ZAP
Form 10-Q
November 20, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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)
2 West 3rd 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 November 20, 2015, there were 578,465,159 shares outstanding of the registrant's common stock.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	September 30, 2015	December 31, 2014
Current assets:		
Cash and cash equivalents	$ 90	$ 238
Restricted cash	9,219	10,673
Notes receivable	64	81
Accounts receivable, net	2,364	2,724
Inventories, net	8,074	8,380
Prepaid taxes	-	110
Prepaid expenses and other current assets	1,193	377
Total current assets	21,004	22,583
Property, plant and equipment, net	37,284	42,595
Land use rights, net	9,178	9,711
Other assets:		
Distribution fees, net	8,319	9,399
Intangible assets, net	2,705	3,195
Goodwill	321	332
Due from related parties	2,844	2,791
Deposits and other assets	-	390
Total other assets	14,189	16,107
Total assets	$ 81,655	$ 90,996

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	September 30, 2015	December 31, 2014
LIABILITIES AND EQUITY (DEFICIENCY)		
Current liabilities:		
Short term loans	$ 5,657	$ 9,849
Accounts payable	20,834	21,389
Senior convertible debt	786	20,679
Accrued liabilities	3,117	3,848
Notes payable	16,906	17,747
Advances from customers	7,232	7,139
Taxes payable	1,543	1,266
Due to related party	9,832	7,121
Other payables	2,695	3,094
Total current liabilities	68,602	92,132
Long term liabilities:		
Senior convertible debt	20,679	-
Accrued liabilities and others	821	745
Total long term liabilities	21,500	745
Total liabilities	90,102	92,877
Commitments and contingencies		
Equity (Deficiency)		
Common stock, no par value; 800 million shares authorized; 578,465,159 and 461,395,508 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	251,670	244,368
Accumulated other comprehensive income	1,592	1,655
Accumulated deficit	(259,198)	(250,000)
Total ZAP shareholders' equity (deficiency)	(5,936)	(3,977)
Non-controlling interest	(2,511)	2,096
Total equity (deficiency)	(8,447)	(1,881)
Total liabilities and equity (deficiency)	$ 81,655	$ 90,996

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the Three Months ended September 30, 2015	For the Three Months ended September 30, 2014	For the Nine months ended September 30, 2015	For the Nine months ended September 30, 2014
Net sales	7,154	5,220	20,872	19,630
Cost of goods sold	(7,348)	(5,840)	(21,849)	(21,200)
Gross profit (loss)	(194)	(620)	(977)	(1,570)
Operating expenses:				
Sales and marketing	(909)	(1,703)	(2,791)	(3,183)
General and administrative	(2,301)	(1,448)	(6,950)	(5,888)
Research and development	(38)	(119)	(1,721)	(380)
Total operating expenses	(3,248)	(3,270)	(11,462)	(9,451)
Loss from operations	(3,442)	(3,890)	(12,439)	(11,021)
Other income (expense):				
Interest expense, net	(646)	(1,124)	(2,081)	(2,998)
Other income	374	212	653	635
Total income (expense)	(272)	(912)	(1,428)	(2,363)
Loss before income taxes	(3,714)	(4,802)	(13,867)	(13,384)
Income tax benefit (expense)	-	(1)	-	(302)
Net loss	$ (3,714)	$ (4,803)	$ (13,867)	$ (13,686)
Less: loss attributable to non-controlling interest	1,055	1,390	4,669	4,127
Net loss attributable to ZAP’s common shareholders	$ (2,659)	$ (3,413)	$ (9,198)	$ (9,559)
Net loss	$ (3,714)	$ (4,803)	$ (13,867)	$ (13,686)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(130)	(3)	(1)	(119)
Total comprehensive income (loss)	(3,844)	(4,806)	(13,868)	(13,805)
Less: Comprehensive income (loss) attributable to non-controlling interest	1,096	1,392	4,607	4,185
Comprehensive loss attributable to ZAP	$ (2,748)	$ (3,414)	$ (9,261)	$ (9,620)
Net loss per share attributable to common shareholders:				
Basic and diluted	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)
Weighted average number of common shares outstanding:				
Basic and diluted	496,392	412,700	470,777	360,632

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the nine months ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (13,867)	$ (13,686)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based employee compensation	55	169
Depreciation and amortization	5,134	5,196
Amortization of distribution agreement	1,080	1,080
Provision for doubtful accounts	1,614	(15)
Changes in inventory reserve	(76)	(453)
Gain from disposal of equipment	(23)	(18)
Deferred tax expenses (benefit)	-	301
Amortization of debt discount	-	513
Changes in assets and liabilities:		
Notes receivable	15	(61)
Accounts receivable	377	1,157
Inventories	99	(1,879)
Due from related parties	21	2,134
Prepaid expenses and other assets	(366)	(1)
Accounts payable	48	(2,597)
Accrued liabilities	615	(480)
Taxes payable	417	(917)
Due to related parties	1,530	5,761
Advances from customers	348	2,036
Other payables	(235)	(388)
Net cash used in operating activities	(3,214)	(2,148)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(307)	(1,077)
Proceeds from disposal of equipment	23	40
Net cash flows used in investing activities	(284)	(1,037)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	For the nine months ended September 30, 2015		2014	
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in restricted cash	$	1,122	$	(2,315)
Repayment of convertible bonds		(100)		-
Repurchase of common stock		(407)		
Proceeds from issuance of common stocks		6,167		-
Proceeds from equity investment		-		1,900
Proceeds from convertible bonds		786		-
Proceeds from notes payable		14,238		22,801
Proceeds from short term loans		2,268		8,640
Repayments of notes payable		(14,478)		(22,232)
Payments on short term loans		(6,242)		(7,404)
Net cash (used in) provided by financing activities		3,354		1,390
Effect of exchange rate changes on cash and cash equivalents		(4)		(16)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(148)		(1,811)
CASH AND CASH EQUIVALENTS, beginning of period		238		2,629
CASH AND CASH EQUIVALENTS, end of period	$	90	$	818
Supplemental disclosure of cash flow information:				
Cash paid during period for interest	$	810	$	1,152
Cash paid during period for income taxes	$	-	$	2
Non-cash transaction:				
Cancellation of 1,182,558 shares of common stock issued to pay convertible bond		100		-
Issue 14,454,743 shares of common stock to pay interest payable		1,237		
Issue 5,833,333 shares of common stock to pay outstanding management fee		350		
Issue 61 million shares of common stock for acquisition of IPR and Distribution rights for Minivan and CNG products				5,969
Issue 6,439,552 shares of common stock to pay interest payable				639
Issue 7,970,983 shares of common stock to redeem Convertible bond				600
Issue 17,819,783 shares of common stock to pay outstanding balance due to related parties				968

See accompanying notes to the unaudited condensed consolidated financial statements.

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ZAP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

ZAP was incorporated in California in September, 1994 (together with its subsidiaries, the “Company” or “ZAP Group”). ZAP Group markets electric, alternative energy, and fuel efficient automobiles and commercial vehicles, motorcycles and scooters, and other forms of personal transportation. The Company’s business strategy is 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 and 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 Auto”). The Company believes its 51% acquisition of Jonway Auto will enable it to access the rapidly-growing Chinese market for electric vehicles (“EV”) and to expand its EV business and distribution network around the world. The Company also believes Jonway Auto’s ISO 9001 certified manufacturing facility provides the competitive production capacity and resources to support production of ZAP Group’s new line of electric SUV, minivan, and Neighborhood EV (“NEV”).

Jonway Auto 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 Xiaoying (the daughter of Wang Huaiyi and all three individuals collectively referred to as the “Wang Family”).

