertible note is approximately $20.7 million with a new maturity date of August 12, 2014.

At present, the Company will require additional capital to expand our current operations. In particular, we require additional capital to expand our presence into Asia, to continue development of our methodology for converting gasoline vehicles to electric and to continue building our dealer network and expanding our market initiatives. We also require financing to purchase consumer inventory for the continued roll-out of new products to add qualified sales and professional staff to execute our efforts in the research and development of advanced technology vehicles, such as the new ZAP Alias and other fuel efficient vehicles.

We intend to fund our long term liquidity needs related to operations through the incurrence of indebtedness, equity financing or a combination of both. Although we believe that these sources will provide sufficient liquidity for us to meet our future liquidity and capital obligations, our ability to fund these needs will depend on our future performance, which will be subject in part to general economic, financial, regulatory and other factors beyond our control, including trends in our industry and technological developments. However, we may not be able to obtain this additional financing on terms acceptable to us or at all.

In the first six months of 2013, the net cash used for operating activities was $3.0 million. Cash used in the first six months of 2013 was comprised of the net loss incurred for the first six months of $10.3 million plus net non-cash expenses of $6.2 million and the net decrease of $1.2 million in operating assets and liabilities. In the first six months of 2012, net cash used for operating activities was $9.2 million. Cash used in the first six months of 2012 was comprised of the net loss incurred for the first six months of $11.4 million plus net non-cash expenses of $5.9 million and the net increase of $3.7 million in operating assets and liabilities

Investing activities used cash of $0.86 million and $1.0 million in the first six months ended June 30, 2013 and 2012, respectively. $0.86 million and $1.0 million were used for the purchases of equipment for the period ended June 30, 2013 and 2012, respectively.

Financing activities for the first six months ended June 30, 2013 provided cash of $4.3 million compared with financing activities that provided cash of $4.9 million in 2012. During the first six months of 2013, we provided cash of $30.6 million in notes payable and short term financing and used cash of $22.8 million for repayment short term debt and notes payable and the change in restricted cash of $3.4 million.

The Company had cash of $2.0 million at June 30, 2013 as compared to $0.5 million at June 30, 2012. The Company had working capital deficits of $37.1 million and $51.3 million for the periods ended June 30, 2013 and December 31, 2012 respectively.

In the event that we require additional liquidity, one of our principal shareholders, Jonway Group, has agreed to provide the necessary support to meet our financial obligations through August 2014.

On May 15, 2013, the U.S. Department of Justice filed a complaint for declaratory and injunctive relief and for civil penalties against the Company. The complaint was filed in the U.S. District Court for the District of Columbia as United States v. ZAP; Civil Action No. 13-646. The action was brought under the National Traffic and Motor Vehicle Safety Act of 1966. The complaint alleges that the Company failed to develop and implement a remedy to bring its 2008 ZAP Xebra into compliance with minimum safety requirements; failed to timely and properly notify the National Highway Traffic Safety Administration (“NHTSA”) about the vehicle recalls; and was uncooperative and evasive with NHTSA.

ZAP and the United States have reached a settlement of all matters arising out of the facts alleged in the complaint. The settlement is incorporated into a Consent Decree that was entered and approved by the U.S. District Court on July 17, 2013. Pursuant to the Consent Decree, ZAP has agreed to initiate a buy-back program whereby it will offer to provide a refund of $3,100.00 to each eligible MY 2008 ZAP Xebra owner. The Consent Decree also contains notification and reporting requirements and requires ZAP to take specified actions regarding the disposition of repurchased vehicles and MY 2008 Xebras that remain in ZAP's possession. In accordance with the Consent Decree, the Company has mailed the required notification letters to registered vehicle owners and ZAP Xebra dealers, along with a Refund Request Form. The repurchase offer extends to 691 vehicles that have been sold by ZAP.

Critical Accounting Policies and Use of Estimates

Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with United States generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The more significant estimates relate to revenue recognition, contractual allowances and uncollectible accounts, intangible assets, accrued liabilities, derivative liabilities, income taxes, litigation and contingencies. Estimates are based on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for judgments about results and the carrying values of assets and liabilities. Actual results and values may differ significantly from these estimates

Stock Based Compensation

The Company accounts for stock-based compensation which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes-Merton option pricing model (the “Black-Scholes model”). The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. We estimate forfeitures at the time of grant and revise our estimate in subsequent periods if actual forfeitures differ from those estimates.

