ZAP
Form 10-K
April 16, 2012

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

FORM 10-K

(Mark One)

x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2011
	Or
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: 0-303000

ZAP
(Name of small business issuer in its charter)

California (State or other jurisdiction of incorporation or organization)	94-3210624 (I.R.S. Employer Identification Number)
5014 Fourth Street Santa Rosa, California (Address of principal executive offices)	95401 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value Title of Each Class	OTC BB Name Exchange on Which Registered

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
(Do not check if a smaller reporting company)			

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant computed by reference to the price at which the common equity was sold or the average bid and asked prices as of June 30, 2011 was $30,260,000.

There were a total of 298,712,792 shares of the Registrant's Common Stock outstanding as of April 11, 2012.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K, or Form 10-K, including the sections entitled " "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as "seek", "anticipate", "believe", "estimate", "expect", "intend", "plan", "budget", "project", "may be", "may co 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 establish, maintain and strengthen our brand;
- our ability to successfully integrate acquired subsidiaries, particularly Jonway, into our company and business;
- our ability to maintain effective disclosure controls and procedures;
- our limited operating history, particularly of ZAP and Jonway on a consolidated basis;
- whether the alternative energy and gas-efficient vehicle market for our electric products continues to grow and, if it does, the pace at which it may grow;
- our ability to attract and retain the personnel qualified to implement our growth strategies;
- our ability to obtain approval from government authorities for our products;
- our ability to protect the patents on our proprietary technology;
- our ability to fund our short-term and long-term financing needs;
- our ability to compete against large competitors in a rapidly changing market for electric and conventional fuel vehicles; and
- changes in our business plan and corporate strategies.

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 annual report on Form 10-K 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.

PART I

Item 1. Business

Overview

ZAP designs, develops, manufactures and sells fully electric and advanced technology vehicles. With our new product offerings and our recent acquisition of 51% of the equity shares of Zhejiang Jonway Automobile Co. Ltd., or Jonway, in January 2011, we believe we are positioned to be a leader in the electric vehicle industry.

We believe our acquisition of a majority interest in Jonway will give us the IS9000 compliant production manufacturing facility we need to mass produce our electric vehicle products and allow us to expand our distribution network for ZAP electric vehicles internationally and provide access to the rapidly growing market for gasoline and electric vehicles in China and internationally. We also believe our acquisition will allow us to leverage ZAP's expertise in advanced automotive technologies to jointly develop electric and advanced technology vehicles with Jonway. We already have jointly developed an electric version of Jonway's A380 SUV, and we plan to sell this vehicle in China and internationally. We also believe this acquisition will allow Jonway to expand its distribution network for its conventional fuel A380 SUVs in the United States and internationally. We plan to leverage the volume manufacturing capability of Jonway to produce both Jonway's upgraded A380 5-door and 3-door SUVs and shuttle van as well as our jointly developed electric A380, shuttle van and ZAP's electric Alias car at Jonway's manufacturing facility in Sanmen, China.

Our strategy is to serve the growing fleet and taxi market, especially for electric and fuel efficient vehicles. While many electric vehicle companies are focused on passenger cars and sedans for mainstream consumers, ZAP Jonway believes government and corporate fleets can more quickly and more successfully implement electric vehicle technologies as adequate charging infrastructure, service and support can be more easily managed in fleet operations where the vehicles may travel along predictable routes and have a central point of operation. We also believe that volatile oil prices as well as government regulations and incentives have created opportunities for producers of electric and fuel efficient vehicles to serve the global fleet and taxi markets.

ZAP has seventeen years of experience inventing, designing, manufacturing and selling innovative products. In 1995, we began marketing electric transportation on the internet through our websites www.zapbikes.com and www.zapworld.com. We have been a pioneer in developing and marketing electric vehicles such as the zero-emission ZAP® electric bicycle, the ZAP Power System, which adapts to most bicycles and the ZAPPY® folding electric scooter. In 2003, we announced our first electric automobiles, including an electric automobile imported from our Chinese supplier. And in 2004, we introduced electric all-terrain vehicles. In 2005, we introduced multi-fuel vehicles, capable of running on ethanol and/or gasoline. From 2006 to 2009, we introduced the all-electric Xebra Truck, ZAP Truck XL and ZAPVAN Shuttle.

ZAP was incorporated in 1994 under the name "ZAP Power Systems," and changed its name to "ZAPWORLD.COM" in 1999 and ZAP in 2001. ZAP's principal executive offices are located at 501 Fourth Street, Santa Rosa, California 95401. ZAP's telephone number is (707) 525-8658. ZAP's main company website is www.zapworld.com. Information contained on the website is not incorporated by reference herein and you should not consider information on the website to be part of this annual report on Form 10-K.

Business

ZAP has more than seventeen years of experience designing, developing, manufacturing and selling innovative electric transportation products and Jonway has more than 2.6 million square feet of manufacturing space, with the ability to produce up to 50,000 automobiles per year, and an extensive distribution network in China. Leveraging

ZAP's experience in electric and alternative fuel vehicles and Jonway's volume manufacturing capabilities and distribution network in China and internationally, ZAP Jonway intends to continue its leadership in the electric vehicle market and increase the volume and speed of its vehicle production. ZAP Jonway also intends to continue its production of conventional fuel vehicles and to expand its distribution network in both China and internationally.