ZAP has a wholly owned subsidiary, ZAP Hong Kong, a Hong Kong limited company. ZAP Hong Kong was established in 2011 as a wholly foreign owned enterprises (“WOFE”) and has no operation since incorporated. Jonway Auto established three wholly-owned subsidiaries, namely, Taizhou Selling Co., Ltd., focusing on vehicles marketing and distribution, 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.

NOTE 2 – LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2015, our current liabilities exceeded the current assets by approximately $47.6 million and our equity deficiency was $8.4 million, which raise substantial doubt about our ability to continue as a going concern. In addition, we have recurring net losses. Given our expected capital expenditure in the foreseeable future, we have comprehensively considered our available sources of funds as follows:

- Financial support and credit guarantee from related parties; and
- Other available sources of financing from domestic banks and other financial institutions given our credit history.

Management projects that we will have sufficient funds to meet our working capital requirements and debt obligations as they become due based on the above considerations. However, these projections are based on the demand of our EV products, economic conditions, the overall sales trends in the automobile industry in China and on our operating results not continuing to deteriorate and our vendors and related parties being able to provide continued liquidity. As a result our consolidated financial statements for the quarter ended September 30, 2015 have been prepared on a going concern basis.

In assessing our liquidity, we monitor and analyze our cash on-hand, and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

As of September 30, 2015, we were approved up to an aggregate of $15.7 million of a credit line, with the credit exposure of $5.8 million from the Sanmen Branch of CITIC Bank ("CITIC") through Jonway Auto. As of September 30, 2015, the credit exposure of $5.8 million has been used. The credit line expires in March 2016.

NOTE 2 – LIQUIDITY AND CAPITAL RESOURCES – continued

In December 2013, we were approved for up to an aggregate of $9.2 million of a credit line from Everbright Bank. This credit line can only been used in the form of notes payable with 50% restricted cash deposited. Thus, we were approved a credit exposure of $4.6 million. This credit line expired as of January 2015. In June 2015, we were approved for up to an aggregate of $7.2 million of a credit line from Everbright Bank, with 50% restricted cash deposited and credit exposure of $3.6 million. As of September 30, 2015, a credit exposure of approximately $3.6 million has been used. The credit line expires in April 2016.

In March 2014, we were approved up to an aggregate of $5.2 million of a credit line from Industrial and Commercial Bank of China ("ICBC") with credit exposure of $5.2 million. This credit line expires in March 2017. As of September 30, 2015, a credit exposure of $3.9 million has been used.

Jonway Auto intends to utilize the above 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. Also our principal shareholder, Jonway Group, has agreed to provide the necessary support to meet our financial obligations through September 30, 2016 in the event that we require additional liquidity. In addition, China Electric Vehicle Corporation ("CEVC") has renewed the convertible note with an extension through December 31, 2016, as of July 30th, 2015 (see Note 8).

We will require additional capital immediately to support the working capital requirements for the current sales orders in the pipeline and to meet the delivery of the backlog as well as to support our current operations. In particular, we require additional capital to continue development of our electric vehicle business, produce new models to compete in the market, and to continue to strengthen our dealer network to support EV channels and after-sale service centers and expanding our market initiatives. We also require financing of the investment for the continued roll-out of new products and to add qualified sales and professional staff to execute our business plan and pursue our efforts in the research and development of advanced technology vehicles, 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.

Jonway Group has continued to provide support in financing the capital requirements of Jonway Auto. For the nine months ended September 30, 2015, Wang Gang, the Co-Chief Executive Officer ("Co-CEO") and Jonway Group injected $5.4 million to the Company and plans to inject additional capital to support the critical on-going manufacturing operations to meet the delivery of the EV minivans and SUV orders in the pipeline.

NOTE - 3 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements include the financial statements of ZAP, and its subsidiaries, Jonway Auto and ZAP Hong Kong for the nine months ended September 30, 2015 and the year ended December 31, 2014 and are prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Management considers subsidiaries to be companies that are over 50% controlled. 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 and our 50% interest in Shanghai Zapple using the equity method of accounting because we have significant influence but not control. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the financial statements have been included. Interim results are not necessarily indicative of results to be expected for the full year. The information included in this Form 10-Q should be read in conjunction with information included in the 2014 annual report on Form 10-K filed on April 15, 2015.

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, warranty costs, stock based compensation, 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.

Revenue Recognition

The Company records revenues for non-Jonway Auto 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 Auto 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.

Fair Value of Financial Instruments

Accounting Standards Update ("ASU") 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to use observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

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

Level 2: Inputs other than quoted prices in active markets that is directly or indirectly observable. The carrying value of the senior convertible debt (see Note 7), which approximates fair value, is influenced by interest rates and our stock price, and is determined by prices for the convertible debts observed in market trading, which are Level 2 inputs.

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.

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:

	September 30, 2015	December 31, 2014
Balance sheet items, except for share capital, additional paid in capital and retained earnings	$ 1=RMB 6.3638	$1=RMB 6.1460

Amounts included in the statements of operations and cash flows	$ 1=RMB 6.1735	$1=RMB 6.1457

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The guidance in this Update supersedes the revenue recognition requirements in Topic 605, Revenue Recognition and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to illustrate the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a reporting organization's contracts with customers. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. ASU 2015-14 defers the effective date of ASU 2014-09 for all entities by one year to December 15, 2017. Management is evaluating the impact, if any, of this ASU on the Company's financial position, results of operations and cash flows.

NOTE - 3 SIGNIFICANT ACCOUNTING POLICIES - continued

Recent Accounting Pronouncements

In January 2015, FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. This Update is issued as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. The Company does not expect the adoption of ASU 2015-01 to have material impact on the Company’s consolidated financial statements.

In February 2015, FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This Update focuses on the consolidation evaluation for reporting organizations that are required to evaluate consolidation of certain legal entities by reducing the number of consolidation models from four to two and is intended to improve current GAAP. The amendments in the ASU are effective beginning after December 15, 2016. We do not expect the adoption of ASU 2015-02 to have material impact on our consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in the ASU are effective beginning after December 15, 2015. We do not expect the adoption of ASU 2015-03 to have material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, an amendment to Topic 330 for simplifying the measurement of inventory. The update requires that inventory be measured at the lower of cost and net realizable value where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendment is intended to provide clarification on the measurement and disclosure of inventory in Topic 330 and not intended for those clarifications to result in any changes in practice. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted for all entities and should be applied prospectively. The Company does not expect the adoption of ASU 2015-11 to have material impact on its financial position, results of operations or cash flows.

