ZAP
Form 10-Q
August 15, 2011

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 June 30, 2011

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	94-3210624
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

501 4th Street Santa Rosa, CA 95401
(Address of principal executive offices) (Zip Code)

(707) 525-8658
(Registrant's telephone number)

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 o No x

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 o No o

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

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

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

Yes o No x

As of August 12, 2011, there were 215,356,481 shares outstanding of the issuer's common stock.

ZAP & SUBSIDIARIES

FORM 10-Q
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PART I. Financial Information

Item 1. Financial Statements

ZAP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2011 and DECEMBER 31, 2010
(In thousands, except share data)
(Unaudited)

ASSETS

	June 30, 2011	December 31, 2010
Current assets:		
Cash and cash equivalents	$ 2,203	$ 1,503
Restricted cash	275	—
Accounts receivable, net of allowance of $19 in 2011 and $27 in 2010	2,230	294
Due from related party-Jonway	2,716	—
Marketable securities	1,371	1,888
Notes receivable Jonway dealers	776	—
Deferred Tax asset	380	
Inventories, net of reserve of $856 in 2011 and $619 in 2010	12,353	1,822
Prepaid expenses and other current assets	2,025	266
Total current assets	24,329	5,773
Property and equipment, net	45,658	173
Other assets:		
Investment in non-consolidated joint venture	665	808
Distribution fees for Jonway and Better World products net of amortization of $2,041 in 2011 and $961 in 2010	14,519	15,599
Intangible assets, net of amortization of $451 in 2011 and $0 in 2010	17,304	—
Goodwill	6,517	—
Deposit on Zhejiang Jonway Auto	—	11,000
Deposits and other asset, net	217	159
Total assets	$ 109,209	$ 33,512

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
8% Senior Convertible debt, net of discount	$ 8,109	$ —
Short term debt and notes	2,272	668
Accounts payable	14,441	328
Accrued liabilities	10,520	2,197
Advances from customers	1,873	—
Other payables	645	—

Jonway purchase price payable		5,400		—
Due to related party		2,753		—
Taxes payable		888		—
Total current liabilities		46,901		3,193
Long term liabilities:				
Derivative liability		—		5,539
Accrued Liabilities		372		—
Total long term liabilities		372		5,539
Total liabilities		47,273		8,732
Commitments and contingencies (Note 8)		—		—
Equity:				
ZAP shareholders' equity:				
Common stock, 800 million shares authorized; no par value; 215,107,078 and 207,254,789 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		207,932		179,691
Accumulated other comprehensive income (loss)		541		(112)
Accumulated deficit		(175,378)		(154,799)
Total ZAP shareholders' equity		33,095		24,780
Non controlling interest		28,841		—
Total shareholders' equity		61,936		24,780
Total liabilities and shareholders' equity	$	109,209	$	33,512

See accompanying notes to condensed consolidated financial statements.

ZAP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Thousands, except net loss per share amounts)

	Three Months ended June 30, 2011	Three Months ended June 30, 2010 Restated	Six Months ended June 30, 2011	Six Months ended June 30, 2010 Restated
NET SALES	$ 16,266	$ 849	$ 27,974	$ 1,697
COST OF GOODS SOLD	14,711	748	25,359	1,481
GROSS PROFIT	1,555	101	2,615	216
OPERATING EXPENSES				
Sales and marketing	3,426	297	5,341	524
General and administrative (non-cash stock-based compensation of $0.8 million and $1.01 million and $1.1 million and $1.0 million for the Three and Six Months ended June 30, 2011 and 2010, respectively)	4,270	1,789	10,429	4,015
Research and development	1,145	328	1,915	704
	8,841	2,414	17,685	5,243
LOSS FROM OPERATIONS	(7,286)	(2,313)	(15,070)	(5,027)
OTHER INCOME (EXPENSE)				
Interest expense, net	(6,978)	(559)	(8,828)	(1,045)
Gain on extinguishment of debt	—	817	—	817
Loss from equity interest in Joint Venture	(88)	—	(161)	
Gain (Loss) on financial instruments	10	(276)	(349)	113
Other income (expense), net	636	(151)	780	(196)
	(6,420)	(169)	(8,558)	(311)
LOSS BEFORE INCOME TAXES	$ (13,706)	$ (2,482)	$ (23,628)	$ (5,338)
PROVISION (EXPENSE) BENEFIT FOR INCOME TAX	(9)	—	15	(4)
CONSOLIDATED NET LOSS	$ (13,715)	$ (2,482)	$ (23,613)	$ (5,342)
Less: net loss attributable to non controlling interest	(1,134)	—	(3,034)	—
Net loss attributable to ZAP	$ (12,581)	$ (2,482)	$ (20,579)	$ (5,342)
NET LOSS PER COMMON SHARE — BASIC AND DILUTED	$ (0.06)	$ (0.02)	$ (0.10)	$ (0.05)
WEIGHTED AVERAGE OF COMMON SHARES OUTSTANDING				

— BASIC AND DILUTED	214,316	105,951	211,808	105,441

See accompanying notes to condensed consolidated financial statements.

ZAP AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

(Unaudited)

	For the Six Months ended June 30, 2011	2010 Restated
Operating activities:		
Consolidated net loss	$ (23,613)	$ (5,342)
Adjustments to reconcile net loss to cash used in operating activities:		
Stock-based employee compensation	1,012	1,000
Stock-based compensation for consulting and other services	359	397
Depreciation and amortization	6,063	30
Derivative liability		(113)
Inventory Reserve	12	—
Provision for doubtful accounts	2	9
Investment in joint venture and other investments	161	148
Gain on extinguishment of debt		(817)
Loss on disposal of equipment	(29)	—
Management fees due to related party	1,250	—
Convertible debt discount	8,108	133
Changes in assets and liabilities (net of acquisition):		
Accounts receivable	1,338	14
Notes receivable	4,287	—
Inventories	2,389	(295)
Prepaid expenses and other assets	(401)	393
Accounts payable	(1,147)	(232)
Accrued liabilities	2,173	(82)
Notes payable	(3,127)	—
Taxes payable	(601)	—
Advances to customers	(1,389)	—
Restricted cash	1,957	—
Cash used in operating activities	(1,195)	(4,757)
Investing activities:		
Purchase of marketable securities	—	(2,000)
Acquisition of 51% Interest in Zhejiang Jonway Automobile	(18,477)	—
Acquisition of property and equipment	(580)	—
Proceeds from sale of equipment	81	16
Cash used in investing activities	(18,976)	(1,984)
Financing activities:		
Proceeds from issuance of common stock	331	—
Proceeds from issuance of convertible debt	19,000	3,000
Proceeds from stock subscription agreement	2,000	—
Proceeds from insurance financing	174	—
Payment of short term debt	(2,185)	
Proceeds from short term borrowing	1,535	—

Stock issuances for convertible debt discounts		—		667
Cash provided by financing activities		20,855		3,667
Effect of exchange rate changes on cash and cash equivalents		16		
Decrease in cash and cash equivalents		700		(3,074)
Cash and cash equivalents at beginning of year		1,503		4,800
Cash and cash equivalents at end of year	$	2,203	$	1,726
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest	$	—	$	—
Cash paid during the period for income taxes	$	4	$	4

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1-ORGANIZATION AND OPERATIONS:

ZAP was incorporated in California in September 1994 (together with its subsidiaries, “the Company,” or “ZAP”). ZAP markets advanced transportation, including alternative energy and fuel efficient automobiles, motorcycles, bicycles, scooters, personal watercraft, hovercraft, neighborhood electric vehicles and commercial vehicles. The Company’s business strategy has been to develop, acquire and commercialize electric vehicles and electric vehicle power systems, which the Company believes have fundamental practical and environmental advantages over available internal combustion modes of transportation that can be produced commercially on an economically competitive basis. The Company intends to further expand its technological expertise through selective acquisitions of companies with innovative products in the advanced transportation industry and strategic alliances with certain manufacturers, distributors and sales organizations.

On January 21, 2011, the Company completed the acquisition of 51% of the equity shares of Zhejiang Jonway Automobile Co., Ltd. (“Jonway”) for a total purchase price of $35,870,000 consisting of approximately $29 million in cash and 8 million shares of ZAP common stock. The Company believes that the acquisition will allow it to expand its distribution network and give it access to the rapidly growing Chinese market for electric vehicles.

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

Jonway’s approved scope of business operations includes the production and sale of vehicle spare parts, and the sale of UFO branded vehicles. The principal activities of Jonway are the production and sale of automobile spare parts, and the consignment production and distribution of SUVs.

Basis of Presentation

The accompanying condensed consolidated financial statements include the financial statements of ZAP, its wholly owned subsidiaries Voltage Vehicles and ZAP Stores and its 51% owned subsidiary Jonway. All significant inter-company transactions and balances have been eliminated. We account for our 37.5% interest in the ZAP Hangzhou Joint Venture using the equity method of accounting. During the three and six months ended June 30, 2011, ZAP Hangzhou incurred an operating loss of $193,730 and $429,230 of which $72,650 and $160,961 is our share at March 31, 2011 and June 30, 2011 respectively.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. All adjustments (all of which are of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the three and six months ended March 31, 2011 and June 30, 2011 are not indicative of the results that may be expected for the year ending December 31, 2011 or for any other future period. These condensed consolidated financial statements and the notes thereto should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission (the “SEC”) on April 15, 2011 (our “2010-K”).

ZAP’s common stock is quoted on the OTC Bulletin Board under the symbol “ZAAP. OB.”

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Liquidity and Capital Resources

In assessing our liquidity, we monitor and analyze our cash on-hand, liquidation value of our investment in related party securities, and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

Our principal sources of liquidity consist of our existing cash on hand, our investment in related party securities with Samyang Optics, Ltd. and transactions with Luo Hua Liang, the brother-in-law of Alex Wang, the Co-CEO and director of ZAP. As previously disclosed in our 10-Q filed for the period ended March 31, 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million as of the quarter ended March 31, 2001. The private place subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011 for the purchase of ZAP's common stock for an aggregate purchase price of $2 million in multiple closings. To date, we have received approximately $771,000 pursuant to the stock purchase agreement.

In January 2011, ZAP issued $19 million of convertible debt to make a partial payment in connection with the Jonway Acquisition. ZAP believes that CEVC will convert the note into shares of ZAP common stock, but if CEVC does not elect to so convert the note, the note will require cash repayment in February 2012. Assuming that the note is converted into shares of ZAP common stock and does not require cash repayment in February 2012, at June 30, 2011, we believe that we will have sufficient liquidity required to conduct operations through June 30, 2012.

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

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

NOTE 2-RESTATEMENT OF 2010 FINANCIAL STATEMENTS

On January 1, 2009, the Company adopted new accounting guidance Accounting Standards Codification ("ASC") 815-40, formerly EITF 07-5 "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock") that required additional analysis as to whether or not stock purchase warrants are indexed to the Company's stock, a condition that is required to attain equity accounting. Upon adoption of this guidance, the Company concluded that its previously issued stock purchase warrants should be classified as equity and therefore, the adoption of the new guidance did not have any impact on the historical financial statements or on the 2009 financial statements.

In connection with the review of certain equity transactions in 2010, the Company determined that certain stock purchase warrants issued in prior years should have been classified as derivative liabilities due to the presence of "price protection" provisions in those warrant agreements. These provisions require that the Company modify existing warrants (as to the actual number of warrants and their exercise price) in the event that the Company issues subsequent equity (or equity linked instruments) at a price below the exercise price of the existing warrants. As a result, the Company restated its 2010 financial information in its Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on April 15, 2011, to correct the misapplication of the new accounting guidance related to the accounting and classification of stock purchase warrants. The financial information in this quarterly report reflects the restated financial information.

Amounts in (000s)		(unaudited) Qtr 1 3/31/10		(unaudited) Qtr 2 6/30/10
Total liabilities as reported	$	12,715	$	8,594
Adjustments		1,053		1,329
Restated total liabilities & stockholders' equity	$	13,768	$	9,923
Net loss as reported	$	(3,248)	$	(2,206)
Adjustments		392		(276)
Restated loss	$	(2,856)	$	(2,482)

NOTE 3-SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Concentration of Credit Risk

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

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

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

Revenue Recognition

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

· Persuasive evidence of an arrangement exists. The Company generally relies upon sales contracts or agreements, and customer purchase orders to determine the existence of an arrangement.

· Sales price is fixed or determinable. The Company assesses whether the sales price is fixed or determinable based on the payment terms and whether the sales price is subject to refund or adjustment.

· Delivery has occurred. The Company uses shipping terms and related documents, or written evidence of customer acceptance, when applicable, to verify delivery or performance. The Company’s customary shipping terms are FOB shipping point.

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

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

- The Company has received a binding purchase order from the customer or distributor authorized by a representative empowered to commit the purchaser (evidence of a sale);
- The purchase price has been fixed, based on the terms of the purchase order;
- The Company has delivered the product from its factory to a common carrier acceptable to the customer; and
- The Company deems the collection of the amount invoiced probable.

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

Shipping and Handling costs

Shipping and handling costs have been included in cost of goods sold.

Research and Development

Research and product development costs are expensed as incurred.

Stock-based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC Topic 718, Compensation—Stock Compensation (“ASC 718”), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. The Company adopted ASC 718 (previously Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards No. 123(R) on January 1, 2006 using the modified prospective method. The Company estimates the fair value of stock-based awards on the date of grant using the Black-Scholes-Merton option pricing model (the “Black-Scholes model”). The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. We estimate forfeitures at the time of grant and revise our estimate in subsequent periods if actual forfeitures differ from those estimates. See Note 4 “Stock-Based Compensation” for a complete discussion of our equity compensation programs and the fair value assumptions used to determine our stock-based compensation expense.

The Company accounts for stock-based compensation awards and warrants granted to non-employees in accordance with FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees (“ASC 505-50”). Under ASC 505-50, the Company determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty’s performance is complete.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances are established. At June 30, 2011 and 2010, all deferred tax assets, without offsetting liabilities in the same jurisdiction, were fully reserved.

Net Loss Per Share Attributable to Common Stockholders

Basic and diluted net loss per share is computed by dividing consolidated net loss attributable to ZAP by the weighted-average number of common shares outstanding during the period. The Company’s potentially dilutive shares, which include outstanding common stock options convertible debt and warrants, have not been included in the computation of diluted net loss per share for all periods presented as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share. There were outstanding options and warrants exercisable to purchase 100.7 million and 94 million shares of ZAP common stock at June 30, 2011 and 2010, respectively. ZAP also had outstanding debt, which is convertible into 84 million shares of ZAP common stock at June 30, 2011.

Cash and Cash Equivalents

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

Restricted Cash

The Company has cash restricted in connection with the issuance by Jonway's automobile dealers of bank notes instead of cash payment for Jonway's mature payables, due to Jonway's lack of cash in the three months ended June 30, 2011. To issue these notes, the banks require a deposit of approximately 40-60% of the amount of the note and to have the full amount of the note on the note's due date, which is usually 6 months from issuance.

Due to Related Party

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

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

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

Zhejiang UFO is considered a related party because the Wang Family, who are shareholders of Jonway, have certain non-controlling equity interests in Zhejiang UFO. The balance due from Jonway at June 30, 2011 is $2.7 million.

Marketable Securities

The Company has an investment in a related party that is comprised of marketable equity securities, which are classified as available-for-sale and recorded at fair value, the value of which fluctuates with the stock market value. The securities are shares of stock in Samyang Optics Co., Ltd., which shares are traded on the Korean stock exchange. ZAP's ownership is not material to Samyang Optics Co., Ltd. Net unrealized holding gains and losses, net of tax, are reported as a separate component of shareholders' deficit, except where holding losses are determined to be "other-than-temporary", whereby the losses are reported in gains and losses on investments in the consolidated statement of operations. Gains and losses on disposals of marketable equity securities are determined using the specific identification method. The market value of these securities declined $230,000 in the three months ended June 30, 2011 and $517,000 for the six months ended June 30, 2011.

Notes Receivable

Notes receivable balances consist of bank notes issued by Jonway's automobile dealers instead of cash payment for Jonway's mature payables, due to Jonway's lack of cash in the three months ended June 30, 2011.

Fair Value of Financial Instruments

The Company measures its financial assets and liabilities at fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. For certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amount approximates fair value because of the short maturities. The fair value of debt is not determinable due to the terms of the debt and the lack of a comparable market for such debt. These tiers include:

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

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

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

The change in fair value of derivative liabilities is classified in other income (expense) in the Company's statement of operations. The fair value of the Company's derivative liabilities related to stock purchase warrants was determined using the Black-Scholes option pricing model – a Level 3 input.

Derivative Financial Instruments

The Company generally does not use derivative financial instruments to hedge exposures to cash flow or market risks. However, certain other financial instruments, such as warrants, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within the control of the Company. In such instances, net-cash settlement is assumed for financial accounting and reporting, even when the terms of the underlying contracts do not provide for net-cash settlement. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period.