China Taxi Market. ZAP Jonway intends to focus on the rapidly growing market for electric vehicles in China and abroad through the sale of plug in electric SUV and Van models to large taxi and corporate fleets in China and internationally. ZAP Jonway intends to introduce the electric version of the A380 SUV and Van in the second half of 2012. The use of plug in electric for taxis will be limited to cities that have a lower range of no more than 200 km traveled per shift, and would need to have swappable batteries to ensure quick turnaround between shifts. Currently, Hangzhou already has in full electric taxis in operations, and many other cities are also beginning to launch full electric taxis with swappable batteries supported by the National Grid.

Fleet Market. ZAP Jonway also intends to market its vehicles to government and corporate fleets. ZAP believes that the adoption of electric vehicles continues to be limited by the lack of adequate charging infrastructure, service and support. ZAP believes that these limitations can be more easily managed in fleet operations where vehicles may travel along predictable routes and have a central point of operation. Accordingly, ZAP markets its vehicles to fleet customers. In 2010, ZAP delivered trucks to the State of California, Presidio National Park, Federal Aviation Administration, Department of Energy, U.S. Army, United Parcel Service, City of Riverside, and City of Monterey. In addition, in February 2010, ZAP was selected along with four other firms in a competitive bid process held nationwide by the United States Postal Service, or the USPS, to engineer a replacement electric vehicle drive train for its current gasoline powered mail delivery vehicle. The USPS operates a large automotive fleet, with over one hundred and forty thousand vehicles. ZAP converted a gas powered mail truck to an electric drive train, as specified by the USPS, and this vehicle, along with vehicles from the other selected firms, is currently being tested by the USPS.

Electric Charge Stations. ZAP Jonway intends to develop electric charge station technology in collaboration with Better World International Limited and other firms.

Conventional Fuel Vehicles. ZAP Jonway intends to expand the distribution of the Jonway A380 SUVs in China and internationally.

Our Vehicles and Products

ZAP Automotive Products

ZAP's current automotive product line includes the all-electric ZAPTRUCK XL, ZAPVAN Shuttle and the Xebra Sedan.

ZAPTRUCK XL. The ZAPTRUCK XL is a plug-in-electric vehicle principally designed for fleet operations. The XL can hold up to two passengers and has a convertible bed/platform for moving up to 625 lbs. of cargo in accordance with U.S. Safety Guidelines for on-road vehicles. The XL is designed for corporate and university campuses, airports, warehouses, factories, military bases, municipal operations and ranches or farms. As it is classified as a Neighborhood Electric Vehicle, or NEV, the XL is limited by its controller to travel at speeds up to 25 mph (the maximum speed for an NEV) and provides a range of up to 40 miles per charge under ideal driving conditions.

ZAPVAN Shuttle. The ZAPVAN Shuttle is a multi-purpose, plug-in-electric vehicle for municipalities, colleges and universities, airports, hospitals or corporate campuses. The Shuttle is designed to transport large cargo and passenger loads. The Shuttle can hold up to four passengers in its standard configuration and can support a payload of over 700 lbs. of cargo in accordance with U.S. Safety Guidelines for on-road vehicles. Classified as an NEV, the Shuttle is limited by its controller to travel at speeds up to 25 mph and provides a range of up to 40 miles per charge under ideal driving conditions.

Jonway Automotive Products

Jonway's current automotive product line includes the gas fueled A380 Five-Door SUV and the A380 Three-Door SUV.

Jonway A380 Five-Door. The Jonway A380 Five-Door is a gasoline powered 4-speed sport utility vehicle available in 1.6, 1.8 and 2.0 liter engines and available in automatic and manual transmission.

Jonway A380 Three-Door. The Jonway A380 Three-Door is a gasoline powered sport utility vehicle available in 1.6, 1.8 and 2.0 liter engines and available in automatic and manual transmission.

The roll-out of our vehicle

ZAP Jonway Electric A380 SUV. ZAP and Jonway are jointly developing the A380EV, an electric version of the Jonway A380 SUV. This five-door vehicle will use a lithium-ion battery pack and an AC electric motor designed to meet international standards for electrical charging. ZAP Jonway anticipates launching the A380EV in the second half 2012.

ZAP Alias. ZAP Jonway is currently developing the Alias with an estimated range of up to 100 miles per charge under ideal driving conditions. ZAP unveiled the prototype for the Alias at the National Automotive Dealers Association Conference in New Orleans in January 2009. ZAP Jonway anticipates launching the Alias in 2013.

Jonway A380 SUV. ZAP and Jonway are jointly developing improved three-door and five-door A380 SUVs to meet customer demands for increased economy and comfort. Jonway expects to launch the improved A380 in the first half of 2012.

Jonway Van. Jonway is also developing a conventional fuel small van. This new product is currently in the trial stage and is expected to launch in the first half of 2012.

Other ZAP Products

ZAPPY3 Personal Transporters. The ZAPPY3 Pro is designed to meet the requirements of material handling, warehousing, fabrication and construction industries. For the mobility market, ZAP makes the ZAPPY3 EZ and ZAPPY3 Standard.

Jonway and other Strategic Relationships

Jonway.

We acquired 51% of the equity shares of Jonway in January 2011.

Jonway is a limited liability company incorporated in Sanmen County, Zhejiang Province of the People's Republic of China, or PRC, in April 2004 by Jonway Group Co., Ltd., or Jonway Group, and three individuals.