In August 2015, the FASB has issued Accounting Standards Update (ASU) No. 2015-15, Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting. This ASU adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015, Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company does not expect this update will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement to retrospectively account for changes to provisional amounts initially recorded in a business acquisition opening balance sheet. Prior to the issuance of ASU 2015-16, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within fiscal years. The Company does not expect this update will have a material impact on the Company's consolidated financial position, results of operations and cash flows.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

	September 30, 2015	December 31, 2014
Accounts receivable – third parties	$ 2,694	$ 3,163
Accounts receivable – related parties	1,647	-
	4,341	3,163
Less – Allowance for doubtful accounts	(1,977)	(439)
Total account receivable, net	$ 2,364	$ 2,724

Changes in the Company's allowance for doubtful accounts during the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Balance, beginning of period	$ 439	$ 696
Write-off	(76)	(493)
Current provision (recovery)	1,614	236
Balance, end of period	$ 1,977	$ 439

NOTE 5 – INVENTORIES, NET

Inventories, net are summarized as follows:

	September 30, 2015	December 31, 2014
Work in Process	$ 2,906	$ 3,054
Parts and supplies	3,819	3,601
Finished goods	2,614	3,105
	9,339	9,760
Less - inventory reserve	(1,265)	(1,380)
Inventories, net	$ 8,074	$ 8,380

Changes in the Company's inventory reserve during the nine months ended September 30, 2015 and the year ended December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Balance, beginning of period	$ 1,380	$ 1,981
Current recovery for Jonway Auto	(137)	251
Current provision for inventory ZAP, net	22	(852)
Balance, end of period	$ 1,265	$ 1,380

NOTE 6 - DISTRIBUTION AGREEMENTS

Distribution agreements are presented below:

	September 30, 2015		December 31, 2014	
Better World Products - related party	$	2,160	$	2,160
CNG Products		1,000		1,000
Jonway Products		14,400		14,400
		17,560		17,560
Less: amortization and impairment		(9,241)		(8,161)
	$	8,319	$	9,399

Amortization expenses related to these distribution agreements for the three and nine months ended September 30, 2015 and 2014 was $360,000 and $1,080,000 and $360,000 and $1,080,000, respectively. Amortization is based over the term of the agreements. As of December 31, 2014, the company recognized an impairment loss of $5.0 million for the distribution right of CNG Products. No further impairment loss was recorded for the three and nine months ended September 30, 2015 and 2014, respectively. The estimated future amortization expense is as follows:

12 months ended September 30,		
2016	$	1,540
2017		1,540
2018		1,540
2019		1,540
2020		1,540
Thereafter		619
Total	$	8,319

NOTE 7 – LINE OF CREDIT, SHORT TERM DEBT AND BANK ACCEPTANCE NOTES

Line of credit (Credit Exposure)

In March 2014, the Company has obtained up to an aggregate of $15.7 million of credit line with the credit exposure of $5.8 million from CITIC Sanmen Branch through Jonway Auto. The line is secured by land and building owned by Jonway Auto and guaranteed by the related party – Jonway Group. In March 2014, Jonway Auto borrowed a one year short-term loan of $1.0 million. The annual interest rate was 7.08% and the loan was due in March 2015. The company then early settled the loan in December 2014. The company borrowed a one year short term loan in December 2014 of $0.9 million at an annual interest rate of 6.69% with an expiration date in December 2015. We have also drawn down $8.8 million in the form of notes payable as of September 30, 2015. For certain notes payables utilizing the credit exposure of $4.9 million, we deposited 50% to 100% cash as restricted cash as collateral for these notes payable. These notes are due from November, 2015 to March, 2016. As of September 30, 2015, the credit exposure of $5.8 million has been used. The credit line expires in March 2016.

In March 2014, we were approved up to an aggregate of $5.2 million of a credit line from ICBC. This credit line was secured by land and buildings owned by Jonway Auto and guaranteed by related parties. As of September 30, 2015, the total outstanding loan under this credit line was $4.7 million with $0.8 million of restricted cash deposited with the bank. The annual interest rates are from 5.0% to 6.9%. The loans are due in various dates from October 2015 to July 2016. As of September 30, 2015, a credit exposure of $3.9 million has been used, and $1.3 million was still available for use. The credit line expires in March 2017.

In June 2015, we were approved for up to an aggregate of $7.2 million of a credit line from Everbright Bank, with 50% restricted cash deposited and credit exposure of $3.6 million. The credit line expires in April 2016. As of September 30, 2015, $7.2 million was drawn down as notes payable. The amount of restricted cash deposited with the bank was $3.6 million. In July 2014, the Company borrowed an 11 months short-term loan of $1.2 million at an interest rate of 7.2%. The loan was repaid when due in June 2015. As of September 30, 2015, the credit exposure of approximately $3.6 million has been used.

NOTE 7 – LINE OF CREDIT, SHORT TERM DEBT AND BANK ACCEPTANCE NOTES - continued

In December 2012, we were approved up to an aggregate of $4.1 million of a credit line from Taizhou Bank. This credit line was reduced to $2.4 million in early 2014 when it was renewed, and expired in January, 2015. This credit line was guaranteed by related parties. As of December 31, 2014, the total outstanding loans from Taizhou Bank under this credit line were $1.1 million. The loans were extended and due separately in February and April 2015, respectively, and have been settled in February 2015.

Short term loans

Short term loans as of September 30, 2015 and December 31, 2014 are presented below:

		September 30, 2015	December 31, 2014
Loan from CITIC bank	(a)	$ 942	$ 976
Loan from ICBC	(b)	4,715	6,484
Loan from China Everbright Bank	(c)	-	1,220
Loan from Taizhou Bank	(d)	-	1,139
Loan from Pay-Ins Prem		-	30
		$ 5,657	$ 9,849

(a) In December 2014, the company borrowed a one year short term loan of $1.0 million from CITIC at the annual interest rate of 6.69%. The loans are secured by a Maximum Amount Mortgage Contract between Jonway Auto and CITIC dated November 3, 2014, in which a land use right and a building with a total carrying amount of $5.1 million as of September 30, 2015 has been pledged as security for this loan. The shareholder and Co-CEO Alex Wang also personally guaranteed these loans.

(b) In April 2014, the company borrowed a one year short-term loan from ICBC of $0.8 million with 100% cash deposited as collateral for the loans. The annual interest rate is 6%. The loan was repaid when due in April 2015. In June 2014, the company borrowed a one year short-term loan from ICBC of $1.1 million at the annual interest rate of 6.26%. The loan was repaid when due in June 2015. In August 2014, the company borrowed a one year short-term loan from ICBC of $1.1 million at the annual interest rate of 6.92%, the loan has been fully repaid in July 2015. In March 2014, the company borrowed a 6-month short-term loan from ICBC of $0.8 million at the annual interest rate of 5.04%. The loan of $0.8 million has been paid when due in March, 2015. In October 2014, the company borrowed $1.5 million of a short term loan from ICBC. The loan will expire in October 2015 with the annual interest rate is 6.6% and the loan was repaid subsequent to September 30, 2015. The company borrowed a one year short term loan of $1.1 million in November 2014 at an annual interest of 6.6%. In March 2015, the company borrowed a one year short-term loan of $0.8 million from ICBC at an annual interest of 5.6%. In June 2015, the company borrowed a one year short-term loan of $0.3 million from ICBC at an annual interest rate of 6.07%. In July 2015, the Company borrowed a one year short-term loan of $1.1 million from ICBC at an annual interest rate of 6.7%. These loans were guaranteed by related parties including Jonway Group, the shareholder Wang Huaiyi and the shareholder and Co-CEO Alex Wang. The Company also pledged buildings and a land use right with a carrying value of $3.3 million with ICBC and $0.8 million of restricted cash was deposited of September 30, 2015.

(c) In July 2014, the company borrowed an 11 months short-term loan of $1.2 million from China Everbright Bank at the annual interest rate of 7.2%. The loans were guaranteed by the shareholder Wang Huaiyi, as well as a building and land use right with a carrying value of $2.0 million. The loan has been fully repaid in June 2015 upon maturity.

(d) In August 2014, the company borrowed a short-term loan from Taizhou Bank of $0.3 million at the annual interest rate of 8.93% which is due in February 2015. The loan was repaid when due. In October 2014, the company borrowed $0.81 million of a short term loan from Taizhou Bank. The loan expired in April 2015 and the annual interest rate is 8.496%.The loan was settled early in February 2015.

The weighted average interest rates were 6.6% and 7.0% for the three and nine months ended September 30, 2015 and 2014, respectively.