The Company accounts for stock-based compensation awards and warrants granted to non-employees by determining the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty’s performance is complete.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

Inventories

Inventories consist primarily of vehicles, both gas and electric, parts and supplies, and finished goods and are carried at the lower of cost (first-in, first-out basis) or market (net realizable value or replacement cost). The Company maintains reserves for estimated excess, obsolete and damaged inventory based on projected future shipments using historical selling rates, and taking into account market conditions, inventory on-hand, purchase commitments, product development plans and life expectancy, and competitive factors. If markets for the Company’s products and corresponding demand were to decline, then additional reserves may be deemed necessary. Any changes to the Company's estimates of its reserves are reflected in cost of goods sold within the statement of operations during the period in which such changes are determined by management.

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Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, we are not required to provide disclosure pursuant to this Item 3.

Item 4. Controls and Procedures

As discussed in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2012, we identified a lack of sufficient control in the area of technical competency in review and approval of financial reporting processes. This control weakness allowed for reconciliations, reports and other documents to be insufficiently reviewed prior to being approved by management and audit adjustments to be identified by our auditors as part of their year-end audit work. This material weakness resulted in errors in the recording of non-routine and complex accounting transactions in the preparation of our annual consolidated financial statements and disclosures. The Company is considering utilizing outside accounting experts to assist us in accounting for future complex transactions.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Co- Chief Executive Officers and our Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Securities and Exchange Act of 1934 Rules 13a-15(f). Based on this evaluation, our Co-Chief Executive Officers and our Chief Financial Officer concluded that the Company's disclosure controls and procedures were ineffective as of the end of the period covered by this report.

Changes in internal control over financial reporting

No significant changes were made in our internal control over financial reporting during the Company's first half year of 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On May 15, 2013, the U.S. Department of Justice filed a complaint for declaratory and injunctive relief and for civil penalties against the Company. The complaint was filed in the U.S. District Court for the District of Columbia as United States v. ZAP; Civil Action No. 13-646. The action was brought under the National Traffic and Motor Vehicle Safety Act of 1966. The complaint alleges that the Company failed to develop and implement a remedy to bring its 2008 ZAP Xebra into compliance with minimum safety requirements; failed to timely and properly notify the National Highway Traffic Safety Administration ("NHTSA") about the vehicle recalls; and was uncooperative and evasive with NHTSA.

ZAP and the United States have reached a settlement of all matters arising out of the facts alleged in the complaint. The settlement is incorporated into a Consent Decree that was entered and approved by the U.S. District

Court on July 17, 2013. Pursuant to the Consent Decree, ZAP has agreed to initiate a buy-back program whereby it will offer to provide a refund of $3,100.00 to each eligible MY 2008 ZAP Xebra owner. The Consent Decree also contains notification and reporting requirements and requires ZAP to take specified actions regarding the disposition of repurchased vehicles and MY 2008 Xebras that remain in ZAP's possession. In accordance with the Consent Decree, the Company has mailed the required notification letters to registered vehicle owners and ZAP Xebra dealers, along with a Refund Request Form. The repurchase offer extends to 691 vehicles that have been sold by ZAP.

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors which are included and described in the annual report on Form 10-K for the fiscal year ended December 31, 2012. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 1B. Unresolved Staff Comments

None

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

None

Item 3. Defaults upon Senior Securities

None

Item 4. Mine safety disclosure

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

(b) Exhibits.

Exhibit

Exhibit Number	Description
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14/15d-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Principal Financial Officer pursuant to 13a-14/15d-14 of the Exchange Act as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of

	the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

Furnished herewith, XBLR (Extensive Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 14, 2013	By: /s/ Alex Wang Name: Alex Wang Title: Co-Chief Executive Officer (Co-Principal Executive Officer).
Dated: August 14, 2013	By: /s/ Charles Schillings Name: Charles Schillings Title: Co-Chief Executive Officer (Co-Principal Executive Officer).
Dated: August 14, 2013	By: /s/ Chi Kwong FUNG Name: Chi Kwong FUNG Title: Finance Director (Principal Financial Officer)