Under the laws of the People's Republic of China, only an enterprise approved by Ministry of Industry and Information Technology and listed in the National Catalog for Whole Automobile Manufacturing Enterprises and Products, or the National Catalog, is allowed to manufacture whole automobiles and is limited to the models designated therein for each manufacturer. The National Catalog functions as a manufacturing permit or license to allow the enterprises to manufacture specified automobile models under specified brands, as listed in therein.

Neither Jonway nor Jonway Group is in the National Catalog or qualified to produce whole automobiles. Zhejiang UFO Automobile Manufacturing Co., Ltd., or Zhejiang UFO, is listed in the National Catalog as a qualified manufacturer of certain UFO-brand cars. Jonway currently has authorization from Zhejiang UFO to use Zhejiang UFO's manufacturing permits and licenses to assemble and sell the automobiles manufactured by Jonway at the Sanmen branch of Zhejiang UFO, or the Sanmen Branch, pursuant to the Contractual Operation Agreement entered into among Zhejiang UFO, Jonway and Jonway Group on January 1, 2006, or the Operations Agreement. Pursuant to the Operations Agreement:

- Zhejiang UFO granted Jonway the full power to operate and manage the Sanmen Branch and manufacture the SUV products for which Zhejiang UFO has manufacturing permits or licenses, except for certain professional matters;

- the parties agreed that the Sanmen Branch shall not manufacture or sell other automobiles or products without Zhejiang UFO's authorization or conduct any business with a third party other than Jonway; and

- Jonway agreed to pay certain contracting fees to Zhejiang UFO. The Operations Agreement is valid for 10 years and expires on December 15, 2015, subject to renewal, which Jonway intends to obtain prior to its expiration.

We understand that laws of the People’s Republic of China do not expressly prohibit the aforementioned arrangements. However, it is possible that the government of the People’s Republic of China may decide that manufacturing Jonway automobiles under Zhejiang UFO’s license or the manufacturing of vehicles with a brand name other than the UFO brand listed in the National Catalog is not in full compliance with laws of the People’s Republic of China. In this case, Jonway could face sanctions from the government, including fines, an order to cease operations, and revocation of Jonway’s general business license. To be a qualified automobile manufacturer, Jonway may apply to the government of the People’s Republic of China to be separately listed on the National Catalog. However, due to the current industry policies of the government of the People’s Republic of China, new manufacturing permits and licenses are rarely, if ever, granted and even then, applying for new models is likely to be a time-consuming process. Also, if the government revokes Zhejiang UFO's license or if Zhejiang UFO refuses to apply for Jonway models under the National Catalog, Jonway may have to cease manufacturing automobiles.

Jonway has a general business license issued by the company registration authority of the People's Republic of China, indicating that it is duly incorporated, validly existing and has an operation term of 10 years, or until 2014, which term may be extended, subject to government approval.

Under the laws of the People's Republic of China, a foreign investor is not allowed to acquire more than a 50% equity interest in a company which is qualified to manufacture whole automobiles. As Jonway is not in the National Catalog and is not qualified to produce whole automobiles, ZAP's acquisition of 51% of the equity shares of Jonway has been approved by the relevant governmental authorities.

In July 2010, ZAP entered into that Certain Equity Transfer Agreement for the Purchase and Transfer of Certain Equity Interest in Zhejiang Jonway Automobile Co., Ltd, as amended with Jonway Group, or the Jonway Acquisition Agreement, for the acquisition of 51% of the total equity shares of Jonway, for a total purchase price of $31.75 million of which $29,030,000 in cash and 8 million shares of stock valued at $2.72million have been paid. On January 21, 2011, ZAP completed the acquisition of 51% of the equity shares of Jonway, which transaction was approved by the Department of Commerce of Zhejiang Province in September 2010. As of December 31, 2011, ZAP, Jonway Group, Wang Gang and Wang Xiao Ying held 51%, 39%, 8% and 2% of Jonway's equity shares, respectively. In June 2010, ZAP issued 40 million shares of stock valued at $10 million to Cathaya Capital, L.P., or Cathaya, in order to pay $10 million of the purchase price under the Jonway Acquisition Agreement. In January 2011, ZAP issued $19 million of convertible debt to an affiliate of Cathaya in order to pay an additional $19,030,000 under the Jonway Acquisition Agreement, including a foreign currency adjustment of $30,000. Although in March 2012, ZAP received the representation letter from CEVC stating their agreement with the extended maturity date of August 12, 2013 for such convertible note, we believe there is some uncertainty regarding whether this convertible debt will be converted to equity or require cash payment as of August 12, 2013.

Jonway is located at the Da Tang industry zone of Jiangtiao Village, Sanmen County, Zhejiang Province, China. Jonway has more than 2.6million square feet of manufacturing space, with the ability to produce up to 50,000 automobiles per year. Jonway distributes its vehicles through a network of more than three hundred factory and authorized dealers. Jonway began international distribution activities in Italy, Nepal, Algeria, America, Yemen and Egypt. Jonway sold over 155 vehicles and over 200 vehicles internationally in 2010 and in 2011, respectively. Jonway vehicles may be serviced at one of 293 service centers in China.

Since September 2007, Jonway has been designing and producing the three-door A380 SUV. Jonway launched the five-door manual transmission A380 SUV and the five-door automatic transmission A380 SUV in March 2009 and in October 2010, respectively. Jonway sold 197 A380 three-door SUVs in 2010 and 112 three-door A380 SUVs in 2011, and Jonway sold 7,545 A380 five-door SUVs in 2010 and 5,583 A380 five-door SUVs in 2011.