NOTE 7 – LINE OF CREDIT, SHORT TERM DEBT AND BANK ACCEPTANCE NOTES - continued

Bank acceptance notes

As of September 30, 2015, the Company has bank acceptance notes payable in the amount of $16.9 million. The notes are guaranteed to be paid by the banks and are usually for a short-term period of nine months. The Company is required to maintain cash deposits of 50% or 100% of the notes payable with these bank, in order to ensure future credit availability. As of September 30, 2015, the restricted cash for the notes was $8.4 million.

Bank acceptance notes are presented below:

		September 30, 2015	December 31, 2014
Bank acceptance notes payable to China Everbright Bank	(a)	$ 7,228	$ 11,372
Bank acceptance notes payable to Taizhou Bank	(b)	477	651
Bank acceptance notes payable to CITIC Bank	(c)	8,757	5,724
Bank acceptance notes payable to China Merchants Banks	(d)	157	-
Bank acceptance notes payable to Shanghai Pudong Development bank	(e)	287	-
		$ 16,906	$ 17,747

(a) Notes payable to China Everbright bank have various maturity dates in December 2015. The notes payable are guaranteed by a land use right and a building with a total carrying value of $2.0 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 will be due in December 2015. The Company is required to maintain cash deposits at 100% of the notes payable with the bank.

(c) Notes payable to CITIC bank will be due from November 2015 to March 2016. Except for the note payable utilizing credit exposure of $4.9 million, 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 China Merchants Bank have maturity date in October 2015. The company is required to maintain cash deposits at 100% of the notes payable with the bank.

(e) Notes payable to Shanghai Pudong Development Bank will be due from October 2015 to January 2016. The company is required to maintain cash deposits at 100% of the notes payable with the bank.

NOTE 8 - CONVERTIBLE DEBT

Convertible debts are presented below:

	September 30, 2015	December 31, 2014

Senior convertible debt – CEVC (a)	$	20,679	$	20,679
Convertible debt – Mr. Luo Hua Liang (b)		786		-
		21,465		20,679
Current portion		(786)		20,679
Long term portion	$	20,679	$	-

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NOTE 8 - CONVERTIBLE DEBT - continued

(a) Senior convertible debt - CEVC

On January 12, 2011, the Company entered into a Senior Secured Convertible Note and Warrant Purchase Agreement (the "Agreement") with CEVC, a British Virgin Island company whose sole shareholder is Cathaya Capital, L.P., and 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 $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 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.

This convertible note was extended until December 31, 2016 with interest accrual at 8% per annum with original maturing date of February 12, 2012. According to Accounting Standard Codification ("ASC") 470-10, the market interest should be imputed for the non-interest bearing loan between the related parties; therefore in the extended agreement the Convertible Note bears a market interest rate at 8%. With the new extension, the principal of $20.7 million has the same conversion terms to cash, and will also be convertible in part or in whole to shares of ZAP or Jonway Auto at maturity date or at any time with a 90 day notice. Beginning August 12, 2013 within 10 calendar days following the end of each fiscal quarter, the Company is required to pay Holder the Additional Interest accrued during such fiscal quarter by issuing the Holder or a party designated by the Holder, the number of shares of the Company's Common Stock equal to the Additional Interest accrued during such fiscal quarter divided by the average of the Closing Prices for each trading day during such fiscal quarter ending on (and including) the last Trading Day of such fiscal quarter. The Additional Interest Rate may be amended from time to time with the written consent of the Holder and the Company. In addition, the warrants issued in connection with the CEVC note were amended for the change of the terms of conversion and for the extension of the maturity date until December 31, 2016.

Upon expiration date of the CEVC note, this convertible note will likely be repaid by ZAP in the form of Jonway Auto shares in order to reduce the liability of ZAP. If the CEVC note is repaid, ZAP's ownership of Jonway Auto would be reduced to less than majority interest, resulting in need to reconsider eligibility for consolidation. Due to the increasing accumulation of debt from Jonway Auto, largely because of the lack of working capital to fulfill orders, Jonway Auto may seek equity funding in order to meet its operational financial needs. If this were to happen, then the additional equity investment into Jonway Auto would also reduce ZAP's majority equity ownership in Jonway Auto. The qualification to meet consolidation for ZAP would have to be reassessed based on ZAP's financial control, board and management control of Jonway Auto.

(b) convertible debt – Mr. Luo Hua Liang

On September 3, 2015, the board approved to issue a convertible note to Mr. Luo Hua Liang (Mr. Wang Gang's brother in-law) for his investment of RMB 5 million immediately deposit within one week of signing of the agreement and another investment up to RMB 5 million within one month of signing of the agreement. Both will be a convertible note with one year terms at the interest rate of 12% per annum. The investment was transferred to Jonway Auto as the loan from the Company to Jonway Auto. The convertible note shall either be repaid in cash from Jonway Auto or be paid in ZAP shares. The convertible note's conversion price is $0.06 per share.

NOTE 9 – SEGMENT REPORTING

Operating Segments

In accordance with ASC 280, the Company has identified three reportable segments consisting of Jonway Auto, ZAP (Consumer Product) and ZAP Hong Kong. The Jonway Auto segment represents sales of the gas fueled Jonway A380 three and five-door sports utility vehicles, EV minivan and EV SUVs and spare parts principally through distributors in China. The ZAP Consumer Product segment represents rechargeable portable energy products, our Zapino scooter, and our ZAPPY3 personal transporters. 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 Co-CEOs 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 before income taxes. Segment results are summarized as follows:

For the three months ended September 30, 2015	Jonway Auto	ZAP	ZAP Hong Kong	Total
Net sales	$ 7,089	$ 65	$ -	$ 7,154
Gross profit (loss)	$ (189)	$ (5)	$ -	$ (194)
Depreciation and amortization	$ 1,363	$ 653	$ -	$ 2,016
Net profit (loss)	$ (2,235)	$ (1,479)	$ -	$ (3,714)
Total assets	$ 63,904	$ 17,742	$ 9	$ 81,655
For the three months ended September 30, 2014				
Net sales	$ 4,951	$ 269	$ -	$ 5,220
Gross profit (loss)	$ (692)	$ 72	$ -	$ (620)
Depreciation and amortization	$ 1,445	$ 655	$ -	$ 2,100
Net profit (loss)	$ (2,837)	$ (1,966)	$ -	$ (4,803)
Total assets	$ 82,207	$ 22,870	$ 1,439	$ 106,516
For the nine months ended September 30, 2015				
Net sales	$ 20,606	$ 266	$ -	$ 20,872
Gross profit (loss)	$ (1,054)	$ 77	$ -	$ (977)
Depreciation and amortization	$ 4,253	$ 1,961	$ -	$ 6,214
Net profit (loss)	$ (9,529)	$ (4,338)	$ -	$ (13,867)
Total assets	$ 63,904	$ 17,742	$ 9	$ 81,655
For the nine months ended September 30, 2014				
Net sales	$ 18,926	$ 704	$ -	$ 19,630
Gross profit (loss)	$ (1,759)	$ 189	$ -	$ (1,570)
Depreciation and amortization	$ 4,309	$ 1,967	$ -	$ 6,276
Net profit (loss)	$ (8,424)	$ (5,262)	$ -	$ (13,686)
Total assets	$ 82,207	$ 22,870	$ 1,439	$ 106,516

Customer information

Approximately 99.1% or $7.1 million of our revenues for the three months ended September 30, 2015 are from sales in China. Jonway Auto distributes its products to an established network of over 63 factory level dealers in China with three customers contributing 14%, 12% and 10% of our consolidated revenue, respectively. Approximately 94.9% or $5.0 million of our revenues for the three months ended September 30, 2014 are from sales in China. Jonway Auto distributes its products to an established network of over 70 factory level dealers in China with no customer contributing to more than 10% of our consolidated revenue.