The Company accounts for derivative instruments and debt instruments in accordance with the interpretative guidance of ASC 815 (“Derivatives and Hedging”). It is necessary for the Company to make certain assumptions and estimates to value derivatives and debt instruments.

During the three months ended June 30, 2011, certain derivative liabilities were converted into 233,192 shares of ZAP stock.

The following table set forth a summary of changes in the fair value of Level 3 liabilities for the three months ended June 30, 2011 (in thousands):

	Balance 3/31/2011	Exercise of warrants	Change in fair value	Balance 6/30/2011
Derivative Liabilities	$ 201	$ (70)	$ 10	$ 0

The Company does not have any non-financial assets or liabilities that it measures at fair value.

Beneficial Conversion Feature

The Company accounts for potentially beneficial conversion features under Emerging Issues Task Force No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios and EITF Issue No. 00-27, Application of Issue 98-5 to Certain Convertible Instruments. On January 12, 2011, the Company issued $19 million of Convertible debt to CEVC which is convertible into 84.3 million shares of ZAP Stock or a number of shares of Jonway stock owned by ZAP to be determined in accordance with the note. At the time of each of this issuance, the value of the common stock into which the note is convertible had a fair value greater than the proceeds for such issuance. Accordingly, the Company has recorded a beneficial conversion feature of $8.6 million. The amount of the conversion feature was limited where the warrants issued in conjunction with the CEVC note were valued at $10.3 million plus the conversion feature would not exceed $19 million

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectibles to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience. The allowance for doubtful accounts was approximately $19,000 and $27,000 at June 30, 2011 and December 31, 2010, respectively for ZAP’s U.S. operations. Zhenjiang Jonway Automobile Co., Ltd. (“Jonway”) primarily sells vehicles to its qualified dealers. An on-going credit evaluation of its customers’ financial condition is performed. Jonway maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. As a result of this analysis no allowance for doubtful accounts was determined to be required at June 30, 2011.

Inventories

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

Company's estimates of its reserves are reflected in cost of goods sold within the statement of operations during the period in which such changes are determined by management.

Property and Equipment

Property and equipment consists of land, building and improvements, machinery and equipment, office furniture and equipment, vehicles, and leasehold improvements. Property and equipment is stated at cost, net of accumulated depreciation and amortization, and is depreciated or amortized using straight-line and accelerated methods over the asset's estimated useful life. Costs of maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized.

Long-lived Assets

Long-lived assets are comprised of property and equipment and intangible assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or by the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flow and fundamental analysis. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Intangible Assets

Intangible assets consist of trade names, developed technology, in process research and development and customer relationships (including client contracts). For financial statement purposes, identifiable intangible assets with a defined life are being amortized using the straight-line method over the estimated useful lives of seven years for developed technology and eight years for the customer relationships. Costs incurred by the Company in connection with trademark applications and approvals from governmental agencies, including legal fees and trademark fees and specific testing costs, are expensed as incurred. Purchased intangible costs of completed developments are capitalized and amortized over an estimated economic life of the asset commencing on the acquisition date. Costs subsequent to the acquisition date are expensed as incurred.

Product warranty costs

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

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

Common Stock

At the ZAP Annual Meeting held on June 20, 2011, the shareholders approved the following proposed resolutions that affect our common stock:

- an amendment to increase the authorized shares of common stock from 400 million to 800 million;
- an amendment to our charter to effect a reverse stock split within a range of one-for-four or one–for-eight with the ultimate ratio to be determined by our Board of Directors; and
- an amended and restated 2008 equity plan to, among other things, increase the number of shares of common stock available for issuance under the plan to a total of 40 million shares.

Comprehensive loss

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010 Restated	2011	2010 Restated
Consolidated net loss	$(13,715)	$(2,482)	$(23,613)	$(5,342)
Increase in foreign cumulative translation adjustment	365	—	669	—
Decrease in net unrealized gains on available-for-sale securities	(230)	—	(517)	—
Comprehensive loss	(13,580)	(2,482)	(23,461)	(5,342)
	(1,134)	—	(3,034)	—

Comprehensive loss attributable to non controlling interest				
Comprehensive loss attributable to ZAP	$(12,446)	$(2,482)	$(20,427)	$(5,342)

Quantitative and Qualitative Disclosures about Market Risk

ZAP foreign currency exchange risks are as follows:

The financial position and results of operations of our Chinese subsidiary Jonway are measured using Chinese Renminbi (RMB) as the functional currency. The financial position and results of operations of our Chinese subsidiary are reported in United States dollars (USD) and included in our consolidated financial statements. Our exposure to foreign currency fluctuation is mitigated, in part, by the fact that we incur certain operating costs in the same foreign currencies in which revenues are denominated. The foreign currency transaction gain (loss) is attributable to the impact of foreign currency exchange rate changes on intercompany debt balances and on receivable and payables denominated in a currency other than a subsidiary's functional currency. ZAP benefits from a weaker dollar and is adversely affected by a stronger dollar relative to major currencies worldwide. Accordingly, changes in exchange rates, and in particular a strengthening of the US dollar, may negatively affect the company's consolidated revenues or operating costs and expenses as expressed in U.S. Dollars. Adjustments resulting from the process of translating foreign functional currency financial statements into US dollars are included in accumulated other comprehensive income (loss) a separate component of common shareholders equity.

NOTE 4-STOCK-BASED COMPENSATION

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

We have stock compensation plans for employees and directors, which are described in Note 8 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on April 15, 2011. We recognize the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. All of our stock-based compensation is accounted for as an equity instrument.

A summary of options under the Company's stock option plans from January 1, 2011 through June 30, 2011 is as follows (the number of shares is in thousands):

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding December 31, 2010	26,778	$	0.56	7.74
Options granted under the plan	500	$	1.10	4.90
Options exercised	(659)	$	0.31	—
Options forfeited and expired	—		—	—
Outstanding March 31, 2011	26,619	$	0.49	7.74
Options granted under the plan				
Options exercised	(1,198)		0.26	
Options forfeited and expired				
Outstanding June 30, 2011	25,421	$	0.50	7.25

Aggregate intrinsic value is the sum of the amounts by which the quoted market price of our stock exceeded the exercise price of the options at June 30, 2011 for those options for which the quoted market price was in excess of the exercise price ("in-the-money options"). There were 19.4 million options valued at $1.4 million in the money at June

30, 2011.

As of June 30, 2011, total compensation cost of unvested employee stock options is $2 million. This cost is expected to be recognized through December 2012. We recorded no income tax benefits for stock-based compensation expense arrangements for the three months ended June 30, 2011, as we have cumulative operating losses, for which a valuation allowance has been established.

NOTE 5-ACQUISITION

On January 21, 2011(the “Closing Date”), the Company completed the acquisition of 51% of the equity shares of Zhejiang Jonway Automobile Co., Ltd. (“Jonway”). The transaction was accounted for in accordance with the provisions of ASC 805-10, Business Combinations. The Company retained independent appraisers to advise management in the preliminary determination of the fair value of the various assets acquired and liabilities assumed. The values assigned in these financial statements are preliminary and represent management’s best estimate of fair values as of the Closing Date.

As required by ASC 805-20, Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest, management conducted a review to reassess whether they identified all the assets acquired and all the liabilities assumed, and followed ASC 805-20's measurement procedures for Closing Date recognition of the fair value of net assets acquired.

The following are the preliminary estimated fair value of assets acquired and liabilities assumed as of the Closing Date (in thousands):

Cash and cash equivalents	$	993
Restricted cash		3,088
Inventories, net		12,715
Property & equipment		46,322
Other tangible assets		14,167
Accounts payable		(14,549)
Notes payable		(4,261)
Deferred tax liability		(166)
Other liabilities assumed		(14,358)
Net tangible assets acquired		43,951
Goodwill and intangible assets		23,794
Net assets acquired		67,745
Non controlling interest		(31,875)
Purchase price	$	35,870

The fair value of the major components of the intangible assets acquired and their estimated useful lives is as follows (dollars in thousands):

		Preliminary Fair Value	Weighted Average Useful Life (in Years)
Customer relationships	$	3,300	8
Developed technology		4,228	7
Tradename		9,326	(a)
In-process research and development costs		547	(b)
Total	$	17,401	

(a) The Jonway tradename has been determined to have an indefinite life.
(b) In-process research and development is accounted for as an indefinite life intangible asset until the completion or abandonment of the associated research and development efforts.

Under ASC 805-10, acquisition-related costs (i.e., advisory, legal, valuation and other professional fees) are not included as a component of consideration transferred, but are accounted for as expenses in the periods in which the costs are incurred. Acquisition-related costs were $204,000 and $410,000 in the three and six months ended June 30, 2011.

The following unaudited pro forma condensed financial information presents the combined results of operations of ZAP and Jonway as if the acquisition had occurred as of the beginning of each period presented (in thousands except per share amounts):

	Pro Forma Combined Six Months ended June 30, 2011	Pro Forma Combined Six Months ended June 30, 2010	Pro Forma Combined Three Months ended June 30, 2011	Pro Forma Combined Three Months ended June 30, 2010
Net sales	$ 35,815	$ 38,916	$ 16,311	19,317
Net(loss) Income	(20,535)	(4,182)	(9,321)	(1,658)
Net loss per common share, basic and diluted	$ (0.09)	$ (0.04)	$ (0.04)	$ (0.02)
Shares outstanding, basic and diluted	214,316	105,951	211,806	105,441

The unaudited pro forma condensed financial information is not intended to represent or be indicative of the consolidated results of operations of the Company that would have been reported had the acquisition been completed as of the beginning of the period presented, and should not be taken as being representative of the future consolidated results of operations of the Company.

The pro forma adjustments are based upon available information and certain assumptions that the Company believes are reasonable. The pro forma results of operations do not include the potential post-acquisition effects of any restructuring, impairment or integration costs related to the combined operations nor of any revenue opportunities, operating synergies or cost savings anticipated as eventual benefits of the acquisition.

NOTE 6 – INVENTORIES

Inventories at June 30, 2011 and December 31, 2010 are summarized as follows (in thousands):

	June 30, 2011	December 31, 2010
Advanced technology vehicles	$ 821	$ 1,163
Vehicles-conventional	590	345
WIP Jonway SUV’s	2,785	—
Parts and supplies	5,020	656
Finished goods	3,993	277
	13,209	2,441
Less - inventory reserve	(856)	(619)
	$ 12,353	$ 1,822

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NOTE 7-GOODWILL & OTHER INTANGIBLES

The intangible assets at June 30, 2011 are summarized as follows:

	Weighted Average Useful Life (In Years)	Net Book Value 12/31/2010	Additions 2011	Accumulated Amortization 6/30/2011	Comprehensive Translation Adjustment 6/30/2011	Net Book Value 6/30/2011
Exhange rate		6.62270			6.5825	6.463
Customer Relationships	8	—	$ 3,300	(181)	16	$ 3,135
Developed Technology	7	—	4,228	(249)	20	3,999
In Process Technology		—	547		3	550
Tradename		—	9,326		294	9,620
Intangibles		7	$ 17,401	$ (430)	$ 333	$ 17,311
Goodwill Assets			$ 6,393		$ 124	$ 6,517
Goodwill & Intangibles			$ 23,794	$ (430)	$ 457	$ 23,828

As of June 30, 2011, estimated future amortization expense for intangibles assets, subject to amortization, is as follows (in thousands):

Year	Amortization Expense
2011	$ 510
2012	1,021
2013	1,021
2014	1,021
2015	1,021
Thereafter	2,540
	$ 7,134

NOTE 8-DISTRIBUTION AGREEMENTS

Distribution agreements as of June 30, 2011 and December 31, 2010 are presented below (in thousands):

	June 30, 2011	December 31, 2010
Better World Products	$ 2,160	2,160
Jonway Products	14,400	14,400
	16,560	16,560
Less amortization	(2,041)	(961)
	$ 14,519	15,599

Distribution Agreement with Better World International Limited

On January 15, 2010, ZAP entered into a Stock Purchase Agreement with Better World International Limited, a British Virgin Islands company, whereby the Company issued 6 million shares of it common stock valued at $2.16 million in exchange for an agreement on terms relating to rights to the distribution of Better World's products, such as charging stations for electric vehicles both in the U.S. and internationally. Priscilla Lu, the chairman of the board of directors of ZAP, is also the director and a shareholder of Better World International Limited.

Distribution Agreement with Goldenstone Worldwide Limited for Jonway Products

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

Distribution Agreement with Samyang Optics

On January 27, 2010, ZAP entered into an International Distribution Agreement (the "Distribution Agreement") with Samyang Optics Co. Ltd. ("Samyang") pursuant to which ZAP appointed Samyang as the exclusive distributor of certain ZAP electric vehicles including the Jonway A380 5-door electric sports utility vehicle equipped with ZAP's electric power train, in the Republic of Korea. The Distribution Agreement also provides that ZAP and Samyang will negotiate to enter into additional agreements related to the manufacture and assembly of ZAP vehicles by Samyang in Korea. The Distribution Agreement shall be in effect for one year and may be extended annually by Samyang provided that Samyang has satisfied sales quotas determined by ZAP and Samyang is otherwise in compliance with the Distribution Agreement. The parties are currently discussing the extension of the agreement.

In addition, on January 27, 2010, ZAP and Samyang entered into an initial purchase order pursuant to the Distribution Agreement for the purchase of one hundred ZAP Jonway UFO electric sports utility vehicles. Selling prices have yet to be determined and no purchases have been made as of June 30, 2011.

NOTE 9- LONG-TERM AND SHORT-TERM NOTES

8% Senior Convertible Notes

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

Pursuant to the Agreement, (i) CEVC purchased from the Company a Senior Secured Convertible Note (the "Note") in the principal amount of US$19 million, as amended, (ii) the Company issued to CEVC a warrant (the "Warrant") exercisable for two years for the purchase up to 20,000,000 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, (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, 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 matures on February 12, 2012, accrues interest at a rate per annum of 8%, and 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. Upon conversion, any accrued interest on the Note is waived. Effective March 31, 2011, the Company and ZAP entered into an amendment to the Note and Warrant to remove certain price-based anti-dilution features. At January 12, 2011, a discount of $10.4 million was recorded. This amount was to be amortized over 13 months. We amortized $2.6 million and $4.4 million of the discount in the three and six months ended June 30, 2011, respectively. In addition, the Company recorded $666,300 in accrued interest through the first six months ended June 30, 2011.

The Company accounts for derivative instruments and debt instruments in accordance with the interpretative guidance of ASC 815, "Derivatives and Hedging", which codified SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF 98-5"), and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"), and associated pronouncements related to the classification and measurement of warrants and instruments with conversion features. It is necessary for the Company to make certain assumptions and estimates to value derivatives and debt instruments.

Short Term Notes

As of June 30, 2011, ZAP had $2.3 million in short term notes, of which $1.5 million is a loan from a bank in China with an interest rate of 12.06% per year due on November 1, 2011.

NOTE 10 – SEGMENT REPORTING

Operating Segments

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

In accordance with ASC 280, the Company has identified four reportable segments consisting of Jonway Conventional Vehicles, Advanced Technology Vehicles, Consumer Product and Car Outlet. The Jonway Conventional Vehicles segment represents sales of the gas fueled Jonway A380 three and five-door sports utility vehicles and spare parts principally through distributors in China; the Advanced Technology Vehicles segment represents sales and marketing of the ZAPTRUCK XL, the ZAPVAN Shuttle and the Xebra® Sedan; the Consumer Product segment represents rechargeable portable energy products, our Zapino scooter, and our ZAPPY3 personal transporters; and our Car Outlet segment represents operation of a retail car outlet that sells pre-owned conventional vehicles and advanced technology vehicles. These segments are strategic business units that offer different services. They are managed separately because each business requires different resources and strategies. The Company's chief operating decision making group, which is comprised of the Co-Chief Executive Officers 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.

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

Segment results are summarized as follow (in thousands):

	Jonway Conventional Vehicles	Consumer Products	Car Outlet	Advanced Technology Vehicles	Total
For the three months ended June 30, 2011:					
Net sales	15,721	102	249	194	16,266

Gross profit (loss)	1,422	24	95	14	1,555
Depreciation, amortization	1,116	554	2	3	1,675
Net loss	(2,314)	(10,803)	(15)	(583)	(13,715)
Total assets	89,977	17,470	709	1,053	109,209
For the three months ended June 30, 2010: Restated					
Net sales	—	77	488	284	849
Gross profit (loss)	—	35	129	(63)	101
Depreciation, amortization		36	4	11	51
Net loss (restated)	—	(2,075)	(4)	(403)	(2482)
Total assets	—	7,619	453	1,694	9,923

For the Six months ended June 30, 2011:					
Net sales	26,668	302	614	390	27,974
Gross profit (loss)	2,357	73	153	32	2,615
Depreciation, amortization	1,972	3,802	4	9	5,787
Net loss	(6,190)	(16,362)	(71)	(990)	(23,613)
Total assets	89,977	17,470	709	1,053	109,209
For the Six months ended June 30, 2010: Restated					
Net sales	—	180	1,005	512	1,697
Gross profit (loss)	—	59	223	(66)	216
Depreciation, amortization		38	2	11	51
Net loss (restated)	—	(4,424)	(43)	(875)	(5,342)
Total assets	—	7,619	453	1,851	9,923

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

Jonway's results of operations have been included since the acquisition date of January 21, 2011.