In October 2010, ZAP entered into an International Distribution Agreement with Goldenstone Worldwide Limited, which has international distribution rights for all of Jonway Group's products in the United States and internationally, in exchange for 30 million shares of ZAP's common stock valued at $14.4 million. ZAP acquired a 51% equity interest in Jonway Auto but this equity interest did not include the worldwide distribution rights for Jonway products. Therefore it was necessary for ZAP to acquire distribution rights for Jonway products.

Jonway's strategy is to serve the growing SUV market in China and to expand internationally. In addition to conventional fuel vehicles, ZAP Jonway intends to develop and market all-electric Jonway vehicles. In 2009 and 2010, working jointly with ZAP, Jonway successfully researched, developed and produced electric A380 SUV prototypes. In May 2010, Jonway's A380 electric SUV was shown at the 2010 World Expo in Shanghai, China. In November 2010, Jonway and ZAP attended the 25th International Electric Vehicle Symposium and Exposition, or EVS25, held in Shenzhen, China and exhibited six prototypes, including the electric SUV, electric ATV and scooter as well as their component parts. ZAP Jonway plans to further develop electric SUVs and shuttle van and increase, streamline and economize volume production of electric SUVs and van, while developing electric vehicle sales and marketing channels. As of December 31, 2011, ZAP Jonway has over 300 Direct Dealers and Sub-dealers. ZAP Jonway plans to use Jonway's 293 after-sales service centers to service electric vehicles sold in China. Jonway moved its sales force from Sanmen to Hangzhou at the end of 2011. This move was made to gain more experienced sales and marketing people for the company.

Remy. In November 2010, ZAP and Remy Electric Motors, LLC entered into a long term motor supply and development agreement for the use of the Remy High Voltage Hairpin 250 electric motor, or HVH motor, in ZAP Jonway cars and SUVs. Additionally, ZAP is developing a drive train with the HVH motor for use in automotive platforms of ZAP Jonway and other vehicles. The Remy power train is planned for the second generation A380 SUV EV. The first release of the A380 SUV EV will be using a locally made electric power train.

ZAP Hangzhou. As part of ZAP’s plan to deliver quality, cost effective electric vehicles to the fleet vehicle market, in December 2009, ZAP and the Holley Group, the world’s largest volume producer of electric power meters according to the Wenhui-Xinmin United Press Group, established ZAP Hangzhou, a joint venture company in China with financial support from Better World International Limited to target the electric vehicle market in China. ZAP Hangzhou combines ZAP’s intellectual property, electric vehicle technology and know-how with the Holley Group’s experience in electric metering to provide ZAP Jonway with technological and design advice on its vehicles, parts and suppliers, and the volume production of ZAP Jonway vehicles in China. ZAP Jonway and ZAP Hangzhou also plan to use their knowledge of the local Chinese market to target opportunities for electric vehicle growth within China’s vehicle fleets. ZAP Hangzhou is located at a facility in Hangzhou provided by the Holley Group. The facility has conducted engineering and integration of electric drive trains in the Jonway A380 5-door SUV. These vehicles were provided to the 2010 World Expo in Shanghai for demonstration as transportation for show officials. The 2010 early EV design has been upgraded to be compliant with the type approval requirements for the China market, and this version will be ready for manufacturing and production in the 2nd half of 2012.

Better World sales and distribution of Z-Chargers. ZAP USA has exclusive sales and distribution rights on Better World’s Z-Charger stations. Better World completed the development of these chargers in 2011 and now has the US approved charge stations available for sales in the US market and internationally. ZAP will begin to sell and market these charge stations in the US along with the EV products to its customers starting in 2012. There are three models available for sales in the US – out door chargers that can be installed on the curbs, wall mount for in-door garages and home chargers that can be installed in the home garages. The former two are designed for public places, and has independent meters for measuring usage and billing. The home chargers are designed for private use and can be connected to the metering within the house. Better World’s charge stations are connected by a mobile network that can communicate to user’s cell phone to track charge levels, determine if users can travel the range with the charge level in the EV, show charge usage, place reservations of chargers in the network and determine availability of the chargers for use by the customers.

Shanghai Zapple Electric Vehicle Technologies Co., Ltd. (Shanghai Zapple). In November 2011, Jonway and ZAP Hangzhou jointly set up this company with the registered capital of RMB 20 million. As of December 31, 2011, Jonway funded RMB 5 million into this joint venture and ZAP Hangzhou funded RMB 3 million. Shanghai Zapple’s approved scope of business includes: technical advice, technical development, technical services, technology transfer regarding electric vehicle technology, auto technology, energy technology, material science and technology, sale of commercial vehicle and vehicle for nine seats or more, auto parts, auto supplies, lubricant, mechanical equipment and accessories, business management consulting, industrial investment, exhibition services, business marketing planning, car rental (shall not be engaged in financial leasing), import and export of goods and technologies.