Approximately 98.7% or $20.6 million of our revenue for the nine months ended September 30, 2015 are from sales in China. Jonway Auto distributes its products to an established network of over 65 factory level dealers in China with one customer contributing approximately 18% of our consolidated revenue. Approximately 96.4% or $18.9 million of our revenue for the nine months ended September 30, 2014 are from sales in China. Jonway Auto distributed its product to an established network of over 45 factory level dealers in China with no customer contributing 10% of our consolidated revenue.

NOTE 9 – SEGMENT REPORTING – continued

Supplier information

For the three months ended September 30, 2015 and 2014, approximately 99.0% or $7.3 million and 96.6% or $5.6 million of the consolidated cost of goods sold were purchased in China. For the three months ended September 30, 2015, three venders contributed 22.6%, 11.9% and 10.1% of our purchase, respectively. For the three months ended September 30, 2014, Haerbin Dongan Auto Engine Manufacturing Co., Ltd. accounted for 28% of the total purchases. For the nine months ended September 30, 2015, one vender contributed 11.9% of our purchase. For the nine months ended September 30, 2014, Haerbin Dongan Auto Engine Manufacturing Co.,Ltd accounted for 20% of our total purchase.

NOTE 10 – RELATED PARTY TRANSACTIONS

Due from (to) related parties

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

Amount due from related parties are as follows:

	September 30, 2015	December 31, 2014
Sanmen Branch of Zhejiang UFO Automobile Manufacturing Co., Ltd	$ 1,273	$ 1,427
JAZ	1,291	1,311
Jonway Motor cycle	237	53
Jonway Economy and Trade Co., Ltd.	43	
	$ 2,844	$ 2,791

In addition, amount due from related party included in accounts receivable is as follows:

	September 30, 2015	December 31, 2014
Jonway EV selling Ltd.	$ 1,647	$ -

Amount due to related parties are follows:

	September 30, 2015	December 31, 2014
Jonway Group	$ 8,469	$ 2,648
Jonway Motor Cycle	63	64
Taizhou Huadu	740	652
Shanghai Zapple	36	37
Mr. Wang	-	146

Betterworld		149		149
Taizhou Jonway Electric Vehicle Selling Co., Ltd.				2,306
Zhejiang Jonway Painting Co., Ltd.		326		472
Cathaya Operations Management Ltd.		49		297
Cathaya Management Ltd.		-		350
	$	9,832	$	7,121

NOTE 10 – RELATED PARTY TRANSACTIONS - continued

Transactions with Jonway Group

Jonway Group is considered as a related party as the Wang Family, one of the principal shareholders of the Company, has controlling interests in Jonway Group. Jonway Group supplies some of plastics spare parts to Jonway Auto and gave guarantees on Jonway short term bank facilities from China-based banks. Jonway made such purchase from Jonway Group for a total of $1,666,217 and $915,000 for the nine months ended September 30, 2015 and 2014, respectively. Jonway made such purchase from Jonway Group for a total of $362,323and $241,000 for the three months ended September 30, 2015 and 2014, respectively.

Jonway Agreement with Zhejiang UFO

Based on a contract by and among the 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 Auto 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 rates (historical exchange rate):

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.

NOTE 11 - SHAREHOLDERS' EQUITY

Common stock

2015 ISSUANCES

On February 11, 2015, the cancellation of 1,182,558 shares of common stock was processed to pay back the proceeds from convertible notes, and a partial repayment representing a principal reduction of $100,000 and $8,433 of interest was paid on the Company's outstanding convertible bond held by Yung. In September 30, 2015, the Company repurchased 4,811,633 shares of common stock at cost of $406,872 from Yung and cancelled those shares. The balance of the outstanding note issued to Korea Yung was $169,530 after the payment and cancellation of these shares. Yung is allowed to engage in open market sales of the shares through September 30, 2015. In the event the gross proceeds realized from the sale of the shares by Yung is greater than the principal and interest due on the bond as of the maturity date, Yung will be entitled to retain all proceeds. If the proceeds from the sale of shares are less than the principal and interest due on the bond as of the maturity date, ZAP will pay the shortfall to Yung in cash within five business days of written notice from Yung. In the event that on September 30, 2015, Yung holds unsold shares and there is an unpaid balance remaining on the bond, ZAP will repurchase from Yung all of the unsold shares at the price they were issued to Yung.

In September, 2015, the Company issued 89,194,715 shares to Mr. Wang Gang, the Co-Chief Executive Officer ("Co-CEO") of the Company for his investment of $5,351,683 in the Company (approximately $4.5 million investment was loan by the Company to its subsidiary Jonway Auto).

In September, 2015, the amount of $814,863 investment from Cathaya Management Co Ltd and $350,000 due to Cathaya Management Co Ltd have been converted into 13,581,051 and 5,833,333 shares of common stock at price of $0.06, respectively.

In September, 2015, China Electric Vehicle Corporation (CEVC) has elected to convert the interest of $1,237,345 due on the $20.7 million convertible note to 14,454,743 shares of common stock at the average price of $0.086.

NOTE 11 - SHAREHOLDERS' EQUITY - continued

2014 ISSUANCES

Cathaya Operations Management Limited and China Electric Vehicle Corp have elected to convert the amounts recorded as due to related parties to common stock. The amount of $967,543 due to Cathaya Operations Management Limited have been converted into 17,819,783 shares of common stock at 30% below market price based on the average trading prices of the previous 120 days after notification. The 17,819,783 shares of common stock have been issued in April 2014. In December, 2014, the company issued 4,513,163 shares to settle the cash advance of $410,800 from Cathaya Operations Management Limited.

China Electric Vehicle Corporation (CEVC) has elected to convert the interest of $639,068 due on the $20.7 million convertible note to 6,439,552 shares of common stock at the average of the closing prices for each trading day during such fiscal quarter ended on (and including) the last trading day of such fiscal quarter. The 6,439,552 shares of common stock have been issued in April 2014. In December 2014, the company issued 8,727,099 shares to settle the interest of $1,237,345 due on the convertible note.

In March 2014, Jonway Group agreed to pay all of the outstanding mold expenses of the Minivan that is currently still outstanding, and in return ZAP will share half of the asset value and share the IPR (50%) of the Minivan with Jonway Auto. The Minivan was purchased by ZAP from a prior agreement between ZAP and Jonway Group which was signed on January 18, 2012. In return for ZAP receiving worldwide exclusivity for the sales, distribution, and product IPR rights for all current and future models of the compressed natural gas ("CNG") versions of Jonway Auto's Products, including, but not limited to, SUV, minivan, and all other models, the Company's Board of Directors authorized on March 28, 2014 to issue 61,000,000 shares of common stock to the companies owned by the Co-CEO and shareholder Alex Wang, including 20,000,000 shares to Major Management Limited, 20,000,000 shares to Max Reliance Management Limited and 21,000,000 shares to New Dragon Management Limited. The 61,000,000 shares of common stock have been issued in April 2014.

In May 2014, ZAP issued 62,500 shares of common stock to Jeffery and Karen Banks, who paid $5,000 in cash on behalf of ZAP to address a lawsuit from Jackson Long.

On February 26, 2014, a binding letter of commitment in equity investment in ZAP was signed between the Company and four individual investors. The four individual investors are the representatives of the employees of Jonway Auto and Jonway Group in China and they will hold the issued stocks on behalf of these employees. The shares were issued at discounted share price based on averaged price over the last 60 days from the date of signing the agreement. As of December 31, 2014, $1.9 million was received by ZAP. The number of stock issued on August 14, 2014 was 31,666,668 shares.