Customer Information

For the three months and six months ended June 30, 2011 and 2010, no customers accounted for more than 10% of our revenue.

NOTE 11 – RELATED PARTIES

Sale of Stock to a Party Related to ZAP's CO-CEO and Director

As previously disclosed in our 10-Q filed for the period ended March 31, 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million as of the quarter ended March 31, 2001. The private place subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011 for the purchase of ZAP's common stock for an aggregate purchase price of $2 million in multiple closings. To date, we have received approximately $771,000 pursuant to the stock purchase agreement. The parties have not confirmed the share price of the stock to be issued.

Commitment to Purchase Company Owned by ZAP President

ZAP's President Gary Dodd created the company ZAP Motor Manufacturing Kentucky, Inc., a Kentucky corporation, or ZMMK, and has applied for a loan from the U.S. Department of Energy under its Advanced Technology Vehicles Manufacturing Incentive Program. ZAP has entered into a Manufacturing and Supply Agreement, dated as of March 29, 2009, pursuant to which, conditional upon ZMMK's receipt of the loan, ZAP would engage ZMMK to manufacture certain of its products. Conditional upon ZMMK's receipt of the loan, ZAP has the right to purchase a substantial equity ownership interest in ZMMK.

Rental Agreements

The Company rents office space, land and warehouse space from Mr. Steven Schneider, its CEO and a major shareholder. These properties are used to operate the car outlet and to store inventory. Rental expense was approximately $46,200 and $45,500 for the six months ended June 30, 2011 and 2010.

8% Senior Convertible Debt Due to China Electric Vehicle Corporation

On January 12, 2011, ZAP entered into a Senior Secured Convertible Note and Warrant Purchase Agreement (the "Agreement") with China Electric Vehicle Corporation ("CEVC"), a British Virgin Island company whose sole shareholder is Cathaya. Priscilla Lu, the chairman of the board of directors of ZAP, is also a general partner of Cathaya and a director of CEVC.

Pursuant to the Agreement, (i) CEVC purchased from the Company a Senior Secured Convertible Note (the "Note") in the principal amount of US$19 million, subject to adjustments as set forth therein, as amended, (ii) the Company issued to CEVC a warrant (the "Warrant") exercisable for two years for the purchase up to 20,000,000 shares of the Company's Common Stock at

$0.50 per share, subject to adjustments as set forth therein, 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, (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, 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 matures on February 12, 2012, accrues interest at a rate per annum of 8%, and 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. Upon conversion, any accrued interest on the Note is waived. Effective March 31, 2011, the Company and ZAP entered into an amendment to the Note and Warrant to remove certain price-based anti-dilution features. At January 12, 2011, a discount of $10.4 million was recorded. This amount was to be amortized over 13 months. We amortized $2.6 million and $4.4 million of the discount in the three and six months ended June 30, 2011, respectively. In addition, the Company recorded $666,300 in accrued interest through the first six months ended June 30, 2011.

Management Agreement with Cathaya Capital, L.P.

As previously disclosed in the Company's Current Report on Form 8-K filed on August 10, 2009, on August 6, 2009, Cathaya purchased 20 million shares of the Company's Common Stock. On August 6, 2009, the Company entered into a Secured Convertible Promissory Note with Cathaya for aggregate principal advances of up to $10 million. In addition, the Company issued two warrants to Cathaya exercisable for shares of the Company's Common Stock.

On July 9, 2010, Cathaya entered into a securities purchase agreement, pursuant to which, Cathaya purchased 44 million shares of the Company's Common Stock at a price of $0.25 per share for an aggregate purchase price of $11 million.

Priscilla Lu, the chairman of the board of directors of ZAP, is also a general partner of Cathaya.

On November 10, 2010, ZAP entered into a Management Agreement with Cathaya, for the payment of $2.5 million in exchange for Cathaya's prior and ongoing transaction advisory, financial and management consulting services. Pursuant to the agreement, principals of Cathaya will be available to serve on the Board and will devote such time and attention to the Company's affairs as reasonably necessary to accomplish the purposes of the agreement. The agreement is renewable yearly and the management fee was payable in cash or in common stock of ZAP at $0.50 per share. 5 million shares were issued to Cathaya in payment of this fee. As of June 30, 2011, ZAP has accrued $1.2 million for management fees due to Cathaya.

Joint Venture ZAP Hangzhou

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

We account for 37.5% interest in the ZAP Hangzhou Joint Venture by the equity method of accounting. For the three months ended June 30, 2011, the joint venture incurred an operating loss of $429,230 of which $160,961 is our share.

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

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

Zhejiang UFO is considered a related party because Wang Huaiyi, Alex Wang (son of Wang Huaiyi) and Wang Xiao Ying (daughter of Wang Huaiyi), who are shareholders of Jonway, also have certain non-controlling equity interests in Zhejiang UFO.

NOTE 12 – LITIGATION

In the normal course of business, we may become involved in various legal proceedings. Except as stated below, we know of no pending or threatened legal proceeding to which we are or will be a party which, if successful, might result in a material adverse change in our business, properties or financial condition. However, as with most businesses, we are occasionally parties to lawsuits incidental to our business, none of which are anticipated to have a material adverse impact on our financial position, results of operations, liquidity or cash flows. The Company estimates the amount of potential exposure it may have with respect to litigation claims and assessments.

Rainbow Cycle & Marine & Siloam Springs Cycle, v. Voltage Vehicles, Arkansas Motor Vehicle Commission, Case No. 10-008. On April 1, 2010, Rainbow Cycle & Marine & Siloam Spring Cycle (the "Dealer"), an automobile dealer in the State of Arkansas, submitted a complaint to the Arkansas Motor Vehicle Commission (the "Commission") regarding 6 Xebra® vehicles purchased from ZAP in 2008, for a total purchase price of $65,000. Due to a concern related to the vehicles raised by the Dealer, the Dealer requested that the Commission order the Company to refund all monies paid by the Dealer to the Company to pay all transportation costs, and in addition to assess penalties and interest charges against ZAP in an unspecified amount. The Commission issued a Notice of Hearing on August 11, 2010, setting a hearing for September 15, 2010 on the Dealer's Complaint. ZAP responded with a Motion to Dismiss, which the Commission set for hearing on December 15, 2010 and at the same time continued the hearing on the Dealer's Complaint to the same date. After the hearing, the Commission ruled that ZAP was required to refund the Dealer's purchase price for the vehicles and to pay for transportation of the vehicles off of the Dealer's premises. In response, ZAP filed an appeal on April 25, 2011 in Superior Court, State of Arkansas, challenging the Commission's decision. A brief in support of petition for judicial review was filed by ZAP on August 5, 2011 requesting that the decision of the Arkansas Motor Vehicle Commission be reversed and the complaints of the Dealer be dismissed with prejudice and for all other just and proper relief.

NOTE 13 - SUBSEQUENT EVENTS

As previously disclosed in our 10-Q filed for the period ended March 31, 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million as of the quarter ended March 31, 2001. The private place subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011 for the purchase of ZAP's common stock for an aggregate purchase price of $2 million in multiple closings. To date, we have received approximately $771,000 pursuant to the stock purchase agreement. The parties have not confirmed the share price of the stock to be issued.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations.

This quarterly report of Form 10-Q, or Form 10-Q, 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 continue”, “may likely 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 maintain effective disclosure controls and procedures;
- our limited operating history, particularly of ZAP and Jonway on a consolidated basis;
- our history of losses and the uncertainty of our future profitability;
- whether the alternative energy and gas-efficient vehicle market for our products continues to grow and, if it does, the pace at which it may grow;
- our ability to keep up with advances in technology and compete against large competitors in a rapidly changing market for electric and conventional fuel vehicles;
- our ability to operate internationally, particularly in China;
- 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 attract and retain the personnel qualified to implement our growth strategies;
- our ability to obtain approval from government authorities in the U.S., China and internationally 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;
- changes in our business plan and corporate strategies; and
- other risks and uncertainties discussed in greater detail in various sections of this report, particularly the section captioned “Risk Factors.”

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

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

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

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Recent Developments

ZAP designs, develops, manufactures and sells fully electric and advanced technology vehicles, as well as conventional fuel sports utility vehicles. We market and sell our electric vehicles directly to consumers by phone over the internet, in-person at our Santa Rosa location, by direct outreach through GSA, participating in bid applications with government and corporate fleets. We market and sell our conventional fuel sports utility vehicles primarily through distributors in China.

On January 21, 2011, ZAP completed its acquisition of 51% of the equity shares of Zhejiang Jonway Automobile Co. Ltd. of Sanmen, Zhejiang, China pursuant to that that certain Equity Transfer Agreement entered into between ZAP and Jonway Group Co., Ltd., dated July 2, 2010, as amended on April 15, 2011, for a total purchase price of $35,870,000 consisting of approximately $29 million in cash and 8 million shares of stock (the “Jonway Acquisition”). With ZAP’s electric vehicle technology expertise and international experience, ZAP Jonway intends to build the necessary production platform to serve the Chinese electric vehicle market. ZAP Jonway intends to leverage Jonway’s A380 SUV, as well as its established distribution channels to the Chinese market. ZAP Jonway intends to manufacture and sell SUVs powered by ZAP’s electric drive train as well as Jonway’s gasoline fueled vehicles.

We operate our business in four reportable segments: Jonway Conventional Vehicles, Advanced Technology Vehicles, Consumer Products and Car Outlet. These segments are strategic business units that offer different services. They are managed separately because each business requires different resources and strategies. The Jonway Conventional Vehicles segment represents sales of the gas fueled Jonway A380 three and five-door sports utility vehicles and spare parts principally through distributors in China; the Advanced Technology Vehicles segment represents sales and marketing of the ZAPTRUCK XL, the ZAPVAN Shuttle and the Xebra® Sedan; the Consumer Product segment represents the sales and marketing of rechargeable portable energy products, our Zapino scooter, and our ZAPPY3 personal transporters; and our Car Outlet segment represents operation of a retail car outlet that sells pre-owned conventional vehicles and advanced technology vehicles. ZAP’s Co-Chief Executive Officers 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.

Results of Operations

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

	Three Months ended June 30		Six Months ended June 30	
	2011	2010	2011	2010
Statements of Operations Data:		Restated		Restated
Net sales	100.0%	100.0%	100%	100%
Cost of sales	(90.4)	(88.1)	(90.6)	(87.3)
Operating expenses	(54.3)	(284.3)	(63.2)	(308.90)
Loss from operations	(44.8)	(272.4)	(53.8)	(296.2)
Net loss attributable to ZAP	(77.3)	(320.6)	(73.6)	(315.8)

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

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Net sales increased by $15.4 million in the three months ended June 30, 2011 from $849,000 in June 30, 2010 to $16.3 million for the three months ended June 30, 2011. This increase related principally to the Jonway Acquisition in January 2011. Jonway's sales contributed $23.9 million in net sales as a result of this acquisition.

In our Advanced Technology Vehicles segment, net sales decreased by $34,000 from $228,000 in the three months ended June 30, 2010 to $194,000 for the three months ended June 30, 2011, primarily due to slower sales resulting from a poor economic environment in the United States.

In our Consumer Product segment, net sales increased by $25,000 from $77,000 in the three months ended June 30, 2010 to $102,000 in the three months ended June 30, 2011. The increase is principally due to higher sales of our ZAPPY 3 electric scooters.

In our Car Outlet segment, net sales decreased by $239,000 from $488,000 in the three months ended June 30, 2010 to $249,000 in the three months ended June 30, 2011. This decrease was due in part to the lower number of consigned vehicles available for resale in the three months ended June 30, 2011.

Gross profit increased by $1.45 million from $101,000 in the three months ended June 30,2010 to $ 1.55 million in the three months ended June 30, 2011. The increase in gross profit in the three months ended June 30, 2011 principally related to the Jonway Acquisition in January 2011. Jonway's gross profit contributed approximately $1.4 million as a result of this acquisition.

In the Advanced Technology Vehicles segment, gross profit increased by $77,000 from a gross loss of $(63,000) in the three months ended June 30, 2010, to $14,000 in the three months ended June 30, 2011. This decrease was due to a lower volume of sales of the ZAPTRUCK XL.

In the Consumer Products segment, gross profit decreased by $11,000 from $35,000 in the three months ended June 30, 2010 to $24,000 in the three months ended June 30, 2011. The decrease was primarily due to slow sales of our ZAPPY 3 electric scooters.

In the Car Outlet segment, gross profit decreased by $34,000 from $129,000 in the three months ended June 30, 2010 to $95,000 for the three months ended June 30, 2011. The lower gross profit was due to lower gross margins on vehicles sold wholesale and the decrease in overall sales.

Sales and marketing expenses increased by $3.2 million from $297,000 in the three months ended June 30, 2010 to $3.5 million in the three months ended June 30, 2011. The increase in sales and marketing expenses in the three months ended June 30, 2011 principally related to the Jonway Acquisition in January 2011. Jonway's sales and marketing costs contributed approximately $2.7 million as a result of this acquisition.

General and administrative expenses increased by $2.5 million from $1.8 million in the three months ended June 30, 2010 to $4.3 million in the three months ended June 30, 2011. This increase was related principally to the closing of the Jonway Acquisition that occurred in January 2011 and the inclusion of $941,000 in general and administrative expenses from Jonway as a result of this acquisition. We also incurred higher professional fees for accounting and legal services in connection with the Jonway Acquisition. In the three months ended June 30, 2011, we also recorded $625,000 for quarterly fees under a management agreement entered into between ZAP and Cathaya Capital, L.P., a Cayman Islands exempted limited partnership and ZAP's largest investor, or Cathaya.

Research and development expenses increased by $0.8 million from $328,000 in the three months ended June 30, 2010 to $1.1 million in the three months ended June 30, 2011. This increase was related principally to the closing of the Jonway Acquisition that occurred in January 2011 and the inclusion of $652,000 in research and development expenses relating to further development of the automatic transmission for Jonway's three and five door sports utility vehicles and further development of our electric drive line for Jonway's SUV's.

Interest expense increased by $6.2 million from $559,000 in the three months ended June 30, 2010 to $6.7 million in the three months ended June 30, 2011. This increase was principally due to interest charges related to the $19 million in convertible debt issued by ZAP to China Electric Vehicle Corporation on January 12, 2011, the proceeds of which were used to finance the Jonway Acquisition.

Joint operations We account for 37.5% interest in the ZAP Hangzhou Joint Venture by the equity method of accounting. For the three months ended June 30, 2011, the joint venture incurred an operating loss of $236,000 of which $88,500 is our share.

Other income of $636,000 in the three months ended June 30, 2011 reflected the inclusion of incentives related to the operation of Jonway's production facility, paid by the Chinese Government to Jonway and reflected in our consolidated financial statements as a result of the Jonway Acquisition.

Net loss attributable to ZAP increased by $9.8 million from $2.5 million loss in the three months ended June 30, 2010 to $12.6 million loss in the three months ended June 30, 2011, primarily due to the Jonway Acquisition, pursuant to which we incurred increased professional fees, interest expenses and amortization expenses.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Net sales increased by $26.3 million in the six months ended June 30, 2011 from $1.7 million for the six months ended June 30, 2010 to $27.9 million in June 30, 2011. This increase related principally to the Jonway Acquisition that occurred in January 2011. Jonway's sales contributed $26.7 million in net sales as a result of this.

In our Advanced Technology segment, sales decreased from $512,000 in 2010 to $390,000 for the six months ended June 30, 2011. The tight U.S. credit and general economic conditions negatively impacted our dealer sales in the first six months of 2011.

In our Consumer Product segment, sales increased $122,000 from $180,000 for the six months ended June 30, 2010 to $302,000 for the six months ended June 30, 2011 due to increases in sales of ZAPPY 3 scooters to a single customer for resale.

In our Car Outlet segment, sales decreased $391,000 from $1 million for the six months ended June 30, 2010 to $614,000 for the six months ended June 30, 2011. The decrease was due to a decrease in the consignment cars available for sale and a general downturn in the economy. Due to the current recession many consumers choose lower priced pre-owned vehicles that are distributed through our retail car outlet.

Gross profit increased by $2.4 million from $216,000 for the six months ended June 30, 2010 to $2.6 million for the six months ended June 30, 2010. The increase in gross profit in the three months ended June 30, 2011 principally related to the Jonway Acquisition in January 2011. Jonway's gross profit contributed approximately $2.8 million as a result of this acquisition for the six months ended June 30, 2011.