Samyang. In January 2010, ZAP entered into a distribution agreement with Samyang Optics Co. Ltd., or Samyang, granting Samyang exclusive rights to manufacture, assemble and market ZAP’s vehicles in Korea. Samyang’s primary business is the manufacturing and distribution of optical lenses. The Korean government offers incentives for the manufacture and purchase of plug-in vehicle technologies, and Samyang invested in this new market opportunity. On March 30, 2010, Samyang showcased the A380 electric SUV at the Korea Electric Vehicle Challenge, a 200 km freeway course through the outskirts Seoul. Currently, ZAP Jonway is evaluating the Korean market and the technical requirements for type approval in Korea. There are no immediate plans for launching EV products in Korea in 2012.

Technology

ZAP has developed expertise in electric drive train integration. ZAP has done extensive research of lithium battery implementation, including extensive testing of computerized battery management systems. This technology was exhibited during a 100 mile range test of the ZAP Alias electric car during the Progressive Insurance Automotive X PRIZE in July 2010, at which the Alias was one of nine finalists out of 136 vehicles entered and posted an equivalent fuel efficiency of 124 miles per gallon.

In May 2010, ZAP began shipping lithium battery systems for various models of ZAP's vehicles. The new battery systems offer at least four times the life of standard lead-acid batteries and twice the driving range. The lightweight lithium battery system is used in the ZAP Alias, resulting in a 100 mile range on a single charge under ideal driving conditions. We also intend to use this battery system in the Jonway A380EV. Available as an upgrade for some ZAP vehicles, the new lithium battery systems are designed to improve performance and offer a significantly longer lifespan. ZAP estimates lead-acid batteries have 300-500 cycles of discharging and recharging, compared to 2,000 cycles for lithium. The new lithium battery systems are designed to improve acceleration and handling of their vehicles with the lighter-weight, higher-voltage batteries. ZAP designed the lithium battery system to recharge overnight from any 110-volt or 220-volt electrical outlet.

During 2011and 2010, ZAP expended approximately $5.0 million and $996,000, respectively, in research and development activities. No significant portion of such expenses was borne directly by our customers.

Jonway has built a technical research center and a research and development team composed of 53 researchers. Jonway's research and development expenses were $2.2 million and $0.9 in 2011 and 2010, respectively.

Investments in Companies Accounted for Using the Equity or Cost Method

Investments in other non-consolidated entities are accounted for using the equity method or cost basis depending upon the level of ownership and/or the Company's ability to exercise significant influence over the operating and financial policies of the investee. When the equity method is used, investments are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the investees' net income or losses after the date of investment. When net losses from an investment accounted for under the equity method exceed its carrying amount, the investment balance is reduced to zero and additional losses are not provided for. The Company resumes accounting for the investment under the equity method if the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred.

When an investment accounted for using the equity method issues its own shares, the subsequent reduction in the Company's proportionate interest in the investee is reflected in equity as an adjustment to paid-in-capital. The Company evaluates its investments in companies accounted for by the equity or cost method for impairment when there is evidence or indicators that a decrease in value may be other than temporary.

Sales and Marketing

ZAP currently markets and sells ZAP vehicles to consumers by telephone, over the internet, and in person at ZAP's Santa Rosa location and through approximately 24 dealers in the U.S. ZAP also does direct outreach through the U.S. Government Services Administration and participates in bid applications with government and corporate fleets. ZAP Jonway intends to leverage Jonway's existing distribution channels in China and internationally, which include over 300 dealerships, 89 of which are direct factory locations and the rest are affiliate retail locations. Jonway's SUVs have been sold to the European Union, Africa and the Middle East.

ZAP markets its vehicles through participation in events that allow it to demonstrate its vehicles. In 2010, ZAP participated in the Progressive Insurance Automotive X PRIZE, an international competition for 100 MPG and equivalent vehicles, showcasing its engineering capabilities, placing among nine finalists out 136 vehicles and posting an equivalent fuel efficiency of 124 miles per gallon. ZAP demonstrated its electric taxi concept at the U.S. Pavilion for the World Expo in Shanghai in 2010. The Alias and A380 electric participated in the 2010 Korea Electric Vehicle Challenge and the Alias was also shown at the 2010 North American International Auto Show in Detroit, the 2010 Beijing Motor Show, the EVS25 in Shenzhen, China and the 2011 Shanghai Auto Show. In 2011, ZAP Jonway focused on obtaining the A380 EV type approval in China, and developing the market for the vehicle in Yangpu District, Shanghai. A380 EV and Alias participated in the 2011 Shanghai Motor Show.

ZAP Jonway's principal marketing goals are to:

- penetrate the China fleet/taxi market;
- generate demand for our vehicles and drive leads to our sales teams;
-

leverage the existing marketing and distribution channels of our affiliates and partners;

- build long-term brand awareness and manage corporate reputation;
- manage our existing customer base to create loyalty and customer referrals; and
- enable customer input into the product development process.

Jonway's principal marketing goals are to serve the growing SUV market in China, to expand the international market in SUVs, and to explore the technical development and market development mode of new energy vehicles supported by ZAP. By advertising on annual auto shows, through Jonway's website, through media advertisements and other matters, Jonway has focused on building a good public image for its SUV products. In addition, Jonway has driven sales by offering sales rebate incentives to dealers for effective Jonway advertising and promotion activities.

Jonway's advertising and marketing expenses were $3.0 million and $4.7 million for the years ended December 31, 2010 and 2011, respectively. ZAP's advertising and marketing expenses were approximately $185,000 and $126,000 for the years ended December 31, 2010 and 2011, respectively.