On December 31, 2014, the company issued 10,915,748 shares and 2,666,666 shares at $0.06 per share to Alex Wang, the CO-CEO of the company and an individual for the cash advance of $654,945 and 160,000 respectively. The cash advance provided working capital to finance the operations of the company.

Stock-based Compensation

The Company has stock compensation plans for employees and directors. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. All of the stock-based compensation is accounted for as an equity instrument. For the three and nine months ended September 30, 2015 and 2014, $18,224 and $54,627 and $56,000 and 169,000 have been charged to general and administrative expense, respectively.

In June 2015, the Company granted 200,000 restricted shares to Michael Ringstad in lieu of salary compensation and also for his acceptance for the position of Interim CFO. The stock was set at average of last 30 trading days, and the vesting period is for a period of 3 years from the date of grant. Michael Ringstad cannot sell the shares within 6 months from the date of grant and the Company retains the right to buy back the shares at any time at the market price. $658 and $1,316 was charged to general and administrative expense for three and nine months ended September 30, 2015.

NOTE 12 – LITIGATION

ZAP is in arrears with the settlement payment to Hogan & Lovells. The current negotiated balance due is $779,500. Hogan & Lovells agreed to reduce the total amount owed by $453,827, as long as we did not default on our payment agreement. If Hogan & Lovells does seek a judgment, the total balance due immediately would be $1,233,327. Currently ZAP is seeking additional funding, and is working with prospective investors or lenders so ZAP can resume the installment payments to Hogan & Lovells.

NOTE 13– COMMITMENTS AND CONTINGENCIES

Guarantees

Jonway Auto guaranteed certain financial obligations of outside third parties including suppliers and customers 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 $2.3 million at September 30, 2015. The guarantee expires at variance dates from December, 2015 to December 2019. Our performance risk under these guarantees is reviewed regularly, and has resulted in no changes to our initial valuations.

Jonway Auto pledged a land use right and a building to Shanghai Pu Dong Development Bank to secure a bank loan of $1.7 million offered to a related company, Taizhou Jonway Jing Mao Trading Ltd., which is a subsidiary of Jonway Group. The period of guarantee was five years from 2014 to 2019. The net value of the land use right and the building pledged as at September 30, 2015 was approximately $0.5 million.

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 and its subsidiaries, the term “Jonway Auto” 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

On April 10, 2015, ZAP received notification from USPS that ZAP has been selected as one of the pre-qualified companies to participate in the USPS Federal Business Opportunity (“FBO”) RFP. In January 2015, USPS had issued a new request for response to its FBO for its Next Generation Delivery Vehicle (NGDV) Program. ZAP submitted a new proposal based on new guidelines for a complete new USPS delivery truck designed to use clean energy and environmentally friendly technologies. ZAP’s proposal submitted for this new USPS NGDV Program has been accepted for consideration. As one of the pre-qualified companies, ZAP will proceed with detailed response to the RFP, and undergo trial for the product proposed. This trial is anticipated to last for more than one year.

The principal activities of Jonway Auto until recently were the production and sales of gasoline models of the SUVs and minivans in China using the consigned UFO license from an affiliate of Jonway Group. Over the past several years, Jonway Auto continued the production and sales of its gasoline model SUV and minivan, while developing and ramping production of its EV product line. Jonway Auto received type approval of its EV SUV and EV certification of its manufacturing facility from the Chinese government. It also developed two different full electric EV models for its minivan, one with lithium batteries, which has longer range and more power, and the other with lead acid batteries, intended for lower speed and shorter range. Jonway Auto began production on a new NEV, the “Urbee”, in 2014. The primary market for the Urbee is the growing aging and young adult population in China that generally do not hold a driver’s license.

Jonway Auto, as an authorized auto manufacturer in China, has access to the required licenses for China type approval for both the SUV and minivan models, providing these models with the advantage that lithium battery versions would be eligible for subsidies from the Chinese central and local governments ranging from RMB 35,000 (~US$5,000) to RMB 100,000 (~US$16,000) depending upon the range of the vehicle achieved between recharges. EVs reaching 250km in range per charge could receive up to ~$10,000 subsidies from the central government and another ~$10,000 from the local government. Currently 88 local government cities are participating in this subsidy as required by the central government. The Chinese government recently announced these subsidies have been extended to the year 2020, with the total amount of subsidies gradually tapering off each year. Additionally, the Chinese government recently mandated that government vehicles must be Chinese-made and that a minimum of 30% of the vehicles purchased are required to be full electric.

ZAP Group believes these incentives, combined with the elimination of sales tax, consumer tax, and license plate registration fees on full electric vehicles (which can total more than US$20,000 for gas vehicles in some cities like Shanghai), are creating a strong economic incentive for the purchase of electric vehicles and a substantial market opportunity for Jonway Auto’s new EV SUV and EV minivan product line. Jonway Auto’s EV SUV and EV minivan have been reconfigured with smaller engines to support lower power consumption. The EV SUV has a 20kwatt (40kwatt peak) engine. The EV minivan which is a much lighter vehicle has a 13.5kwatt engine. These newly reconfigured EVs adapted to maximize range at optimal speeds will be available for mass production in the first half of 2015.

ZAP and Jonway Auto are focused on the EV fleet markets in China. With the recent reinforced subsidies and requirements for government entities to purchase full electric vehicles, the Company believes Jonway Auto’s new EV SUV is particularly suited for use by government officials and personnel. Jonway Auto’s SUV currently has an advantage in China because most auto companies to date have focused primarily on producing small electric sedans, some with only two seats that are not very practicable for use by government officials on a daily basis. Jonway Auto’s

SUV is a larger 5-person vehicle with comfortable seating and legroom.

Jonway Auto's EV minivan is well-positioned for government city utility and maintenance transportation and service. The minivan was designed with removable rear seats so that it may also serve as a delivery van for use in the projected rapid growth market of EVs used for the transport of goods and packages in China. This EV minivan comes in both lithium battery configuration which is eligible for government subsidies as well as lead acid version which is much cheaper but is not eligible for subsidy. Currently, the Jonway Auto has received over 10,000 orders from two major customers for Jonway Auto's type approved EV minivan. 5,000 orders from a joint venture partner of the state owned automobile company, also known as a top automobile company in China; and another 5,000 orders from a joint venture partner of the holding company of the largest metering company in China that manufactures smart electric, gas and water meter in China. Both orders expect the deliveries to be completed before the end of the year. This capacity requires working capital that is currently beyond the Company's ability to produce and deliver and the Company is seeking alternative financing to support the working capital requirements for these orders. Additional to these orders, Jonway Auto's existing dealership networks also have requested delivery of the EV minivan and EV SUVs but due to strain on working capital, Jonway Auto has not accepted any additional orders of either product at this point.Jonway Auto began to focus its business on EV over the last year and its manufacturing plant has been modified to support mass production of several full electric vehicle models this year. With the urgent priority to provide multiple manufacturing EV production lines to support multiple models of EVs, Jonway Auto reduced its resource investment in the traditional gasoline vehicle products and cut back on funding the sales and marketing of its gasoline SUV and gasoline minivans. This resulted in turnover of many of the dealership networks that are currently not focusing on selling EVs. The overall dealership network has shrunk over the last year and the plan is to re-establish new dealership networks in regions with EV subsidies and EV market demands.

Jonway Auto has reorganized to support the ramp up of electric vehicle production and realigned its resources to support sales and marketing to fleet markets and large clients, including to leasing companies and government organizations in the major cities. Last year was a major transition year for Jonway Auto, where there was an intentional slowdown in gasoline vehicle production and sales, while Jonway Auto redirected its manufacturing and sales and marketing groups to support the mass rollout of its EVs, starting with the Urbee for city commuters.