In our Advanced Technology segment, our gross profit increased by $98,000 from a gross loss of $66,000 for the six months ended June 30, 2010 to a gross profit of $32,000 for the six months ended June 30, 2011. The increase was due to sales of the XL models, which have been designed for fleets.

In our Consumer Products segment, we experienced an increase of $14,000 in gross profits from a gross profit of $59,000 for the six months ended June 30, 2010 to a gross profit of $73,000 for the six months ended June 30, 2011. The increase was due to the sales of the Zappy 3 Pro to a major customer.

Gross profits in our retail car lot decreased by $70,000 from $223,000 for the six months ended June 30, 2010 to $153,000 for the six months ended June 30, 2011. The decrease in gross profits was due to lower sales volumes and a decline of consignment cars available for sale.

Sales and marketing expenses in the first six months of 2011 increased by $4.9 million from $524,000 for the six months ended June 30, 2010 to $5.4 million for the six months ended June 30, 2011. The increase in selling and marketing expense in the six months ended June 30, 2011 principally related to the Jonway Acquisition in January, 2011. Jonway's sales and marketing costs contributed approximately $3.8 million as a result of this acquisition and amortization expenses on the distribution agreements of $1.1 million.

General and administrative expenses for the six months ended June 30, 2011 increased by approximately $6.4 million from $4 million for the six months ended June 30, 2010 to $10.4 million for the six months ended June 30, 2011. The increase was due to greater professional fees for legal and accounting services in connection with the Jonway Acquisition, an increase in salaries due to hiring additional personnel, higher consulting expenses and increased expenses for employee stock options to reflect recent issuances in the six months ended June 30, 2011. In the six months ended June 30, 2011, we also recorded $1.25 million in fees under a management agreement entered into between ZAP and Cathaya Capital, L.P., or Cathaya, a Cayman Islands exempted limited partnership and ZAP's largest investor.

Research and development expenses increased by $1.2 million from $704,000 for the six months ended June 30, 2010 to $1.9 million for the six months ended June 30, 2011. The increase was the result of $333,000 of expenses related to the development of the Alias electric car prototype for the XPRIZE competition, $89,000 of expenses related to the development of an electric-powered prototype of a postal service vehicle to replace gas-powered United States Postal Service vehicles, $243,000 of expenses related to the development of Jonway's sports utility vehicles for the taxi fleet market and $64,000 of expenses related to the development of battery management system technology. The increase in research and development expenses also resulted from the inclusion of $1.2 million in research and development expenses relating to further developing the automatic transmission for Jonway's three and five door sports utility vehicles, or SUVs, and further developing the electric drive line for Jonway's SUVs.

Interest expense, net increased by $7.6 million from an interest expense of $1 million for the six months ended June 30, 2010 to an interest expense of $8.6 million for the six months ended June 30, 2011. The increase was due to discounts recorded on the $19 million convertible debt to reflect a discounted stock conversion price.

Joint venture operations We account for 37.5% interest in the ZAP Hangzhou Joint Venture by the equity method of accounting. For the six months ended June 30, 2011, the joint venture incurred an operating loss of $429,000 of which $161,000 is our share.

Other income (expense) increased $584,000 from an expense of $196,000 for the six months ended June 30, 2010 to other income of $780,000 for the six months ended June 30, 2011, which reflected the inclusion of incentives related to the operation of Jonway's production facility paid by the Chinese Government to Jonway and reflected in our consolidated financial statements as a result of the Jonway Acquisition.

Net loss attributable to ZAP for the six months ended June 30, 2011 was $20.6 million loss compared to $5.3 million loss for the six months ended June 30, 2010.

Liquidity and Capital Resources

In assessing our liquidity, we monitor and analyze our cash on-hand, liquidation value of our investment in related party securities, and our operating and capital expenditure commitments. Our principal liquidity needs are to meet our working capital requirements, operating expenses and capital expenditure obligations.

Our principal sources of liquidity consist of our existing cash on hand, our investment in related party securities and transactions with Luo Hua Liang, the brother-in-law of Alex Wang, the Co-CEO and director of ZAP. As previously disclosed in our 10-Q filed for the period ended March 31, 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million as of the quarter ended March 31, 2011. The private place subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011 for the purchase of ZAP's common stock for an aggregate purchase price of $2 million in multiple closings. To date, we have received approximately $771,000 pursuant to the stock purchase agreement. The parties have not confirmed the share price of the stock to be issued.

In January 2011, ZAP issued $19 million of convertible debt to make a partial payment in connection with the Jonway Acquisition. ZAP believes that CEVC will convert the note into shares of ZAP common stock, but if CEVC does not elect to so convert the note, the note will require cash repayment in February 2012. Assuming that the note is converted into shares of ZAP common stock and does not require cash repayment in February 2012, at June 30, 2011, we believe that we will have sufficient liquidity required to conduct operations through March 31, 2012.

We will require additional capital to expand our current operations. In particular, we require additional capital to expand our presence into Asia, to continue development of our methodology for converting gasoline vehicles to electric and to continue building our dealer network and expanding our market initiatives. We also require financing to purchase consumer inventory for the continued roll-out of new products to add qualified sales and professional staff to execute on our business plan and pursue our efforts in the research and development of advanced technology vehicles, such as the new ZAP Alias, the electric Jonway A380 SUVs and other fuel efficient vehicles.

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

Net cash used for operating activities decreased by $3.6 million from $4.8 million in the six months ended June 30, 2010 to $1.2 million in the six months ended June 30, 2011. Cash used in the quarter ended June 30, 2010 was comprised of the net loss incurred of $10.0 million plus net non-cash expenses of $1.4 million and the net decrease of $202,000 in operating assets and liabilities. Cash used in operations in the three months ended June 30, 2011 was $577,000 and was comprised of the net loss attributable to ZAP incurred of $19.3 million plus net non-cash expenses of $13.3 million and the net increase of $5.6 million in operating assets and liabilities.

ZAP completed the Jonway Acquisition on January 21, 2011, pursuant to that certain Equity Transfer Agreement entered into between ZAP and Jonway Group Co., Ltd., dated July 2, 2010. ZAP has paid a total purchase price of $35,870,000 consisting of approximately $29 million in cash and 8 million shares of ZAP common stock pursuant to this agreement. ZAP funded a portion of the purchase price of the Jonway Acquisition through a Senior Secured Convertible Note and Warrant Purchase Agreement, or the CEVC Agreement, dated as of January 12, 2011, with China Electric Vehicle Corporation, or CEVC, a British Virgin Island company whose sole shareholder is Cathaya. Priscilla Lu, chairman of the board of directors of ZAP is also a general partner of Cathaya and a director of CEVC.

Pursuant to the CEVC Agreement, (i) CEVC purchased from ZAP a Senior Secured Convertible Note in the principal amount of $19 million, (ii) ZAP issued to CEVC a warrant exercisable for two years for the purchase up to 20,000,000 shares of ZAP's Common Stock at $0.50 per share, subject to adjustments as set forth therein, (iii) ZAP, certain investors of ZAP and CEVC entered into an Amended and Restated Voting Agreement that amended and restated that certain Voting Agreement, dated as of August 6, 2009, (iv) ZAP, certain investors of ZAP 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, as amended, to grant certain registration rights relating to the note and the warrant, and (v) ZAP and CEVC entered into a Security Agreement securing the note with all of ZAP's assets and property. Effective as of March 31, 2011, ZAP and CEVC entered into an amendment to the Note to remove certain price-based anti-dilution features. ZAP believes there is some uncertainty regarding whether this $19 million note will be converted to equity or require cash repayment in February 2012.

Investing activities used cash of $19.9 million in the quarter ended June 30, 2011, as compared with $2 million in the quarter ended June 30, 2010. This increase of $17.9 million was primarily due to the issuance of $19 million in convertible debt under the CEVC Agreement, the proceeds of which were used to make a partial payment related to the Jonway Acquisition, in the quarter ended March 31, 2011.

Financing activities provided cash of $20.9 million in the quarter ended June 30, 2011, as compared with $3.7 million in the quarter ended June 30, 2010. This increase of $17.2 million was primarily due to the issuance in the three months ended March 31, 2011 of $19 million in convertible debt under the CEVC Agreement, the proceeds of which were used to make a partial payment related to the Jonway Acquisition, and the issuance $3 million of convertible debt to Samyang Optics Co., Ltd.

ZAP had cash of $2.2 million at June 30, 2011, as compared to $1.5 million at December 31, 2010. ZAP had working capital deficits of $14.5 million and a working capital surplus of $2.6 million for the quarters ended June 30, 2011 and 2010, respectively. The $17.1 million decrease in working capital deficits was primarily due to the issuance of convertible debt under the CEVC Agreement, the proceeds of which were used to make a partial payment related to the Jonway Acquisition, and the inclusion of Jonway's liabilities in our consolidated financial statements as a result of the Jonway Acquisition.

We do not have a bank operating line of credit, and there can be no assurance that any required or desired financing will be available through bank borrowings, debt or equity offerings, or otherwise, on acceptable terms, if at all. If future financing requirements are satisfied through the issuance of equity securities, which might result in significant dilution in the net book value per share of common stock for our shareholders, and there is no guarantee that a market will exist for the sale of the our shares.

As previously disclosed in our 10-Q filed for the period ended March 31, 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million as of the quarter ended March 31, 2001. The private place subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011 for the purchase of ZAP's common stock for an aggregate purchase price of $2 million in multiple closings. To date, we have received approximately $771,000 pursuant to the stock purchase agreement. The parties have not confirmed the share price of the stock to be issued.

Critical Accounting Policies and Use of Estimates

Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires ZAP 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 ZAP believes to be reasonable under the circumstances, the results of which form the basis for judgments about results and the carrying values of assets and liabilities. Actual results and values may differ significantly from these estimates.

Stock Based Compensation

ZAP accounts for stock-based compensation under the provisions of FASB ASC Topic 718, Compensation—Stock Compensation ("ASC 718"), which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. ZAP estimates the fair value of stock-based awards on the date of grant using the Black-Scholes-Merton option pricing model (the "Black-Scholes model"). The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods using the straight-line method. We estimate forfeitures at the time of grant and revise our estimate in subsequent periods if actual forfeitures differ from those estimates.

ZAP accounts for stock-based compensation awards and warrants granted to non-employees in accordance with FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees (“ASC 505-50”). Under ASC 505-50, ZAP determines the fair value of the warrants or stock-based compensation awards granted as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. If the fair value of equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of either (1) the date at which commitment for performance by the counterparty to earn the equity instruments is reached, or (2) the date at which the counterparty's performance is complete.

Derivative Financial Instruments

ZAP generally does not use derivative financial instruments to hedge exposures to cash flow or market risks. However, certain other financial instruments, such as warrants, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within the control of ZAP. In such instances, net-cash settlement is assumed for financial accounting and reporting, even when the terms of the underlying contracts do not provide for net-cash settlement. Such financial instruments are initially recorded at fair value and subsequently adjusted to fair value at the close of each reporting period.

ZAP accounts for derivative instruments and debt instruments in accordance with the interpretative guidance of ASC 815 which codified SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," APB No. 14, "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants," EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios" ("EITF 98-5"), and EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments" ("EITF 00-27"), and associated pronouncements related to the classification and measurement of warrants and instruments with conversion features. It is necessary for ZAP to make certain assumptions and estimates to value derivatives and debt instruments.

Allowance for Doubtful Accounts

ZAP provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, ZAP considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience. The allowance for doubtful accounts was $19,000 and $ 27,000 at June 30, 2011 and December 31, 2010, respectively.

Inventories

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

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports filed, furnished or submitted under the Exchange Act.

In our Annual Report on Form 10K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on April 15, 2011, we identified the following internal control over financial reporting matter that rose to the level of a material weakness: we did not maintain effective controls over the identification, recording and oversight of certain derivative liabilities and the evaluation of the application of generally accepted accounting principles relating to these complex accounting instruments.

Since the date of our filing, we have conducted an extensive review of our debt instruments and have determined that they have been properly accounted for in our financial statements. We have developed and established an effective internal controls and testing guidelines over the identification, recording and oversight of certain derivative liabilities and the evaluation of the application of generally accepted accounting principles relating to these complex accounting instruments.

Changes in internal control over financial reporting

We have reviewed our system of internal controls over financial reporting in light of our acquisition of Jonway in January 2011. As a result of our review, we hired additional personnel at Zhejiang Jonway Automotive Co. Ltd to further strengthened our existing internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, ZAP Jonway may become involved in various legal proceedings. Except as stated below, we know of no pending or threatened legal proceeding to which we are or will be a party which, if successful, might result in a material adverse change in our business, properties or financial condition. However, as with most businesses, we are occasionally parties to lawsuits incidental to our business, none of which are anticipated to have a material adverse impact on our financial position, results of operations, liquidity or cash flows. ZAP Jonway estimates the amount of potential exposure it may have with respect to litigation claims and assessments.

Rainbow Cycle & Marine & Siloam Springs Cycle, v. Voltage Vehicles, Arkansas Motor Vehicle Commission, Case No. 10-008. On April 1, 2010, Rainbow Cycle & Marine & Siloam Spring Cycle (the "Dealer"), an automobile dealer in the State of Arkansas, submitted a complaint to the Arkansas Motor Vehicle Commission (the "Commission") regarding 6 Xebra® vehicles purchased from ZAP in 2008, for a total purchase price of $65,000. Due to a concern related to the vehicles raised by the Dealer, the Dealer requested that the Commission order the Company to refund all monies paid by the Dealer to the Company to pay all transportation costs, and in addition to assess penalties and interest charges against ZAP in an unspecified amount. The Commission issued a Notice of Hearing on August 11, 2010, setting a hearing for September 15, 2010 on the Dealer's Complaint. ZAP responded with a Motion to Dismiss, which the Commission set for hearing on December 15, 2010 and at the same time continued the hearing on the Dealer's Complaint to the same date. After the hearing, the Commission ruled that ZAP was required to refund the Dealer's purchase price for the vehicles and to pay for transportation of the vehicles off of the Dealer's premises. In response, ZAP filed an appeal on April 25, 2011 in Superior Court, State of Arkansas, challenging the Commission's decision. A brief in support of petition for judicial review was filed by ZAP on August 5, 2011 requesting that the decision of the Arkansas Motor Vehicle Commission be reversed and the complaints of the Dealer be dismissed with prejudice and for all other just and proper relief.

Item 1A. Risk Factors

If ZAP Jonway does not maintain proper disclosure controls and procedures, our ability to produce accurate and timely financial statements could be impaired, which could adversely affect our business, operating results, and financial condition.

During our management's review of our financial statements and results for the year ended December 31, 2010, our management assessed the effectiveness of our internal control over financial reporting and identified a material weakness in our identification, recording and oversight of certain derivative liabilities and the evaluation of the application of generally accepted accounting principles relating to these complex accounting instruments. A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of ZAP's annual or interim financial statements will not be prevented or detected on a timely basis. In the first quarter of 2011, our management also determined that that our disclosure controls and procedures were not effective with respect to accounting for derivative liabilities to ensure timely decisions regarding disclosures in the reports filed or submitted under the Exchange Act. Management has since determined that the material weaknesses in our internal control over financial reporting have been addressed and that disclosure controls and procedures are effective.

While the audit of our financial statements by our independent registered public accounting firm has included a consideration of internal control over financial reporting as a basis of designing audit procedures, our independent registered public accounting firm has not considered internal controls over financial reporting for the purpose of expressing an opinion with respect to the effectiveness of our internal controls over financial reporting. If such an evaluation had been performed, material weaknesses or other control deficiencies may have been identified. In addition, material weaknesses and other control deficiencies may be identified when our management performs evaluations of internal controls in the future. Ensuring that ZAP has adequate internal financial and accounting controls and procedures allows us to produce accurate financial statements on a timely basis is costly and time-consuming, and we are required to evaluate these controls frequently.

ZAP has a history of losses and ZAP Jonway's future profitability on a quarterly or annual basis is uncertain, which could have a harmful effect on ZAP Jonway's business and the value of ZAP's common stock.

ZAP Jonway incurred net losses attributable to ZAP of $20.3 million, $19.0 million, and $11.3 million for the six months ended June 30, 2011 and for years ended December 31, 2010 and 2009, respectively and has had net losses in each quarter since its inception. Jonway incurred net losses of $ 0.9 million, $0.4 million and $2.5 million for the six months ended June 30, 2011 and for the years ended December 31, 2010 and 2009, respectively, and has had net losses annually since inception.

ZAP Jonway believes that it may continue to incur operating and net losses for our electric vehicles until at least the time ZAP Jonway begins significant deliveries of the Alias and the electric Jonway A380 SUVs, which are not expected to occur until late 2011, and may occur later or not at all. Even if we are able to successfully develop the Alias and the electric Jonway A380, there can be no assurance that it will be commercially successful. Our profitability will be dependent upon the successful development and successful commercial introduction and acceptance of automobiles such as the Alias and the electric Jonway A380, which may not occur.