After-Sales Services

ZAP currently offers a limited one-year warranty on its fleet and utility vehicles and six- and three-month warranties on its consumer electric scooters and bicycles, respectively. ZAP offers factory-training for dealer and distributor service technicians. Currently, ZAP works with dealers to provide replacement parts and in certain situations may repair the vehicle at its headquarters in Santa Rosa or send a specialist to repair a vehicle. ZAP is pursuing partnerships with nationwide companies to provide after-sales services at their locations.

Jonway currently offers a 2-year or 60,000 kilometer warranty for the SUVs; it has built and continues to improve on its after-sales service network. Jonway's after-sales service centers have increased from 236 as of December 31, 2010 to 293 as of December 31, 2011. Jonway had 11 vehicle spare parts centers for logistics and distribution as of December 31, 2011. Jonway has set up an after-sales services department to follow up and timely deal with quality claims from after-sales service stations or end-customers. Jonway has also set up a quality department to focus on making claims to vehicle components suppliers for defective products, as well as taking responsibility of Jonway's overall quality control.

Manufacturing

ZAP currently contracts with third party manufacturing companies, such as Wuling Motors and Wuzheng Group in China, to manufacture its vehicles, which are partially assembled and then shipped to ZAP's Santa Rosa facilities for final assembly and the installation of sophisticated equipment and optional upgrades. Our vehicles then go through a quality control process prior to delivery to dealers and customers.

ZAP Jonway intends to manufacture the A380 electric SUV and the Alias electric cart at Jonway's over 2.6M square feet manufacturing facility in Sanmen, China. This facility has the capacity to produce up to 50,000 vehicles per year. Jonway also produces the three-door and five-door A380 SUVs and spare parts at this facility. Jonway's facility is certified under the ISO 9000 quality standards promulgated by the International Organization for Standardization.

Jonway's manufacturing operations include pressing, welding, painting and assembling lines. Jonway has also obtained the following certifications: the Gulf Cooperation Certification, the Saudi Arabian Standards Organization, and the Standards Organization of Nigeria Conformity Assessment Programme, certifying Jonway to homologate and distribute in the Gulf, Saudi Arabia and Nigeria, and Jonway's vehicles have received China Compulsory Certification required for industrial production in China.

Sources and Availability of Parts and Supplies

Materials, parts, supplies and services used in ZAP Jonway's business are generally available from a variety of sources. However, interruptions in production or delivery of these goods could have an adverse impact on our general operations, or our manufacturer's operations and production of ZAP Jonway's products. ZAP Jonway strives to have at least two sources for parts and supplies. ZAP Jonway continues to forge partnerships with top tier suppliers in the automotive and electric vehicle component business. Mitsubishi currently supplies a complete drive train for the Jonway A380 SUV. Borg Warner has supplied the transmission for the Alias exhibited in the Progressive Insurance Automotive X PRIZE. ZAP signed a joint development supplier agreement with Remy to supply an advanced AC motor/controller for the A380 and Alias. ZAP Jonway plans to leverage strategic partnerships to help enhance its battery and charger development.

Backlog

As of March 26, 2012 ZAP had over $244,400 in backlog orders from consumers.

As of March 26, 2012, Jonway had over $2 million in backlog orders from auto-dealer purchase contracts for Jonway SUVs. Jonway anticipates shipping these units from on-hand inventory.

Customers

Since 1994, ZAP has sold electric vehicles in 75 countries. Most of our sales are to military, government and corporate fleets. ZAP has contracts to provide vehicles to the State of California, Presidio National Park, Federal Aviation Administration, Department of Energy, U.S. Army, United Parcel Service, City of Riverside, the City of Monterey and others. Leveraging Jonway's access to the China market, ZAP Jonway intends to focus on business development to create new markets within China.   Jonway sells its vehicles through a network of more than 300 dealerships in China and has started a distribution network in Italy, Nepal, Algeria and Egypt etc. as of December 31, 2011.

Government Programs

ZAP's trucks and vans are listed on the General Services Administration, or GSA, Schedule 78, expanding opportunities in the government fleet market. ZAP's electric trucks and vans are currently available through GSA. Approval by GSA makes ZAP vehicles more readily accessible to U.S. government agencies and their respective purchasing agents around the world. As the federal government's purchasing agent, GSA connects federal purchasers with the most cost-effective and high-quality commercial products and services, according to its website. ZAP is currently applying for GSA listing change for these vehicles to Schedule 23v, which would expand the number of purchasing agencies that can purchase ZAP vehicles.

Jonway has obtained China surtax exemptions, including foundation for water works and land-use tax of cities and towns in 2010 and 2011. Except for the surtax exemptions, Jonway has no other tax incentives from the government.

Regulation

Vehicle Safety and Testing

Our vehicles are subject to numerous regulatory requirements established by the National Highway Traffic Safety Administration, or NHTSA, including all applicable United States federal motor vehicle safety standards, or FMVSS. As a manufacturer, we must self-certify that a vehicle meets or otherwise obtain an exemption from all applicable FMVSSs, as well as the NHTSA bumper standard, before the vehicle can be imported into or sold in the United States. There are numerous FMVSSs that apply to our vehicles. Examples of these requirements include:

- Crash-worthiness requirements—including applicable and appropriate level of vehicle structure and occupant protection in frontal, side and interior impacts including through use of equipment such as seat belts and airbags which must satisfy applicable requirements;

- Crash avoidance requirements—including appropriate steering, braking, electronic stability control and equipment requirements, such as, headlamps, tail lamps, and other required lamps, all of which must conform to various photometric and performance requirements;

- Electric vehicle requirements—limitations on electrolyte spillage, battery retention, and avoidance of electric shock following specified crash tests;
- Windshield defrosting and defogging—defined zones of the windshield must be cleared within a specified timeframe; and
- Rearview mirror requirements—rearward areas that must be visible to the driver via the mirrors.