The combined companies' new EV product lines now include the A380 SUV EV, minivan EV, and the Urbee. Both the EV SUV and EV minivan products leverage the production moldings and the manufacturing engineering infrastructure and facilities currently in place for the gasoline models of these vehicles. The new Urbee started its first production delivery in 2014. The first production deliveries of the EV SUV and Minivans occurred in the first nine months of 2015.

ZAP and Jonway Auto has increased its factory production capacity and running its operations at 7 days per week, single shift, with production of around 50 EV minivans per day in order to meet pressing backlog orders from Dong Feng Motor Corporation (http://www.dfmc.com.cn/dfmczg/main_en.aspx). Dong Feng is demanding delivery of at least 3,000 EV minivan this quarter by December 31, 2015 and be able to ramp to no less than 2,000 per month starting January 2016. Jonway Auto is on target to produce 800 EV minivans for October, and will be ramping up to meet the 3,000 EV minivans for this year. A second shift with additional factory equipment may have to be added to reliably meet volumes of 2,000 or more per month. The target is to reach sales of no less than 20,000 of Jonway's EV minivans in 2016 and aggregating to sales of 100,000 of ZAP and Jonway's EV minivans as projected by Dong Feng over the next three years. The partnership with Dong Feng Motor facilitated by Shi Kong from Hangzhou enables Jonway Auto to offload the cost of lithium battery and the electric motor cost to Dong Feng and Shi Kong. This represents more than half of the cost of materials for the EV minivans.

ZAP and Jonway is seeking funding and partnerships to manage the sales and production demands of the EV fleet market in China. Ultimately, the objective is to be able to build its own financial strength in order to sell and produce the whole EV minivan so that direct sales to major customers, partners or dealers can be achieved to further improve gross margins. Due to the high demand for some of the critical supplier parts, ZAP and Jonway Auto is currently in discussions regarding potential partnerships with companies producing lithium batteries and EV motors in order to help mitigate the risk of availability of parts and to finance working capital of these high cost items.

Jonway Auto recently launched the E-3D SUV, an attractively designed 3 door SUV that comfortably accommodates 4 passengers. The model's chassis and body had previously undergone and passed European crash tests, and ZAP is currently exploring dealership partners to complete the EV type approval for the European overseas market. Potentially in the future, this E-3D SUV competitively priced would also be suitable for the US market after type approval and certification in the US. The E-3D SUV comes in lithium battery version with range of over 200km or 125 miles, and achieves a top speed of 140km per hour or over 85 miles per hour. The lead acid version of the E-3D SUV has a lower top speed of 55 mph and shorter range of 80 miles but with a range extender option, it can go for more than 150 miles.

Results of Operations

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

	Three Months Ended September 30,		Nine months Ended September 30,	
	2015	2014	2015	2014
Statements of Operations Data:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	-102.7%	-111.9%	-104.7%	-108.0%
Operating expenses	-45.4%	-62.6%	-54.9%	-48.2%
Loss from operations	-48.1%	-74.5%	-59.6%	-56.1%
Net loss attributable to ZAP	-37.2%	-65.4%	-44.1%	-48.7%

EBITDA for the three months ended September 30, 2015 was negative $1.1 million, which was much better than its EBITDA in the second quarter of fiscal 2015 (negative $2.7 million) and its EBITDA in the first quarter of fiscal 2015 (negative $1.8 million). The significant improvement in EBITDA was mainly thanks to the improvement of net loss in the third quarter of 2015. The EBITDA for the three quarters of fiscal 2015 are as follows:

	Three months ended March 31,2015	Three months ended June 30,2015	Three months ended September 30,2015
Net loss	$ (4,676)	$ (5,477)	$ (3,714)
Added back:			
Interest expense, net	$ 761	$ 674	$ 646
Depreciation and amortization	$ 2,092	$ 2,106	$ 2,016
EBITDA	$ (1,823)	$ (2,697)	$ (1,052)

These results of operations that have been derived from our condensed consolidated 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 September 30, 2015 Compared to the Three Months Ended September 30, 2014

Net sales for the three months ended September 30, 2015 were $7.2 million as compared to $5.2 million for the three months ended September 30, 2014.

Jonway Auto's revenue for the three months ended September 30, 2015 increased by $2.01 million from $5.0 million for the quarter ended September 30, 2014 compared to $7.01 million for the quarter ended September 30, 2015. The sales volume increased because of the increased sales of EV minivan products during the current period. The new EV products started its first production delivery in 2014. EV sales contributed $4 million for the three months ended September 30, 2015.

Gross loss decreased by $426,000 from a gross loss of $620,000 for the three months ended September 30, 2014 to a gross loss of $194,000 for the three months ended September 30, 2015. This was because our margins increased from (11.88)% to (2.71)%.

Jonway Auto's gross loss decreased by $503,000 from a gross loss $692,000 for the three months ended September 30, 2014 to a gross loss of $189,000 for the three months ended September 30, 2015. The increase in the net sales for the three months ended September 30, 2015 reduced the gross loss for this quarter.

Sales and marketing expenses decreased $0.8 million from $1.7 million for the three months ended September 30, 2014, to $0.9 million for the three months ended September 30, 2015. The percentage of sales and marketing expense to net sales decreased from 32.6% for the three months ended September 30, 2014 to 12.7% for the three months ended September 30, 2015 due to less marketing activities.

General and administrative expenses increased by $0.85 million from $1.45 million for the quarter ended September 30, 2014 to $2.30 million for the quarter ended September 30, 2015. It was due to an increase in bad debt provision.

Research and development expenses decreased by $81,000 from $119,000 for the three months ended September 30, 2014 to $38,000 for the three months ended September 30, 2015. It was due to less research and development activities during the three month period ended September 30, 2015.

Interest expense, net decreased $0.47 million from $1.12 million for the three months ended September 30, 2014 to $0.65 million for the quarter ended September 30, 2015. In the third quarter of 2015, the amortization of the previous year's discount on the convertible debt was lower and we are incurring less interest on our notes and short term borrowings as the debts have decreased.

Other income increased by $162,000 from $212,000 for the three months ended September 30, 2014 to $374,000 for the three months ended September 30, 2015. The increase of other income is due to the increase of government grants.

Net loss for the three months ended September 30, 2015 was $3.7 million compared to $4.8 million loss for the three months ended September 30, 2014 due to increase of net sales.

Nine months Ended September 30, 2015 Compared to Nine months Ended September 30, 2014

Net sales increased by $1.3 million to $20.9 million for the nine months ended September 30, 2015 from $19.6 million for the nine months ended September 30, 2014.

Jonway Auto's revenue for the nine months ended September 30, 2015 increased by $1.7 million from $18.9 million for the nine months ended September 30, 2014 to $20.6 million for the nine months ended September 30, 2015. The sales volume increase was due to the increase of sales for SUV and the significantly increased sales for EV products.

Sales of consumer products decreased in the first nine months of 2015 by $438,000 to $266,000 from $704,000 in the first nine months of 2014.

Gross loss decreased by $0.6 million from $1.6 million for the nine months ended September 30, 2014 to $1.0 million for the nine months ended September 30, 2015.

Jonway Auto's gross loss decreased by $0.71 million from $1.76 million for the first nine months of 2014 to $1.05 million for the nine months ended September 30, 2015. The decrease in gross loss in the nine months ended September 30, 2015 was principally related to the higher profit margin on SUV and EV products. Management expects gross margin will be increased and become positive along with the increase in sales of EV products.