ZAP Jonway expects the rate at which we will incur losses to increase significantly in future periods from current levels as we:

- expand our business and manufacturing activities in China;
- begin business and manufacturing activities in Korea;

- design, develop and manufacture our planned electric vehicles;
- design, develop and manufacture components of our electric power train;

- build inventories of parts and components for our electric vehicles;
- develop and equip manufacturing facilities to produce our electric power train components;
- expand our design, development, maintenance and repair capabilities;
- increase our sales and marketing activities; and
- increase our general and administrative functions to support our growing operations.

Because ZAP Jonway will incur the costs and expenses from these efforts before we receive substantial incremental revenues with respect thereto, ZAP Jonway's losses in future periods will be significantly greater than the losses we would incur if we developed our business more slowly. In addition, we may find that these efforts are more expensive than we currently anticipate or that these efforts may not result in increases in our revenues, which would further increase ZAP Jonway's losses.

ZAP Jonway's limited operating history makes evaluating our business and future prospects difficult, and may increase the risk of your investment.

You must consider the risks and difficulties we face as a company with a limited operating history. If ZAP Jonway does not successfully address these risks, our business, prospects, operating results and financial condition will be materially and adversely harmed. ZAP was formed in September 1994, but only began manufacturing electric automobiles in 2006. ZAP Jonway's net losses attributable to ZAP were $11.3 million for the year ended December 31, 2009 and $19.0 million for the year ended December 31, 2010 and $16.9 million for the six months ended June 30, 2011. ZAP acquired 51% of the equity shares of Jonway in January 2011. ZAP Jonway has a very limited operating history on which investors can base an evaluation of our business, operating results and prospects. To date, ZAP has derived revenues principally from sales of customized versions of our standard vehicles, and to a lesser extent on consumer products. Jonway has derived revenues principally from sales of its conventional fuel SUVs. ZAP Jonway intends in the longer term to derive substantial revenues from the sales of our planned electric and the upgraded, improved and newly developed conventional fuel vehicles which are in trial and development and which we intend to being producing in 2012. ZAP Jonway has no operating history with respect to its newer vehicles, which limits our ability to accurately forecast the cost of the vehicles.

It is difficult to predict ZAP Jonway's future revenues and appropriately budget for our expenses, and we have limited insight into trends that may emerge and affect our business. For example, in the four most recent fiscal quarters ended June 30, 2011, ZAP recorded quarterly revenue of as much as $1.2 million and as little as $545,000 million and quarterly operating losses of as much as $11.7 million and as little as $1.1 million. ZAP Jonway has not recorded quarterly financials statements on a consolidated basis in the past, which makes it difficult to predict what ZAP Jonway's consolidated future revenues will be in order to appropriately budget for our expenses. In the event that actual results differ from ZAP Jonway's estimates or we adjust our estimates in future periods, our operating results and financial position could be materially affected.

ZAP Jonway's financial results may vary significantly from period-to-period due to the seasonality of our business and fluctuations in our operating costs.

ZAP Jonway's operating results may vary significantly from period-to-period due to many factors, including seasonal factors that may have an effect on the demand for our electric vehicles. Demand for new cars in the automobile industry in general, and for electric vehicles in particular, typically decline over the winter season in both the United States and China, while sales are generally higher as compared to the winter season during the spring and summer months. ZAP Jonway expects sales of our vehicles to fluctuate on a seasonal basis with increased sales during the spring and summer months in our second and third fiscal quarters relative to our fourth and first fiscal quarters. We note that, in general, automotive sales tend to decline over the winter season and we anticipate that our sales of the electric vehicles we introduce may have similar seasonality. However, ZAP Jonway's limited operating history makes it difficult for us to judge the exact nature or extent of the seasonality of our business. Also, any unusually severe weather conditions in some markets may impact demand for ZAP Jonway's vehicles. ZAP Jonway's operating results could also suffer if we do not achieve revenue consistent with our expectations for this seasonal demand because many of our expenses are based on anticipated levels of annual revenue.

ZAP Jonway also expects our period-to-period operating results to vary based on our operating costs which we anticipate will increase significantly in future periods as we, among other things, design, develop and manufacture our planned vehicles, build and equip new manufacturing facilities to produce them, incur costs for warranty repairs or product recalls, if any, increase our sales and marketing activities, and increase our general and administrative functions to support our growing operations.

As a result of these factors, ZAP Jonway believes that quarter-to-quarter comparisons of our operating results are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of future performance. Moreover, ZAP Jonway's operating results may not meet expectations of equity research analysts or investors. If this occurs, the trading price of ZAP's common stock could fall substantially either suddenly or over time.

The future growth of our electric vehicle business is dependent upon consumers' willingness to adopt electric vehicles.

ZAP Jonway's growth is highly dependent upon the adoption by consumers of, and we are subject to an elevated risk of any reduced demand for, alternative fuel vehicles in general and electric vehicles in particular. If the market for electric vehicles does not develop as we expect or develops more slowly than we expect, our business, prospects, financial condition and operating results will be harmed. The market for alternative fuel vehicles is relatively new, rapidly evolving, characterized by rapidly changing technologies, price competition, additional competitors, evolving government regulation and industry standards, frequent new vehicle announcements and changing consumer demands and behaviors. Factors that may influence the adoption of alternative fuel vehicles, and specifically electric vehicles, include:

- perceptions about electric vehicle quality, safety (in particular with respect to lithium-ion battery packs), design, performance and cost, especially if adverse events or accidents occur that are linked to the quality or safety of electric vehicles;

- perceptions about vehicle safety in general, in particular safety issues that may be attributed to the use of advanced technology, including vehicle electronics and regenerative braking systems, such as the possible perception that Toyota's recent vehicle recalls may be attributable to these systems;

- the limited range over which electric vehicles may be driven on a single battery charge;

- the decline of an electric vehicle's range resulting from deterioration over time in the battery's ability to hold a charge;

- concerns about electric grid capacity and reliability, which could derail our past and present efforts to promote electric vehicles as a practical solution to vehicles which require gasoline;

- the availability of alternative fuel vehicles, including plug-in hybrid electric vehicles;

- improvements in the fuel economy of the internal combustion engine;

- the availability of service for electric vehicles;

- the environmental consciousness of consumers;

- volatility in the cost of oil and gasoline;

- consumers' perceptions of the dependency of the United States on oil from unstable or hostile countries;

- government regulations and economic incentives promoting fuel efficiency and alternate forms of energy;
- access to charging stations, standardization of electric vehicle charging systems and consumers' perceptions about convenience and cost of charging an electric vehicle;

- the availability of tax and other governmental incentives to purchase and operate electric vehicles or future regulation requiring increased use of nonpolluting vehicles;
- perceptions about and the actual overall cost of electric vehicles; and
- macroeconomic factors.

In addition, recent reports have suggested the potential for extreme temperatures to affect the range or performance of electric vehicles. To the extent customers have concerns about such reductions or third party reports which suggest reductions in range greater than our estimates gain widespread acceptance, ZAP Jonway's ability to market and sell our vehicles, particularly in colder climates, may be adversely impacted.

Additionally, ZAP Jonway may become subject to regulations that may require us to alter the design of our vehicles, which could negatively impact consumer interest in our vehicles. For example, ZAP Jonway's electric vehicles make less noise than internal combustion vehicles. We are aware of advocacy groups, such as the U.S. National Federation of the Blind, which are lobbying for regulations to require electric vehicle manufacturers to adopt minimum sound standards.

The influence of any of the factors described above may cause current or potential customers not to purchase ZAP Jonway's electric vehicles, which would materially adversely affect ZAP Jonway's business, operating results, financial condition and prospects.

If ZAP Jonway is unable to keep up with advances in electric vehicle technology, we may suffer a decline in our competitive position.

ZAP Jonway may be unable to keep up with changes in electric vehicle technology and, as a result, may suffer a decline in our competitive position. Any failure to keep up with advances in electric vehicle technology would result in a decline in ZAP Jonway's competitive position which would materially and adversely affect our business, prospects, operating results and financial condition. ZAP Jonway's research and development efforts may not be sufficient to adapt to changes in electric vehicle technology. As technologies change, we plan to upgrade or adapt our vehicles and introduce new models in order to continue to provide vehicles with the latest technology, in particular battery cell technology. However, ZAP Jonway's vehicles may not compete effectively with alternative vehicles if ZAP Jonway is not able to source and integrate the latest technology into our vehicles. For example, we do not manufacture engines, which makes us dependent upon other suppliers of engine technology for our vehicles.

Manufacturing internationally may cause problems and present risks for ZAP Jonway.

ZAP Jonway has been focusing on manufacturing internationally, particularly in China. There are many risks associated with international business. These risks include, but are not limited to, language barriers, fluctuations in currency exchange rates, political and economic instability, regulatory compliance difficulties, problems enforcing agreements, and greater exposure of ZAP Jonway's intellectual property to markets where a high probability of unlawful appropriation may occur. A failure to successfully mitigate any of these potential risks could damage our business.

ZAP Jonway is required to comply with all applicable domestic and foreign export control laws, including the International Traffic in Arms Regulations and the Export Administration Regulations, or EAR. Some items manufactured by us are controlled for export by the United States Department of Commerce's Bureau of Industry and Security under the EAR. In addition, ZAP Jonway is subject to the Foreign Corrupt Practices Act and international counterparts that generally bar bribes or unreasonable gifts for foreign governments and officials. Violation of any of these laws or regulations could result in significant sanctions, including large monetary penalties and suspension or debarment from participation in future government contracts, which could reduce ZAP Jonway's future revenue and net income.

Because ZAP Jonway manufactures and sell a substantial portion of our products abroad, its operating costs are subject to fluctuations in foreign currency exchange rates. If the U.S. dollar weakens against the foreign currencies in which we denominate certain of our trade accounts payable, fixed purchase obligations and other expenses, the U.S. dollar equivalent of such expenses would increase. We can provide no assurances that we will not experience losses arising from currency fluctuations in the future, which could be significant.

The range of ZAP's electric vehicles on a single charge declines over time, which may negatively influence potential customers' decisions whether to purchase our vehicles.

The range of ZAP electric vehicles on a single charge declines principally as a function of usage, time and charging patterns. For example, a customer's use of their ZAP vehicle as well as the frequency with which they charge the battery of their vehicle can result in additional deterioration of the battery's ability to hold a charge. Battery deterioration and the related decrease in range may negatively influence potential customer decisions whether to purchase ZAP Jonway's vehicles, which may harm our ability to market and sell our vehicles.

Developments in alternative technologies or improvements in the internal combustion engine may materially adversely affect the demand for ZAP Jonway's vehicles.

Significant developments in alternative technologies, such as advanced diesel, ethanol, fuel cells or compressed natural gas, or improvements in the fuel economy of the internal combustion engine, may materially and adversely affect our business and prospects in ways ZAP Jonway does not currently anticipate. For example, fuel which is abundant and relatively inexpensive in North America, such as compressed natural gas may emerge as consumers' preferred alternative to petroleum based propulsion. Any failure by ZAP Jonway to develop new or enhanced technologies or processes, or to react to changes in existing technologies, could materially delay our development and introduction of new and enhanced vehicles, which could result in the loss of competitiveness of our vehicles, decreased revenue and a loss of market share to competitors.

ZAP Jonway's future success will depend upon our ability to design and achieve market acceptance of new vehicle models.

ZAP currently generates a substantial amount of its revenue from the sale of its electric vehicles. Jonway currently generates a substantial amount of its revenue from the sale of its gas fueled vehicles. Of ZAP Jonway's planned vehicles, our electric Alias, electric A380 SUV, the improved gas fueled Jonway A380, and the Jonway Small Van are expected to be in production in 2012. All of our planned products require significant investment prior to commercial introduction, and may never be successfully developed or commercially successful. There can be no assurance that ZAP Jonway will be able to design future models of electric or gas vehicles that will meet the expectations of our customers or that our future model will become commercially viable. Additionally, historically, automobile customers have come to expect new and improved vehicle models to be introduced frequently. In order to meet these expectations, ZAP Jonway may in the future be required to introduce on a regular basis new vehicle models as well as enhanced versions of existing vehicle models. As technologies change in the future for automobiles in general and performance electric vehicles specifically, we will be expected to upgrade or adapt our vehicles and introduce new models in order to continue to provide vehicles with the latest technology. To date ZAP Jonway has limited experience simultaneously designing, testing, manufacturing and selling our vehicles.

Any changes to the Federal Trade Commission's electric vehicle range testing procedure or the United States Environmental Protection Agency's energy consumption regulations for electric vehicles could result in a reduction to the advertised range of ZAP Jonway's electric vehicles which could negatively impact our sales and harm our business.

The Federal Trade Commission, or FTC, requires us to calculate and display the range of ZAP Jonway's electric vehicles sold in the United States on a label we affix to the vehicle's window. The FTC specifies that we follow testing requirements set forth by the Society of Automotive Engineers, or SAE, which further requires that we test vehicles sold in the United States using the United States Environmental Protection Agency's, or the EPA's, combined city and highway testing cycles. The EPA recently announced that it would develop and establish new energy efficiency testing methodologies for electric vehicles. However, there can be no assurance that the modified EPA testing cycles will not result in a greater reduction. Any reduction in the advertised range of ZAP Jonway vehicles could negatively impact our vehicle sales and harm our business.

If ZAP Jonway is unable to reduce and adequately control the costs associated with operating our business, including our costs of manufacturing, sales and materials, our business, financial condition, operating results and prospects will suffer.

If ZAP Jonway is unable to reduce and/or maintain a sufficiently low level of costs for designing, manufacturing, marketing, selling and distributing and servicing our vehicles relative to their selling prices, our operating results, gross margins, business and prospects could be materially and adversely impacted. We have made, and will be required to continue to make, significant investments for the design, manufacture and sales of our vehicles. There can be no assurances that our costs of producing and delivering our vehicles will be less than the revenue we generate from sales at the time of the launch of such vehicle or that we will ever achieve a positive gross margin on sales of any specific vehicle.

ZAP Jonway incurs significant costs related to contracting for the manufacture of our vehicles, procuring the materials required to manufacture our electric cars, assembling vehicles and compensating our personnel. Although we expect manufacturing expenses to proportionally decrease with the localization of manufacturing in Jonway's facilities, if ZAP Jonway is unable to keep our operating costs aligned with the level of revenues we generate, our operating results, business and prospects will be harmed. Many of the factors that impact our operating costs are beyond our control. For example, the costs of our raw materials and components, such as lithium-ion battery cells used in our vehicles could increase due to shortages as global demand for these products increases. Indeed, if the popularity of electric vehicles exceeds current expectations without significant expansion in battery cell production capacity and advancements in battery cell technology, shortages could occur which would result in increased materials costs to us.

The automotive market is highly competitive, and ZAP Jonway may not be successful in competing in this industry. ZAP Jonway currently faces competition from established competitors and expect to face competition from others in the future.

The worldwide automotive market, particularly for alternative fuel vehicles, is highly competitive today and ZAP Jonway expects it will become even more so in the future. ZAP Jonway currently faces strong competition from established automobile manufacturers, including manufacturers of all-electric vehicles such as the Nissan LEAF.

BYD Auto has also announced plans to bring an electric vehicle into the United States market in 2012, and Ford has announced that it plans to introduce an electric vehicle in late 2011 and the Tesla Roadster is on the market, although it targets a more luxury-brand audience. In addition, several manufacturers, including General Motors, Toyota, Ford, and Honda, are each selling hybrid vehicles, and certain of these manufacturers have announced plug-in versions of their hybrid vehicles, such as the Chevrolet Volt, which is a plug-in hybrid vehicle that operates purely on electric power for a limited number of miles, at which time an internal combustion engine engages to recharge the battery.

Moreover, it has been reported that Daimler, Lexus, Audi, Renault, Mitsubishi, Volkswagen and Subaru are also developing electric vehicles. Several new start-ups have also announced plans to enter the market for performance electric vehicles, although none of these have yet come to market. Finally, electric vehicles have already been brought to market in China and other foreign countries where ZAP Jonway operates or hopes to operate and we also expect a number of those manufacturers to enter the United States market as well. ZAP Jonway faces competition on its conventional fuel vehicles in China from established U.S. automobile manufacturers Honda and Ford, and from China-based manufacturers Chery, Zongtai and Great Wall Auto.

Most of ZAP Jonway's current and potential competitors have significantly greater financial, manufacturing, marketing and other resources than we do and may be able to devote greater resources to the design, development, manufacturing, distribution, promotion, sale and support of their products. Virtually all of our incumbent competitors have more extensive customer bases and broader customer and industry relationships than we do. In addition, many of these companies have longer operating histories and greater name recognition than we do. Our competitors may be in a stronger position to respond quickly to new technologies and may be able to design, develop, market and sell their products more effectively.