Several FMVSS regulations that NHTSA has promulgated or amended recently contain phase-in provisions requiring increasing percentages of a manufacturer's vehicles to comply over a period of several model years. Those FMVSSs generally allow low volume manufacturers (those who manufacture fewer than 5,000 vehicles annually for sale in the United States) and limited line manufacturers (those who sell three or fewer vehicle lines in the United States) to defer compliance until the end of the phase-in period. Under U.S. law, we are required to certify compliance with, or obtain exemption from, all applicable federal motor vehicle safety standards.

We are also required to comply with other NHTSA requirements of federal laws administered by NHTSA, including the Corporate Average Fuel Economy standards, consumer information labeling requirements, early warning reporting requirements regarding warranty claims, field reports, death and injury reports and foreign recalls, and owner's manual requirements.

Our vehicles sold in Europe are subject to European Union safety testing regulations. Many of those regulations, referred to as European Union Whole Vehicle Type Approval, or WVTA, are different from the federal motor vehicle safety standards applicable in the United States and may require redesign and/or retesting. The Small Series WVTA permits the manufacture and sale in the European Union of no more than 1,000 vehicles per year. ZAP Jonway plans to keep European sales of ZAP Jonway vehicles at less than 1,000 vehicles per year, and has no plans to commence testing of ZAP Jonway vehicles for the WVTA to assure compliance with the European Union requirements to permit unlimited sales. Similarly, Japan has additional testing regulations applicable to high volume manufacturers, in addition to import rules. We also plan to keep Japanese sales of ZAP Jonway vehicles at a low volume, and have no plans to comply with the Japanese requirements to permit high volume sales in these jurisdictions.

The EPA requires us to calculate and display the range of our electric vehicles on a label we affix to the vehicle's window. The EPA specifies that we follow testing requirements set forth by the Society of Automotive Engineers, or SAE, which further requires that we test using the United States EPA's combined city and highway testing cycles. The EPA announced in November 2009 that it would develop and establish new energy efficiency testing methodologies for electric vehicles. Based on initial indications from the EPA, we believe it is likely that the EPA will modify its testing cycles in a manner that, when applied to our vehicles, could reduce the advertised range of our vehicles. To the extent that the EPA adopts these procedures in place of the current procedures from the SAE, this could impair our ability to advertise ZAP vehicles at their current advertised range. Moreover, such changes could impair our ability to deliver the Alias and the electric Jonway A380 SUV with the initially advertised range. Although the real life customer experience of the range of our electric vehicles will not change due to the changes in the EPA standards, the reduction in the advertised range could negatively impact our sales and harm our business.

The Automobile Information and Disclosure Act require manufacturers of motor vehicles to disclose certain information regarding the manufacturer's suggested retail price, optional equipment and pricing. In addition, the Act allows inclusion of city and highway fuel economy ratings, as determined by EPA, as well as crash test ratings as determined by NHTSA if such tests are conducted. As a manufacturer of only electric vehicles, compliance with the EPA labeling requirements on fuel economy is currently optional for ZAP.

EPA Emissions & Certificate of Conformity

For ZAP Business

The Clean Air Act requires that we obtain a Certificate of Conformity issued by the EPA and a California Executive Order issued by the California Air Resources Board, or CARB, with respect to emissions for our vehicles, particularly greenhouse gasses. The Certificate of Conformity is required for vehicles sold in states covered by the Clean Air Act's standards and both the Certificate of Conformity and the Executive Order is required for vehicles sold in states that have sought and received a waiver from the EPA to utilize California standards. The California standards for emissions control for certain regulated pollutants for new vehicles and engines sold in California are set by CARB. States that have adopted the California standards as approved by EPA also recognize the Executive Order for sales of vehicles. The EPA and CARB are both moving forward with more stringent regulations regarding greenhouse gases for future model years and ZAP may face increased cost in complying with these regulations for conventional fuel vehicles.

Manufacturers who sell vehicles without a Certificate of Conformity may be subject to penalties of up to $37,500 per violation and be required to recall and remedy any vehicles sold with emissions in excess of Clean Air Act standards.

For Jonway Business

The China government has adopted various measures to institute a uniform supervision and administration system with respect to vehicle emissions, including an automobile product authentication procedure and a network of testing centres across China. The State Environmental Protection Administration from time to time publishes notices to inform the public of new vehicle models that comply with its regulatory emission standards. Automobile manufacturers are not allowed to produce or register vehicle model or automobile product that failed to comply with such regulatory emission standards.

The State Environmental Protection Administration limits exhaust emission on the basis of China I, II, and IV. Different limits of exhaust emission and testing measures in these standards shall be applied to different types of vehicles.

As of September 1, 2003, the PRC government ceased to follow China I Standards and began to implement China II standards. The PRC government began implementation China III Standards in selected cities, such as in Beijing in December 2005 and Guangzhou in September 2006 respectively. In 2008, China III standards were complied with by all newly produced vehicles in China. From January 1, 2010, China IV standards were implemented. These emission standards imposed substantially higher compliance expenditures on the PRC automobile manufacturers, including R&D costs, to satisfy engine and vehicle design and engineering requirements.