In our Consumer Products segment, we experienced a decrease of $112,000 in gross profits from a gross profit of $189,000 in 2014 to a gross profit of $77,000 in 2015. The decrease was due to reduced sales of our Zappy pro flex 350 to major customers carried out in the first nine months of 2015.

Sales and marketing expenses decreased by $0.4 million from $3.2 million for the nine months ended September 30 2014 to $2.8 million for the nine months ended September 30, 2015. As a percentage of sales, the expense decreased from 16.21% for the nine months ended September 30, 2014 to 13.37% for the nine months ended September 30, 2015, which was due to less promotion programs for our 1.5 liter model of SUV in the first nine months of 2015.

General and administrative expenses increased by approximately $1.06 million from $5.89 million for the nine months ended September 30 2014 to $6.95 million for the nine months ended September 30, 2015. This was principally due to the increase of bad debt provision for the nine months ended September 30, 2015.

Research and development expenses increased by $1.3 million from $0.38 million for the nine months ended September 30 2014 to $1.70 million for the nine months ended September 30, 2015. The increase was due to the introduction of Jonway's LSV line of 2 door and 4 door vehicles and research and development on new EV products.

Interest expense, net decreased by $0.9 million from an interest expense of $3.0 million for the nine months ended September 30 2014 to interest expense of $2.1 million for the nine months ended September 30 2015. The decrease was due to repayment of convertible notes and bank acceptance notes.

Other income increased $0.02 million from $0.63 million for the nine months ended September 30, 2014 to other income of $0.65 million for the nine months ended September 30, 2015.

Net loss for the nine months ended September 30, 2015 was $13.9 million compared to $13.7 million loss for the nine months ended September 30, 2014.

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.

Recent Accounting Pronouncements

In April 2015, FASB issued ASU 2015-03, interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in the ASU are effective beginning after December 15, 2015. We do not expect the adoption of ASU 2015-03 to have material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, an amendment to Topic 330 for simplifying the measurement of inventory. The update requires that inventory be measured at the lower of cost and net realizable value where net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The amendment is intended to provide clarification on the measurement and disclosure of inventory in Topic 330 and not intended for those clarifications to result in any changes in practice. The ASU is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted for all entities and should be applied prospectively. We do not expect the adoption of ASU 2015-11 to have material impact on its financial position, results of operations or cash flows.

Liquidity and Capital Resources

As of September 30, 2015, our current liabilities exceeded the current assets by approximately $47.6 million and our equity deficiency was $8.4 million, which raise substantial doubt about our ability to continue as a going concern. In addition, we have recurring net losses. Given our expected capital expenditure in the foreseeable future, we have comprehensively considered our available sources of funds as follows:

- Financial support and credit guarantee from related parties; and
- Other available sources of financing from domestic banks and other financial institutions given our credit history.

Management projects that we have sufficient funds to meet our working capital requirements and debt obligations as they become due based on the above considerations. However, these projections are based on the demand of our EV products, economic conditions, the overall sales trends in the automobile industry in China and on our operating results not continuing to deteriorate and our vendors and related parties being able to provide continued liquidity. As a result our consolidated financial statements for the quarter ended September 30, 2015 have been prepared on a going concern basis.

In assessing our liquidity, we monitor and analyze our cash on-hand and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

As of September 30, 2015, we were approved up to an aggregate of $15.7 million of a credit line, with the credit exposure of $5.8 million from the Sanmen Branch of CITIC Bank (“CITIC”) through Jonway Auto. As of September 30, 2015, the credit exposure of $0.94 million has been fully used. The credit line expires in March 2016.

In December 2013, we were approved for up to an aggregate of $9.2 million of a credit line from Everbright Bank. This credit line can only been used in the form of notes payable with 50% restricted cash deposited. Thus, we were approved a credit exposure of $4.6 million. This credit line expired as of January 2015. In June 2015, we were approved for up to an aggregate of $7.2 million of a credit line from Everbright Bank, with 50% restricted cash deposited and credit exposure of $3.6 million. As of September 30, 2015, the credit exposure of approximately $3.6 million has been used. The credit line expires in June 2016.

In March 2014, we were approved up to an aggregate of $5.2 million of a credit line from Industrial and Commercial Bank of China (“ICBC”) with credit exposure of $5.2 million. This credit line expires in March 2017. As of September 30, 2015, a credit exposure of $3.9 million has been used.

Jonway Auto intends to utilize the above 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. Also our principal shareholder, Jonway Group, has agreed to provide the necessary support to meet our financial obligations through June 30, 2016 in the event that we require additional liquidity. In addition, China Electric Vehicle Corporation (“CEVC”) has renewed the convertible note with an extension through December 31, 2016, as of July 30, 2015 (see Note 7).
In addition, Jonway Auto is cutting back on the number of gasoline SUV models in order to reduce the overhead costs of carrying too many different gasoline versions. Jonway Auto will focus on its high volume lower cost gasoline model priced at around US$10,000, replacing its 1.6 liters gasoline model with a more cost effective and efficient 1.5 liter engine model. This will be Jonway Auto’s mainstream gasoline model.

The goal of the Company is to become cash flow positive by the end of 2015 by producing and selling vehicles at a target rate of a few thousand EV’s per month on average with at least a few hundred SUVs or minivans per month, combining the delivery of both EVs and gasoline versions of the models. The Company’s strategy for achieving this goal is to leverage the volume sales orders from the current major customers and support the continuing demand from the market for Urbees to drive down the cost of production in the factory for EVs and to substantially absorb the overhead of the factory. The Company believes mass production ramp up of the Urbees will help streamline the EV manufacturing process, provide a good training ground for the production engineers, and pave the way for volume production of the more sophisticated EV products of minivan and EV SUVs.

We will require additional capital immediately to support the working capital requirements for the current sales orders in the pipeline and to meet the delivery of the backlog as well as to support our current operations. In particular, we require additional capital to continue development of our electric vehicle business, produce new models to compete in the market, and to continue to strengthen our dealer network to support EV channels and after-sale service centers and expanding our market initiatives. We also require financing of the investment for the continued roll-out of new products and to add qualified sales and professional staff to execute our business plan and pursue our efforts in the research and development of advanced technology vehicles, 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.

Jonway Group has continued to provide support in financing the capital requirements of Jonway Auto. For the nine months ended September 30, 2015, Wang Gang, the Co-Chief Executive Officer ("Co-CEO") and Jonway Group injected $5.4 million to the Company and plans to inject additional capital to support the critical on-going manufacturing operations to meet the delivery of the EV minivans and SUV orders in the pipeline.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

A smaller reporting company is 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, 2014, 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 this quarter 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

ZAP is in arrears with the settlement payment to Hogan & Lovells. The current negotiated balance due is $779,500. Hogan & Lovells agreed to reduce the total amount owed by $453,827, as long as we did not default on our payment agreement. If Hogan & Lovells does seek a judgement, the total balance due immediately would be $1,233,327. Currently ZAP is seeking additional funding, and is working with prospective investors or lenders so ZAP can resume the installment payments to Hogan & Lovells.

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, 2014.

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.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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: November 20, 2015	By: /s/ Alex Wang Name: Alex Wang Title: Co-Chief Executive Officer (Co-Principal Executive Officer).
Dated: November 20, 2015	By: /s/ Chuck Schillings Name: Chuck Schillings Title: Co-Chief Executive Officer (Co-Principal Executive Officer).
Dated: November 20, 2015	By: /s/ Michael Ringstad Name: Michael Ringstad Title: Interim Chief Financial Officer (Interim Principal Financial Officer)