Furthermore, certain large manufacturers offer financing and leasing options on their vehicles and also have the ability to market vehicles at a substantial discount, provided that the vehicles are financed through their affiliated financing company. ZAP Jonway does not currently offer, or plan to offer, any form of direct financing on our vehicles. ZAP Jonway has not in the past, and does not currently, offer customary discounts on our vehicles. The lack of direct financing options and the absence of customary vehicle discounts could put ZAP Jonway at a competitive disadvantage.

ZAP Jonway expects competition in our industry to intensify in the future in light of increased demand for conventional and alternative fuel vehicles, continuing globalization and consolidation in the worldwide automotive industry. Factors affecting competition include product quality and features, innovation and development time, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect ZAP Jonway's business, financial condition, operating results and prospects. ZAP Jonway's ability to successfully compete in our industry will be fundamental to our future success in existing and new markets and our market share. There can be no assurances that ZAP Jonway will be able to compete successfully in our markets. If our competitors introduce new cars or services that compete with or surpass the quality, price or performance of our cars or services, ZAP Jonway may be unable to satisfy existing customers or attract new customers at the prices and levels that would allow us to generate attractive rates of return on our investment. Increased competition could result in price reductions and revenue shortfalls, loss of customers and loss of market share, which could harm our business, prospects, financial condition and operating results.

Demand in the automobile industry is highly volatile.

Volatility of demand in the automobile industry may materially and adversely affect our business, prospects, operating results and financial condition. The markets in which we currently compete and plan to compete in the future have been subject to considerable volatility in demand in recent periods. Demand for automobile sales depends to a large extent on general, economic, political and social conditions in a given market and the introduction of new vehicles and technologies. As a newer automobile manufacturer and low volume producer, ZAP Jonway has less financial resources than more established automobile manufacturers to withstand changes in the market and disruptions in demand. As our business grows, economic conditions and trends in other countries and regions where we sell our vehicles will impact our business, prospects and operating results as well. Demand for ZAP Jonway's vehicles may also be affected by factors directly impacting automobile price or the cost of purchasing and operating automobiles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations, including tariffs, import regulation and other taxes. Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in further downward price pressure and adversely affect ZAP Jonway's business, prospects, financial condition and operating results. These effects may have a more pronounced impact on our business given our relatively smaller scale and financial resources as compared to many incumbent automobile manufacturers.

Difficult economic conditions may affect consumer purchases, such as ZAP Jonway's vehicles.

Over the last three years, the deterioration in the global financial markets and continued challenging condition of the macroeconomic environment has negatively impacted consumer spending and we believe has adversely affected the sales of our vehicles. The automobile industry in particular was severely impacted by the poor economic conditions and several vehicle manufacturing companies, including General Motors and Chrysler, were forced to file for bankruptcy. Sales of new automobiles generally have dropped during this recessionary period. Sales of ethical consumer products, such as ZAP Jonway's electric vehicles, depend in part on discretionary consumer spending and are even more exposed to adverse changes in general economic conditions. Difficult economic conditions could therefore temporarily reduce the market for vehicles in ZAP Jonway's price range. Discretionary consumer spending also is affected by other factors, including changes in tax rates and tax credits, interest rates and the availability and terms of consumer credit.

If the current difficult economic conditions continue or worsen, we may experience a decline in the demand for ZAP Jonway's vehicles, which could materially harm our business, prospects, financial condition and operating results. Accordingly, any events that have a negative effect on the United States or China's economy or on other foreign economies or that negatively affect consumer confidence in the economy, including disruptions in credit and stock markets, and actual or perceived economic slowdowns, may harm ZAP Jonway's business, prospects, financial condition and operating results.

Marketplace confidence in our liquidity and long-term business prospects is important for building and maintaining ZAP Jonway's business.

If ZAP Jonway is unable to establish and maintain confidence about ZAP Jonway's liquidity and business prospects among consumers and within our industry, then our financial condition, operating results and business prospects may suffer materially. ZAP Jonway's vehicles are highly technical products that require maintenance and support. If we were to cease or cut back operations, even years from now, buyers of ZAP Jonway's vehicles from years earlier might have much more difficulty in maintaining their vehicles and obtaining satisfactory support. As a result, consumers may be less likely to purchase our vehicles now if they are not convinced that our business will succeed or that our operations will continue for many years. Similarly, suppliers and other third parties will be less likely to invest time and resources in developing business relationships with ZAP Jonway if they are not convinced that our business will succeed. If ZAP Jonway is required to downsize in the future, such actions may result in negative perceptions regarding our liquidity and long-term business prospects.

Accordingly, in order to build and maintain our business, ZAP Jonway must maintain confidence among customers, suppliers and other parties in our liquidity and long-term business prospects. In contrast to some more established auto makers, we believe that, in ZAP Jonway's case, the task of maintaining such confidence may be particularly complicated by factors such as the following:

- ZAP Jonway's limited operating history;
- ZAP limited revenues and lack of profitability to date;
- unfamiliarity with or uncertainty about our electric vehicles;
- uncertainty about the long-term marketplace acceptance of alternative fuel vehicles generally, or electric vehicles specifically;
- the prospect that ZAP Jonway may need ongoing infusions of external capital to fund our planned operations;
- the size of our expansion plans in comparison to our existing capital base and scope and history of operations; and
- the prospect or actual emergence of direct, sustained competitive pressure from more established auto makers.

Many of these factors are largely outside of ZAP Jonway's control, and any negative perceptions about our liquidity or long-term business prospects, even if exaggerated or unfounded, would likely harm our business and make it more difficult to raise additional funds when needed.

ZAP Jonway may need to raise additional funds and these funds may not be available to us when we need them. If we cannot raise additional funds when we need them, ZAP Jonway's operations and prospects could be negatively affected.

The design, manufacture, sale and servicing of automobiles is a capital intensive business. For example, for the quarter ended June 30, 2011, ZAP Jonway incurred net losses of approximately $8.2 million and used approximately $1.1 million of cash in operations while recognizing approximately $16.3 million in revenue. As of June 30, 2011, ZAP Jonway had cash and cash equivalents of $2.2 million. We cannot be certain that additional funds will be available to ZAP Jonway on favorable terms when required, or at all. If we cannot raise additional funds when we need them, our financial condition, results of operations, business and prospects could be materially adversely affected. Future issuance of ZAP equity or equity-related securities will dilute the ownership interest of existing ZAP shareholders and our issuance of debt securities could increase the risk or perceived risk of our company.

If ZAP Jonway's vehicles fail to perform as expected, we may have to recall our products and our ability to develop, market and sell our electric vehicles could be harmed.

ZAP Jonway's vehicles may contain defects in design and manufacture that may cause them not to perform as expected or that may require repair. For example, ZAP initiated a product recall in June and November 2009 for the Xebra® braking mechanism sending out 788 notices for our 2008 Xebra® model and receiving 112 responses, at a cost to ZAP of $14,000 for the year ending December 31, 2010. We cannot assure you that such claims and/or other recalls will not be made in the future. While we have performed extensive internal testing, we currently have a limited frame of reference by which to evaluate the performance of our vehicles, particularly our electric vehicles, in the hands of our customers. While it has not initiated any product recalls to date, Jonway has had a relatively short operating history and there can be no assurances that Jonway will not be required to recall products in the future. There can be no assurance that ZAP Jonway will be able to detect and fix any defects in the vehicles prior to their sale to consumers. In the future, ZAP Jonway may at various times, voluntarily or involuntarily, initiate a recall if any of our vehicles or their components prove to be defective. Such recalls, voluntary or involuntary, involve significant expense and diversion of management attention and other resources, which would adversely affect our brand image in our target markets and could adversely affect our business, prospects, financial condition and results of operations. ZAP Jonway's electric vehicles may not perform consistent with customers' expectations or consistent with other vehicles currently available. For example, ZAP Jonway's vehicles may not have the durability or longevity of current vehicles, and may not be as easy to repair as other vehicles currently on the market. Any product defects or any other failure of our vehicles to perform as expected could harm our reputation and result in adverse publicity, lost revenue, delivery delays, product recalls, product liability claims, harm to ZAP Jonway's brand and reputation, and significant warranty and other expenses, and could have a material adverse impact on our business, financial condition, operating results and prospects.

ZAP Jonway has very limited experience servicing our vehicles and ZAP Jonway is using a different service model from the one typically used in the industry. If ZAP Jonway is unable to address the service requirements of our existing and future customers our business will be materially and adversely affected.

If ZAP Jonway is unable to successfully address the service requirements of our existing and future customers our business and prospects will be materially and adversely affected. In addition, we anticipate the level and quality of the service we provide our customers will have a direct impact on the success of our future vehicles. If ZAP Jonway is unable to satisfactorily service our current customers, our ability to generate customer loyalty, grow our business and sell additional vehicles could be impaired.

ZAP Jonway plans to service our vehicles by shipping parts to dealers, sending our authorized service personnel as necessary, providing service at our Santa Rosa location and by using Jonway's service facilities in China, which are through third party arrangements. Jonway's service facilities in China are not yet equipped to handle ZAP Jonway electric vehicles and will have to be updated and the personnel trained for this purpose. There can be no assurance that these service arrangements or ZAP Jonway's limited experience servicing our vehicles will adequately address the service requirements of our customers to their satisfaction, or that we will have sufficient resources to meet these service requirement in a timely manner as the volume of vehicles ZAP Jonway is able to deliver annually increases.

A number of potential customers may choose not to purchase ZAP Jonway's vehicles because of the lack of a more widespread service network. If we do not adequately address our customers' service needs, our brand and reputation will be adversely affected, which in turn, could have a material and adverse impact on our business, financial condition, operating results and prospects.

Traditional automobile manufacturers do not provide maintenance and repair services directly. Consumers must rather service their vehicles through franchised dealerships or through third party maintenance service providers. ZAP does not have any such arrangements with third party service providers and it is unclear when or even whether such third party service providers will be able to acquire the expertise to service ZAP Jonway's vehicles. As our vehicles are placed in more locations, ZAP's may encounter negative reactions from our consumers who are frustrated that they cannot use local service stations to the same extent as they have with their conventional automobiles and this frustration may result in negative publicity and reduced sales, thereby harming our business and prospects.

In addition, the motor vehicle industry laws in many jurisdictions require that service facilities be available with respect to vehicles physically sold from locations in the jurisdiction. Whether these laws would also require that service facilities be available with respect to vehicles sold over the internet to consumers in a state in which ZAP Jonway has no physical presence is uncertain. While we believe our service practices would satisfy regulators in these circumstances, without seeking formal regulatory guidance, there are no assurances that regulators will not attempt to require that we provide physical service facilities in their states. If issues arise in connection with these laws, certain aspects of our service program would need to be restructured to comply with state law, which may harm our business.

ZAP Jonway may not succeed in continuing to establish, maintain and strengthen the ZAP and Jonway brands, which would materially and adversely affect customer acceptance of our vehicles and components and our business, revenues and prospects.

Our business and prospects are heavily dependent on our ability to develop, maintain and strengthen the ZAP and Jonway brands. Any failure to develop, maintain and strengthen our brands may materially and adversely affect our ability to sell our existing and planned vehicles. If ZAP Jonway does not continue to establish, maintain and strengthen our brands, we may lose the opportunity to build a critical mass of customers. Promoting and positioning our brands will likely depend significantly on our ability to provide quality vehicles and maintenance and repair services, and we have limited experience in these areas, which are through third party arrangements. Jonway's service facilities in China are not yet equipped to handle ZAP electric vehicles and will have to be updated and the personnel trained for this purpose. In addition, we expect that our ability to develop, maintain and strengthen the ZAP and Jonway brands will also depend heavily on the success of our marketing efforts. To date, Jonway has limited experience with marketing activities as we have relied primarily on the internet, word of mouth and attendance at industry trade shows to promote our brands and Jonway has relied primarily on its distribution network. To further promote our brands, we may be required to change our marketing practices, which could result in substantially increased advertising expenses, including the need to use traditional media such as television, radio and print. The automobile industry is intensely competitive, and we may not be successful in building, maintaining and strengthening the ZAP and Jonway brands. Many of our current and potential competitors, particularly automobile manufacturers headquartered in Detroit, Japan and the European Union, have greater name recognition, broader customer relationships and substantially greater marketing resources than we do. If we do not develop and maintain strong brands, our business, prospects, financial condition and operating results will be materially and adversely impacted.

ZAP Jonway is dependent on our suppliers, a significant number of which are single or limited source suppliers, and the inability of these suppliers to continue to deliver, or their refusal to deliver, necessary components of our vehicles at prices and volumes acceptable to us could have a material adverse effect on our business, prospects and operating results.

While ZAP obtains components from multiple sources whenever possible, similar to other automobile manufacturers, many of the components used in our vehicles are purchased by us from a single source. We refer to these component suppliers as our single source suppliers. To date we have not qualified alternative sources for most of the single sourced components used in our vehicles and we generally do not maintain long-term agreements with our single source suppliers.

While ZAP believes that we may be able to establish alternate supply relationships and can obtain or engineer replacement components for our single source components, we may be unable to do so in the short term or at all at prices or costs that are favorable to us. In particular, while ZAP believes that we will be able to secure alternate sources of supply for almost all of our single sourced components on a relatively short time frame, qualifying alternate suppliers or developing our own replacements for certain highly customized components of our electric vehicles may be time consuming and costly.

Jonway obtains most of its components, such as its engines, from multiple third party suppliers, except for interior trim plastic components, which it obtains from Jonway Group.

Changes in business conditions, wars, governmental changes and other factors beyond ZAP Jonway's control or which we do not presently anticipate, could also affect our suppliers' ability to deliver components to us on a timely basis. Furthermore, if we experience significant increased demand, or need to replace our existing suppliers, there can be no assurance that additional supplies of component parts will be available when required on terms that are favorable to us, at all, or that any supplier would allocate sufficient supplies to us in order to meet our requirements or fill our orders in a timely manner. The loss of any single or limited source supplier or the disruption in the supply of components from these suppliers could lead to delays in vehicle deliveries to ZAP Jonway's customers, which could hurt our relationships with our customers and also materially adversely affect our business, prospects and operating results.

Increases in costs, disruption of supply or shortage of materials, in particular lithium-ion cells, could harm ZAP Jonway's business.

ZAP Jonway may experience increases in the cost or a sustained interruption in the supply or shortage of materials. Any such cost increase or supply interruption could materially negatively impact our business, prospects, financial condition and operating results. ZAP Jonway uses various materials in our business and the prices for these materials fluctuate depending on market conditions and global demand for these materials and could adversely affect our business and operating results. For instance, ZAP Jonway is exposed to multiple risks relating to price fluctuations for batteries, particularly lithium-ion cells for our electric vehicles . These risks include:

· the inability or unwillingness of current battery manufacturers to build or operate battery cell manufacturing plants to supply the numbers of lithium-ion cells required to support the growth of the electric or plug-in hybrid vehicle industry as demand for such cells increases;

· disruption in the supply of cells due to quality issues or recalls by the battery cell manufacturers; and

· an increase in the cost of raw materials, such as cobalt, used in lithium-ion cells.

ZAP Jonway's business is dependent on the continued supply of battery cells for our vehicles. Battery cell manufacturers may choose to refuse to supply electric vehicle manufacturers to the extent they determine that the vehicles are not sufficiently safe. Furthermore, current fluctuations or shortages in petroleum and other economic conditions may cause us to experience significant increases in freight charges and material costs. Substantial increases in the prices for our materials would increase our operating costs, and could reduce our margins if we cannot recoup the increased costs through increased electric vehicle prices. There can be no assurance that we will be able to recoup increasing costs of materials by increasing vehicle prices and any attempts to increase the announced or expected prices in response to increased material costs could be viewed negatively by our customers and could materially adversely affect our brand, image, business, prospects and operating results.

The success of our electric vehicle business depends on attracting and retaining large fleet customers. If ZAP Jonway is unable to do so, we will not be able to achieve profitability.

ZAP Jonway's electric vehicle business' success depends on attracting large fleet or taxi customers to purchase our electric vehicles. If our existing and prospective customers do not perceive our vehicles and services to be of sufficiently high value and quality, cost competitive and high performing, ZAP Jonway may not be able to retain our current customers or attract new customers, and our business and prospects, operating results and financial condition would suffer as a result. To date, we have limited experience selling ZAP Jonway vehicles and we may not be successful in attracting and retaining large fleet or taxi customers. If for any of these reasons ZAP Jonway is not able to attract and maintain customers, our business, prospects, operating results and financial condition would be materially harmed.

ZAP Jonway's plan to expand our network of distributors will require significant cash investments and management resources and may not meet our expectations with respect to additional sales of our electric vehicles.

ZAP Jonway's plan to expand our network of distributors will require significant cash investments and management resources and may not meet our expectations with respect to additional sales of our vehicles. This planned global expansion of distributors may not have the desired effect of increasing sales and expanding our brand presence to the degree ZAP Jonway is anticipating. We will also need to ensure ZAP Jonway is in compliance with any regulatory requirements applicable to the sale of our vehicles in our potential markets, which could take considerable time and expense. If ZAP Jonway experiences any delays in expanding our network of distributors, this could lead to a decrease in sales of our vehicles and could negatively impact our business, prospects, financial condition and operating results.

We may not be able to expand our network at our expected rate and our planned expansion of our network of distributors will require significant cash investment and management resources.

Furthermore, certain states and foreign jurisdictions may have permit requirements, franchise dealer laws or similar laws or regulations that may preclude or restrict our ability to sell vehicles out of such states and jurisdictions. Any such prohibition or restriction may lead to decreased sales in such jurisdictions, which could harm our business, prospects and operating results.

ZAP Jonway faces risks associated with our international operations, including unfavorable regulatory, political, tax and labor conditions, which could harm our business.

ZAP Jonway faces risks associated with our international operations, including possible unfavorable regulatory, political, tax and labor conditions, which could harm our business. In January 2011, ZAP completed its acquisition of 51% of the equity shares of Jonway, which is incorporated and primarily operates in China. Recently, in China, labor disputes and strikes based partly on wages in China have slowed or stopped production at certain manufacturers. In some cases, employers have responded by significantly increasing the wages of workers at such plants. In addition, regulatory authorities and others have increased their scrutiny of labor conditions in countries in which we operate. To the extent such developments result in more burdensome labor laws and regulations or require us to increase the wages of employees, ZAP Jonway's ability to adequately staff our plants and to manufacture and ship products in China could be adversely affected, our margins and net income could be reduced and our reputation as a reliable supplier could be negatively impacted.

ZAP currently has international operations and subsidiaries in China and planned operations in Korea that are subject to the legal, political, regulatory and social requirements and economic conditions in these jurisdictions. Jonway has international distribution activities in Italy, Nepal, Algeria, America, Yemen and Russia. In the near future, Jonway intends to expand international distribution to Southeast Asia and the Middle East. Additionally, as part of ZAP Jonway's growth strategy, we intend to expand our sales, maintenance and repair services internationally. However, we have limited experience to date in manufacturing, selling, and servicing our vehicles internationally and such expansion would require us to make significant expenditures, including the hiring of local employees and establishing facilities, in advance of generating any revenue. ZAP Jonway is subject to a number of risks associated with international business activities that may increase our costs, impact our ability to sell our electric vehicles and require significant management attention. These risks include:

- conforming ZAP Jonway's vehicles to various international regulatory requirements where our vehicles are sold, or homologation;
- labor unrest and difficulty in staffing and managing international operations;
- excess costs associated with reducing employment or shutting down facilities;
- constraints on our ability to maintain or increase prices;
- coordinating communications among and managing international operations;
- difficulties attracting customers in new jurisdictions;
- foreign government taxes, regulations and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon ZAP in the United States, and foreign tax and other laws limiting our ability to repatriate funds to ZAP in the United States;
- fluctuations in foreign currency exchange rates and interest rates, including risks related to any interest rate swap or other hedging activities we undertake; our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as

do the United States, Japan and European countries, which increases the risk of unauthorized, and uncompensated, use of our technology;

- difficulties in obtaining or complying with export license requirements;

- United States and foreign government trade restrictions, tariffs and price or exchange controls;
- foreign labor laws, regulations and restrictions;
- preferences of foreign nations for domestically owned companies;
- changes in diplomatic and trade relationships;
- political instability, natural disasters, war or events of terrorism; and
- the strength of international economies.

ZAP Jonway also faces the risk that costs denominated in foreign currencies will increase if such foreign currencies strengthen quickly and significantly against the dollar. If the value of the United States dollar depreciates significantly against such currencies, our costs as measured in United States dollars will correspondingly increase and our operating results will be adversely affected. In addition, our battery cell purchases from international suppliers are subject to currency risk. Although ZAP present contracts are United States dollar based, if the United States dollar depreciates significantly against the local currency it could cause our international suppliers to significantly raise their prices, which could harm ZAP Jonway's financial results.

To respond to competitive pressures and customer requirements, ZAP Jonway may further expand internationally in lower cost locations. As we pursue continued expansion in these locations, we may incur additional capital expenditures. In addition, the cost structure in certain countries that are now considered to be favorable may increase as economies develop or as such countries join multinational economic communities or organizations, causing local wages to rise. As a result, we may need to continue to seek new locations with lower costs and the employee and infrastructure base to support electronics manufacturing. We cannot assure you that ZAP Jonway will realize the anticipated strategic benefits of our international operations or that our international operations will contribute positively to our operating results.

If ZAP Jonway fails to successfully address these risks, our business, prospects, operating results and financial condition could be materially harmed.

Some of the laws and regulations governing Jonway are vague and subject to risks of interpretation.

Some of the laws and regulations of the People's Republic of China governing our business operations in China are vague and their official interpretation and enforcement may involve substantial uncertainty. These include, but are not limited to, laws and regulations governing Jonway's business, required licenses and approvals, and the enforcement and performance of our contractual arrangements in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. We believe that we comply with regulatory requirements in the People's Republic of China, but there can be no certainty that government will not have a different interpretation. Despite their uncertainty, Jonway will be required to comply. In particular, Jonway's regulatory authority to manufacture vehicles is through Zhejiang UFO's listing on the Public Notice. We believe this satisfies regulatory requirements, but if the government decides otherwise, they could enforce penalties and fees and require Jonway to obtain a separate listing on the Public Notice. New laws and regulations that affect existing and proposed businesses may be applied retroactively. Accordingly, the effectiveness of newly enacted laws, regulations or amendments may not be clear. ZAP Jonway cannot predict what effect the interpretation of existing or new laws or regulations may have on our business. If any promulgated regulations contain clauses that cause an adverse impact to ZAP Jonway's operations in China, then our business, operating results and financial condition could be materially and adversely affected.

Jonway's contracts are based in the Chinese Renminbi, which may fluctuate against the U.S. dollar and must be reconciled into the U.S. dollar for ZAP Jonway's consolidated financials.

Jonway's present contracts are based in the Chinese Renminbi, except for international trading contracts in the US dollar. The value of the Chinese Renminbi depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. Since 2008, the value of the Chinese Renminbi largely appreciated against U.S. dollar. There can be no assurance that such exchange rate will not fluctuate widely against the U.S. dollar in the future. Fluctuation of the value of the Chinese Renminbi will have an adverse effects in reconciling Jonway's financial statements into the U.S. dollar in consolidated financials and such reconciliation may require significant resources of ZAP Jonway and therefore cause an adverse effect on ZAP Jonway's business.

The unavailability, reduction or elimination of government and economic incentives could have a material adverse effect on ZAP Jonway's business, financial condition, operating results and prospects.

Any reduction, elimination or discriminatory application of government subsidies and economic incentives because of policy changes, the reduced need for such subsidies and incentives due to the perceived success of the electric vehicle, fiscal tightening or other reasons may result in the diminished competitiveness of the alternative fuel vehicle industry generally or ZAP Jonway's electric vehicles in particular. This could materially and adversely affect the growth of the alternative fuel automobile markets and ZAP Jonway's business, prospects, financial condition and operating results.

ZAP Jonway's growth depends in part on the availability and amounts of government subsidies and economic incentives for alternative fuel vehicles generally and electric vehicles specifically. If we fail to meet conditions for tax incentives for electric vehicles, we would be unable to take full advantage of these tax incentives and our financial position could be harmed.

In addition, certain regulations that encourage sales of electric cars could be reduced, eliminated or applied in a way that creates an adverse effect for ZAP Jonway's electric vehicles, either currently or at any time in the future. For example, while the federal and state governments in the United States have from time to time enacted tax credits and other incentives for the purchase of alternative fuel cars, our competitors have more experience and greater resources in working with legislators than we do, and so there is no guarantee that our vehicles would be eligible for tax credits or other incentives provided to alternative fuel vehicles in the future. This would put ZAP Jonway's electric vehicles at a competitive disadvantage. Furthermore, low volume manufacturers are exempt from certain regulatory requirements in the United States. This provides ZAP Jonway with an advantage over high volume manufacturers that must comply with such regulations. Once we reach a certain threshold number of sales in the United States, we will no longer be able to take advantage of such exemptions in the respective jurisdictions, which could lead us to incur additional design and manufacturing expense.

Jonway depends in part on government subsidies and economic incentives to finance Jonway's independent research and development, production and sale, such as a PRC surtax exemption, technology innovation incentives and land use rights investment subsidies from local government. The related government subsidies and incentives amounted to \$0.7 million and \$0.9 million for Jonway in 2009 and 2010, respectively. If government policies change, or if Jonway otherwise fails to obtain these incentives, it will adversely affect ZAP Jonway's financial position and operating results. Due to lack of a business license, Jonway cannot obtain certain government grants for the auto manufacturing industry, or other incentives, such as the enterprise income tax preferential treatment, and other incentives for auto manufacturers.

ZAP's efforts to integrate acquired businesses, especially Jonway, into our existing operation may not be successful.

ZAP has recently acquired a majority interest in Jonway and ZAP Jonway may, in the future, continue to acquire businesses in China and in other jurisdictions that we believe would benefit us in terms of product diversification, brand enhancement, technological advances, geographical presence or expansion of sales and distribution networks. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable targets and to obtain any necessary financing for such acquisitions. In order to complete certain acquisitions, we may require regulatory approvals or other conditions to closing that delay the completing of strategic transactions beyond the time anticipated. Even if we successfully complete an acquisition, we may experience difficulties in integrating the acquired business, its personnel or its products into our existing business, particularly:

· allocating management resources;

- scaling up production and coordinating management of operations at new sites;
- separating operations or support infrastructure for entities divested;
- managing and integrating operations in geographically dispersed locations;
- maintaining customer, supplier or other favorable business relationships of acquired operations and terminating unfavorable relationships;
- integrating the acquired company's systems into our management information systems;
- satisfying unforeseen liabilities of acquired businesses, including environmental liabilities, which could require the expenditure of material amounts of cash;
- operating in the geographic market or industry sector of the business acquired in which we may have little or no experience;
- improving and expanding our management information systems to accommodate expanded operations; and losing key employees of acquired operations.

These difficulties may result in delays or failures in realizing the benefits of the acquired business or its products, diversion of our management's time and attention from other business concerns and, higher costs of integration than we anticipated. In addition, we may also face cultural and other issues integrating businesses in China and other jurisdictions, including oversight to ensure these businesses comply with applicable U.S. laws and regulations, particularly regarding compliance with the Office of Foreign Assets Control and the Foreign Corrupt Practices Act. If ZAP Jonway fails to integrate Jonway or any of these acquired business into our existing business or if we encounter serious difficulties in integrating future businesses we acquire with our existing operations and with compliance with applicable laws and regulations, our business, financial condition and results of operations may be materially and adversely affected.

ZAP Jonway may not be able to identify adequate strategic relationship opportunities, or form strategic relationships, in the future.

Strategic business relationships will be an important factor in the growth and success of ZAP Jonway's business. There are no assurances that we will be able to identify or secure suitable business relationship opportunities in the future or our competitors may capitalize on such opportunities before we do. We may not be able to offer competitive benefits to other companies that we would like to establish and maintain strategic relationships with which could impair our ability to establish such relationships. Moreover, identifying such opportunities could demand substantial management time and resources, and negotiating and financing relationships involves significant costs and uncertainties. If ZAP Jonway is unable to successfully source and execute on strategic relationship opportunities in the future, our overall growth could be impaired, and our business, prospects and operating results could be materially adversely affected.

ZAP Jonway may not be successful in implementing and integrating strategic transactions or in divesting non-strategic assets, which could cause our financial results to fail to meet our forecasts.

From time to time, ZAP Jonway may undertake strategic transactions that give us the opportunity to access new customers and new end-customer markets, to obtain new manufacturing and service capabilities and technologies, to enter new geographic manufacturing locations, to lower our manufacturing costs and improve the margins on our product mix, and to further develop existing customer relationships. Strategic transactions involve many difficulties and uncertainties, including the following:

- integrating acquired operations and businesses;
- regulatory approvals or other conditions to closing that delay the completing of strategic transactions beyond the time anticipated;
- allocating management resources;

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- scaling up production and coordinating management of operations at new sites;
- separating operations or support infrastructure for entities divested;
- managing and integrating operations in geographically dispersed locations;
- maintaining customer, supplier or other favorable business relationships of acquired operations and terminating unfavorable relationships;
- integrating the acquired company's systems into our management information systems;
- satisfying unforeseen liabilities of acquired businesses, including environmental liabilities, which could require the expenditure of material amounts of cash;
- operating in the geographic market or industry sector of the business acquired in which we may have little or no experience;
- improving and expanding our management information systems to accommodate expanded operations; and
- losing key employees of acquired operations.

Any of these factors could prevent ZAP Jonway from realizing the anticipated benefits of a strategic transaction, and our failure to realize these benefits could reduce our sales below and increase our costs above our forecasts. Acquisitions may also be dilutive to our earnings per share if our projections and assumptions about the acquired business' future operating results prove to be inaccurate. As a result, although our goal is to improve our business and maximize shareholder value, any transactions that we complete may ultimately fail to increase our sales and net income and stock price.

China's foreign exchange control policy may restrict ZAP Jonway from repatriating profit from Chinese subsidiaries to ZAP and may further restrict ZAP Jonway in the future.

The People's Republic of China regulates the conversion between Chinese Renminbi and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions, payment of dividends and service of foreign debt. However, foreign exchange transactions by subsidiaries in China under capital accounts continue to be subject to significant foreign controls and require the approval of and or registration with, governmental authorities. There can be no assurance that these laws and regulations on foreign investment will not cast uncertainties on financing and operating plans in China. Under current foreign exchange regulations in China, subject to relevant registration at the State Administration of Foreign Exchange, or SAFE, Jonway will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there can be no assurance that the current foreign exchange policies regarding debt service and payment of dividends in foreign currencies will persist in their current formulation. Changes in foreign exchange policies in the People's Republic of China might have a negative impact on ZAP Jonway's ability to repatriate profit from Jonway to ZAP.

If ZAP Jonway fails to manage future growth effectively, we may not be able to market and sell our vehicles successfully.

The majority of ZAP Jonway sales are from Zhejiang Jonway Automobile Co. Ltd. For the three and six months ended June 30, 2011 Zhejiang Jonway Automobile Co. Ltd sales are \$15.7 million and \$30.0 million . Any failure to manage ZAP Jonway's growth effectively could materially and adversely affect our business, prospects, operating results and financial condition. ZAP Jonway's future operating results depend to a large extent on our ability to manage this expansion and growth successfully. Risks that we face in undertaking this expansion include:

- training new personnel;
- forecasting production and revenue;

· controlling expenses and investments in anticipation of expanded operations; establishing or expanding design, manufacturing, sales and service facilities;

· implementing and enhancing administrative infrastructure, systems and processes;

· addressing new markets; and

· expanding international operations.

ZAP Jonway intends to continue to hire a significant number of additional personnel, including design and manufacturing personnel and service technicians for our vehicles. Competition for individuals with experience designing, manufacturing and servicing vehicles, particularly electric vehicles, is intense, and we may not be able to attract, assimilate, train or retain additional highly qualified personnel in the future. The failure to attract, integrate, train, motivate and retain these additional employees could seriously harm ZAP Jonway’s business and prospects.

If ZAP Jonway is unable to attract and retain key employees and hire qualified management, technical and vehicle engineering personnel, our ability to compete could be harmed.

The loss of the services of any of ZAP Jonway’s key employees could disrupt our operations, delay the development and introduction of our vehicles and services, and negatively impact our business, prospects and operating results. In particular, ZAP Jonway is highly dependent on the services of Priscilla Lu, Chairman of ZAP’s Board, Steven Schneider and Alex Wang, ZAP’s Co-Chief Executive Officers and Benjamin Zhu, ZAP’s Chief Financial Officer. None of ZAP Jonway’s key employees is bound by an employment agreement for any specific term other than Benjamin Zhu. There can be no assurance that we will be able to successfully attract and retain senior leadership necessary to grow our business. Our future success depends upon our ability to attract and retain our executive officers and other key technology, sales, marketing and support personnel and any failure to do so could adversely impact our business, prospects, financial condition and operating results. We have in the past and may in the future experience difficulty in retaining members of our senior management team. There is increasing competition for talented individuals with the specialized knowledge of electric vehicles and this competition affects both our ability to retain key employees and hire new ones.

ZAP Jonway is subject to various environmental laws and regulations that could impose substantial costs upon us and cause delays in building our manufacturing facilities.

As an automobile manufacturer, ZAP Jonway and our operations, both in the United States, in China and abroad, are subject to national, state, provincial and/or local environmental laws and regulations, including laws relating to the use, handling, storage, disposal and human exposure to hazardous materials. Environmental and health and safety laws and regulations can be complex, and we expect that our business and operations will be affected by future amendments to such laws or other new environmental and health and safety laws which may require us to change our operations, potentially resulting in a material adverse effect on our business. These laws can give rise to liability for administrative oversight costs, cleanup costs, property damage, bodily injury and fines and penalties. Capital and operating expenses needed to comply with environmental laws and regulations can be significant, and violations may result in substantial fines and penalties, third party damages, suspension of production or a cessation of our operations.

Contamination at properties formerly owned or operated by ZAP Jonway, as well as at properties we will own and operate, and properties to which hazardous substances were sent by us, may result in liability for us under environmental laws and regulations, including, but not limited to the Comprehensive Environmental Response, Compensation and Liability Act, which can impose liability for the full amount of remediation-related costs without regard to fault, for the investigation and cleanup of contaminated soil and ground water, for building contamination

and impacts to human health and for damages to natural resources. The costs of complying with environmental laws and regulations and any claims concerning noncompliance, or liability with respect to contamination in the future, could have a material adverse effect on ZAP Jonway's financial condition or operating results. We may face unexpected delays in obtaining the necessary permits and approvals required by environmental laws in connection with our planned manufacturing facilities that could require significant time and financial resources and delay our ability to operate these facilities, which would adversely impact our business prospects and operating results.

ZAP Jonway's business may be adversely affected by union activities.

Although none of ZAP Jonway's employees are currently represented by a labor union, it is common throughout the automobile industry generally for many employees at automobile companies to belong to a union, which can result in higher employee costs and increased risk of work stoppages. As we expand our business, there can be no assurances that our employees will not join or form a labor union or that we will not be required to become a union signatory. ZAP Jonway is also directly or indirectly dependent upon companies with unionized work forces, such as parts suppliers and trucking and freight companies, and work stoppages or strikes organized by such unions could have a material adverse impact on our business, financial condition or operating results. If a work stoppage occurs, it could delay the manufacture and sale of ZAP Jonway's vehicles and have a material adverse effect on our business, prospects, operating results or financial condition.

ZAP Jonway is subject to substantial regulation, which is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and operating results.

ZAP Jonway's electric vehicles, the sale of our motor vehicles in general and the electronic components used in our vehicles are subject to substantial regulation under international, federal, state, and local laws. We have incurred, and expect to incur in the future, significant costs in complying with these regulations. Regulations related to the electric vehicle industry and alternative energy are currently evolving and ZAP Jonway faces risks associated with changes to these regulations such as:

· the imposition of a carbon tax or the introduction of a cap-and-trade system on electric utilities could increase the cost of electricity;

· the increase of subsidies for corn and ethanol production could reduce the operating cost of vehicles that use ethanol or a combination of ethanol and gasoline;

· changes to the regulations governing the assembly and transportation of lithium-ion batteries, such as the UN Recommendations of the Safe Transport of Dangerous Goods Model Regulations or regulations adopted by the U.S. Pipeline and Hazardous Materials Safety Administration could increase the cost of lithium-ion batteries;

· increased sensitivity by regulators to the needs of established automobile manufacturers with large employment bases, high fixed costs and business models based on the internal combustion engine could lead them to pass regulations that could reduce the compliance costs of such established manufacturers or mitigate the effects of government efforts to promote alternative fuel vehicles; and changes to regulations governing exporting of our products could increase our costs incurred to deliver products outside the United States or force us to charge a higher price for our vehicles in such jurisdictions.

In addition, as the automotive industry moves towards greater use of electronics for vehicle systems, NHTSA and other regulatory bodies may in the future increase regulation for these electronic systems.

To the extent the laws change, some or all of ZAP Jonway's vehicles may not comply with applicable international, federal, state or local laws, which would have an adverse effect on our business. Compliance with changing regulations could be burdensome, time consuming, and expensive. To the extent compliance with new regulations is cost prohibitive, ZAP Jonway's business, prospects, financial condition and operating results will be adversely affected.

ZAP Jonway's electric vehicles make use of lithium-ion battery cells, which on rare occasions have been observed to catch fire or vent smoke and flame.

The battery packs in ZAP Jonway's electric vehicles make use of lithium-ion cells, which have been used for years in laptops and cell phones. We also currently intend to make use of lithium-ion cells in the battery pack for certain future vehicles we may produce. On rare occasions, lithium-ion cells can rapidly release the energy they contain by venting smoke and flames in a manner that can ignite nearby materials. Highly publicized incidents of laptop computers and cell phones bursting into flames have focused consumer attention on the safety of these cells. The events have also raised questions about the suitability of these lithium-ion cells for automotive applications. To address these questions and concerns, a number of cell manufacturers are pursuing alternative lithium-ion battery cell chemistries to improve safety. ZAP Jonway has delivered only a limited number of electric vehicles with lithium-ion battery cells to customers and has limited field experience with these vehicles. Accordingly, there can be no assurance that a field failure of our battery packs will not occur, which could damage the vehicle or lead to personal injury or death and may subject us to lawsuits. There can be no assurance that a safety issue or fire related to the cells would not disrupt ZAP Jonway's operations. Such damage or injury would likely lead to adverse publicity and potentially a safety recall. Moreover, any failure of a competitor's electric vehicle, especially those that use a high volume of commodity cells similar to ZAP Jonway's, may cause indirect adverse publicity for us. Such adverse publicity would negatively affect our brand and harm our business, prospects, financial condition and operating results.

ZAP Jonway may become subject to product liability claims, which could harm our financial condition and liquidity if ZAP Jonway is not able to successfully defend or insure against such claims.

The risk of product liability claims, product recalls, and associated adverse publicity is inherent in the manufacturing, marketing, and sale of vehicles. ZAP Jonway may become subject to product liability claims, which could harm our business, prospects, operating results and financial condition. The automobile industry experiences significant product liability claims and we face inherent risk of exposure to claims in the event our vehicles do not perform as expected or malfunction resulting in personal injury or death. ZAP Jonway's risks in this area are particularly pronounced given the limited number of vehicles delivered to date and limited field experience of those vehicles. A successful product liability claim against us could require us to pay a substantial monetary award. Moreover, a product liability claim could generate substantial negative publicity about our vehicles and business and inhibit or prevent commercialization of other future vehicle candidates which would have material adverse effect on our brand, business, prospects and operating results. ZAP maintains product liability insurance for all ZAP vehicles with annual limits of approximately $5 million on a claims made basis, but we cannot assure that our insurance will be sufficient to cover all potential product liability claims and the product liability insurance does not extend to Jonway products. Any lawsuit seeking significant monetary damages either in excess of ZAP Jonway's coverage, or outside of our coverage, may have a material adverse effect on our reputation, business and financial condition. We may not be able to secure additional product liability insurance coverage on commercially acceptable terms or at reasonable costs when needed, particularly if we do face liability for our products and are forced to make a claim under our policy. Moreover, a product recall could generate substantial negative publicity about our products and business and inhibit or prevent commercialization of other future product candidates.

In connection with the development and sale of ZAP Jonway's planned vehicles, we will need to comply with various safety regulations and requirements, such as certain frontal impact tests, which are required for sales exceeding certain annual volumes outside the United States. We may experience difficulties in meeting all the criteria for this test or similar tests for our planned electric vehicles, which may delay our ability to sell them in high volumes in certain jurisdictions.

ZAP Jonway's facilities or operations could be damaged or adversely affected as a result of disasters or unpredictable events.

ZAP’s corporate headquarters are located in California, a region known for seismic activity. Jonway’s manufacturing facility is located in Sanmen, China. If major disasters such as earthquakes, fires, floods, hurricanes, wars, terrorist attacks, computer viruses, pandemics or other events occur, or our information system or communications network breaks down or operates improperly, ZAP Jonway’s facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. We may incur expenses relating to such damages, which could have a material adverse impact on our business, operating results and financial condition.

If ZAP Jonway's suppliers fail to use ethical business practices and comply with applicable laws and regulations, our brand image could be harmed due to negative publicity.

ZAP Jonway does not control our independent suppliers or their business practices. Accordingly, we cannot guarantee their compliance with ethical business practices, such as environmental responsibility, fair wage practices, and compliance with child labor laws, among others. A lack of demonstrated compliance could lead us to seek alternative suppliers, which could increase our costs and result in delayed delivery of our products, product shortages or other disruptions of our operations.

Violation of labor or other laws by ZAP Jonway's suppliers or the divergence of an independent supplier's labor or other practices from those generally accepted as ethical in the United States or other markets in which we do business could also attract negative publicity for us and ZAP Jonway's brand. This could diminish the value of our brand image and reduce demand for our performance electric vehicles if, as a result of such violation, we were to attract negative publicity. If we, or other manufacturers in our industry, encounter similar problems in the future, it could harm our brand image, business, prospects, financial condition and operating results.

Risks related to Intellectual Property

ZAP Jonway may need to defend itself against patent or trademark infringement claims, which may be time-consuming and would cause us to incur substantial costs.

Companies, organizations or individuals, including ZAP Jonway's competitors, may hold or obtain patents, trademarks or other proprietary rights that would prevent, limit or interfere with our ability to make, use, develop or sell our vehicles or components, which could make it more difficult for us to operate our business. From time to time, we may receive inquiries from holders of patents or trademarks inquiring whether we infringe their proprietary rights. Companies holding patents or other intellectual property rights relating to battery packs, electric motors or electronic power management systems may bring suits alleging infringement of such rights or otherwise asserting their rights and seeking licenses. In addition, if ZAP Jonway is determined to have infringed upon a third party's intellectual property rights, we may be required to do one or more of the following:

- cease selling, incorporating or using vehicles that incorporate the challenged intellectual property;
- pay substantial damages;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on reasonable terms or at all; or
- redesign our vehicles.

In the event of a successful claim of infringement against us and our failure or inability to obtain a license to the infringed technology, our business, prospects, operating results and financial condition could be materially adversely affected. In addition, any litigation or claims, whether or not valid, could result in substantial costs and diversion of resources and management attention.

ZAP Jonway also licenses intellectual property from third parties, and we may face claims that our use of this in-licensed technology infringes the rights of others. In that case, we may seek indemnification from our licensors under our license contracts with them. However, our rights to indemnification may be unavailable or insufficient to cover our costs and losses, depending on our use of the technology, whether we choose to retain control over conduct of the litigation, and other factors.

ZAP Jonway’s business will be adversely affected if ZAP Jonway is unable to protect our intellectual property rights from unauthorized use or infringement by third parties.

Any failure to protect our proprietary rights adequately could result in ZAP Jonway’s competitors offering similar products, potentially resulting in the loss of some of our competitive advantage and a decrease in our revenue which would adversely affect our business, prospects, financial condition and operating results. Our success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, we rely on a combination of patents, patent applications, trade secrets, including know-how, employee and third party nondisclosure agreements, copyright laws, trademarks, intellectual property licenses and other contractual rights to establish and protect our proprietary rights in our technology. As of December 31, 2010, we had 20 issued patents and approximately 28 pending patent applications with the United States Patent and Trademark Office and our majority-owned subsidiary Jonway had 19 issued patents and 9 pending patent applications with the China Patent and Trademark Bureau.

The protection provided by the patent laws is and will be important to our future opportunities. However, such patents and agreements and various other measures we take to protect our intellectual property from use by others may not be effective for various reasons, including the following:

- our pending patent applications may not result in the issuance of patents;

- our patents, if issued, may not be broad enough to protect our proprietary rights;

- the patents we have been granted may be challenged, invalidated or circumvented because of the pre-existence of similar patented or unpatented intellectual property rights or for other reasons;

- the costs associated with enforcing patents, confidentiality and invention agreements or other intellectual property rights may make aggressive enforcement impracticable;

- current and future competitors may independently develop similar technology, duplicate our vehicles or design new vehicles in a way that circumvents our patents; and

- our in-licensed patents may be invalidated or the holders of these patents may seek to breach our license arrangements.

Existing trademark and trade secret laws and confidentiality agreements afford only limited protection. In addition, the laws of some foreign countries do not protect ZAP Jonway’s proprietary rights to the same extent as do the laws of the United States, and policing the unauthorized use of our intellectual property is difficult.

ZAP Jonway’s patent applications may not result in issued patents, which may have a material adverse effect on our ability to prevent others from commercially exploiting products similar to ours.

We cannot be certain that ZAP or Jonway are the first creator of inventions covered by their respective pending patent applications or that they are the first to file patent applications on these inventions, nor can we be certain that any of ZAP or Jonway’s pending patent applications will result in issued patents or that any of our issued patents will afford protection against any competitor. In addition, patent applications filed in foreign countries are subject to laws, rules and procedures that differ from those of the United States, and thus ZAP Jonway cannot be certain that foreign patent applications related to issued U.S. patents will be issued. Furthermore, if these patent applications issue, some foreign countries provide significantly less effective patent enforcement than in the United States.

The status of patents involves complex legal and factual questions and the breadth of claims allowed is uncertain. As a result, ZAP Jonway cannot be certain that the patent applications that we file will result in patents being issued, or that our patents and any patents that may be issued to us in the near future will afford protection against competitors with similar technology. In addition, patents issued to ZAP, Jonway or ZAP Jonway may be infringed upon or designed around by others and others may obtain patents that ZAP Jonway need to license or design around, either of which would increase costs and may adversely affect our business, prospects, financial condition and operating results.

Risks Related to Ownership of ZAP Common Stock

Concentration of ownership among ZAP's existing executive officers, directors and their affiliates may prevent new investors from influencing significant corporate decisions.

ZAP's executive officers, directors and their affiliates beneficially own, in the aggregate, approximately 63% of our outstanding shares of common stock, including securities convertible into shares of ZAP common stock. In particular, Priscilla Lu, the chairman of our board of directors, is a general partner of Cathaya. In addition, Cathaya and its affiliated entities beneficially own approximately 57% of our outstanding shares of common stock, including securities convertible into shares of ZAP common stock. As a result, these shareholders will be able to exercise a significant level of control over all matters requiring shareholder approval, including the election of directors, amendment of our amended and restated articles of incorporation and approval of significant corporate transactions. This control could have the effect of delaying or preventing a change of control of our company or changes in management and will make the approval of certain transactions difficult or impossible without the support of these shareholders.

ZAP may face risks associated with past sales of unregistered securities.

In the past, ZAP has sold numerous securities which were not registered under federal or state securities laws. ZAP has strived to comply with all applicable federal and state securities laws in connection with our issuances of unregistered securities. However, to the extent ZAP has not complied, ZAP may face liability for the purchase price of the securities sold, together with interest and the potential of regulatory sanctions.

ZAP's stock price and trading volume may be volatile which could result in substantial losses for ZAP's shareholders.

The equity trading markets may experience periods of volatility, which could result in highly variable and unpredictable pricing of equity securities. The market price of ZAP's common stock could change in ways that may or may not be related to our business, our industry or our operating performance and financial condition. In addition, the trading volume in ZAP's common stock may fluctuate and cause significant price variations to occur. ZAP has experienced significant volatility in the price of our stock over the past few years. We cannot assure you that the market price of ZAP's common stock will not fluctuate or decline significantly in the future. In addition, the stock markets in general can experience considerable price and volume fluctuations.

ZAP has not paid cash dividends on ZAP's common stock and do not anticipate paying any cash dividends on ZAP's common stock in the foreseeable future.

ZAP does not expect to declare any dividends in the foreseeable future.

ZAP does not anticipate declaring any cash dividends to holders of ZAP's common stock in the foreseeable future. Consequently, investors may need to rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase ZAP's common stock.

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

The following lists sales of unregistered securities during the quarter ended June 30, 2011 that were not previously included in a Current Report on Form 8-K. We relied on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended for the issuance of these securities. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions.

On June 8, 2011, the Company issued 230,000 shares of common stock valued at $135,000 for a placement to Felix Siu Fai Kwan, pursuant to a Subscription Agreement by and between the Company and Felix Siu Fai Kwan dated as of June 8, 2011. The Company also issued another 100,000 shares of common stock valued at $50,000 to Gary Starr, pursuant to an Employment Separation Agreement and General Release by and between the company and Gary Starr dated as of June 9, 2011.

Item 3. Defaults upon Senior Securities

None.

Item 4. [Removed and Reserved.]

Item 5. Other Information

None.

Item 6. Exhibits

(b) Exhibits.

Exhibit Number	Description
3.1	ZAP's Amended and Restated Articles of Incorporation.
10.1 (1)	Amended and Restated Settlement Agreement and Release by and among ZAP, Steven Schneider, and Peter Scholl dated as of June 20, 2011.
31.1	Certification of Co-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.
31.2	Certification of Co-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 Rule 13a-14/15d-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Co-Principal Executive Officers 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.

(1) Incorporated by reference to Exhibit 10.1 filed with the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 23, 2011.

SIGNATURES

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

Dated: August 15, 2011

By: /s/ Steven Schneider
Name: Steven Schneider
Title: Co-Chief Executive Officer
(Co-Principal Executive Officer)

Dated: August 15, 2011

By: /s/ Alex Wang
Name: Alex Wang
Title: Co-Chief Executive Officer
(Co-Principal Executive Officer)

Dated: August 15, 2011

By: /s/ Benjamin Zhu
Name: Benjamin Zhu
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)