Battery Safety and Testing

Our battery pack conforms to mandatory regulations that govern transport of "dangerous goods" that may present a risk in transportation, which includes lithium-ion batteries. The governing regulations, which are issued by the Pipeline and Hazardous Materials Safety Administration, or PHMSA, are based on the UN Recommendations on the Safe Transport of Dangerous Goods Model Regulations, and related UN Manual Tests and Criteria. The regulations vary by mode of transportation when these items are shipped such as by ocean vessel, rail, truck, or by air.

We have completed the applicable transportation tests for our prototype and production battery packs demonstrating our compliance with the UN Manual of Tests and Criteria, including:

- Altitude simulation—simulating air transport;
- Thermal cycling—assessing cell and battery seal integrity;
- Vibration—simulating vibration during transport;
- Shock—simulating possible impacts during transport;
- External short circuit—simulating an external short circuit; and
- Overcharge—evaluating the ability of a rechargeable battery to withstand overcharging.

The cells in our battery packs are composed mainly of lithium metal oxides. The cells do not contain any lead, mercury, cadmium, or other hazardous materials, heavy metals, or any toxic materials. In addition, our battery packs include packaging for the lithium-ion cells. This packaging includes trace amounts of various hazardous chemicals whose use, storage and disposal is regulated under federal law. The NHTSA is likely to issue regulations regarding lithium ion batteries and electronic control systems in the future and ZAP will face the cost of complying with such regulations.

Automobile Manufacturer and Dealer Regulation

State law regulates the manufacture, distribution and sale of automobiles, and generally requires motor vehicle manufacturers and dealers to be licensed. We are registered as both a motor vehicle manufacturer and dealer in California and are obtaining or have obtained certification in other states.

To the extent possible, we plan to secure dealer licenses (or the equivalent of a dealer license) and engage in activities as a motor vehicle dealer in other states as appropriate and necessary. Some states, such as Texas, do not permit automobile manufacturers to be licensed as dealers or to act in the capacity of a dealer. To sell vehicles to residents of states where we are not licensed as a dealer, to the extent permitted by local law, both the actual sale and all activities related to the sale would generally have to occur out of state. In this scenario, it is possible that activities related to marketing, advertising, taking orders, taking reservations and reservation payments, and delivering vehicles could be viewed by a state as conducting unlicensed activities in the state or otherwise violating the state’s motor vehicle industry laws. Regulators in these states may require us to hold and meet the requirements of appropriate dealer or other licenses and, in states in which manufacturers are prohibited from acting as dealers, may otherwise prohibit or impact our planned activities.

In jurisdictions other than California, a customer may try to purchase our vehicles over the internet. However, some states, such as Kansas, have laws providing that a manufacturer cannot deliver a vehicle to a resident of such state except through a dealer licensed to do business in that state which may be interpreted to require us to open a store in the state of Kansas in order to sell vehicles to Kansas residents. Such laws may be interpreted to require us to open a store in such state before we sell vehicles to residents of such states. If we sell vehicles to such a state without having opened a store there, the state could take action against us; including levying fines or requiring that we refrain from certain activities at that location. In addition, some states have requirements that service facilities be available with respect to vehicles sold in the state, which may be interpreted to also require that service facilities be available with respect to vehicles sold over the internet to residents of the state, thereby limiting our ability to sell vehicles in states other than California.

The foregoing examples of state laws governing the sale of motor vehicles are just some of the regulations we will face as we sell our vehicles. In many states, the application of state motor vehicle laws to our specific sales model is largely without precedent, particularly with respect to sales over the internet, and would be determined by a fact specific analysis of numerous factors, including whether we have a physical presence or employees in the applicable state, whether we advertise or conduct other activities in the applicable state, how the sale transaction is structured, the volume of sales into the state, and whether the state in question prohibits manufacturers from acting as dealers. As a result of the fact specific and untested nature of these issues, and the fact that applying these laws intended for the traditional automobile distribution model to our sales model allows for some interpretation and discretion by the regulators, state legal prohibitions may prevent us from selling to consumers in such state.

California laws, and potentially the laws of other states, restrict the ability of licensed dealers to advertise or take deposits for vehicles before they are available. We have not received any communications on our Alias reservations from the New Motor Vehicle Board or the Department of Motor Vehicles, or DMV, which has the power to enforce these laws. There can be no assurance that the DMV will not take the position that our vehicle reservation or advertising practices violate the law. We expect that if the DMV determines that we may have violated the law, it would initially discuss its concerns with us and request voluntary compliance. If we are ultimately found to be in violation of California law, we might be precluded from taking reservation payments, and the DMV could take other actions against us, including levying fines and requiring us to refund reservation payments. Resolution of any inquiry may also involve restructuring certain aspects of the reservation program. The DMV also has the power to suspend licenses to manufacture and sell vehicles in California, following a hearing on the merits, which it has typically exercised only in cases of significant or repeat violations and/or a refusal to comply with DMV directions.

Certain states may have specific laws which apply to dealers, or manufacturers selling directly to consumers, or both. For example, the state of Washington requires that reservation payments or other payment received from residents in the state of Washington must be placed in a segregated account until delivery of the vehicle, which account must be unencumbered by any liens from creditors of the dealer and may not be used by the dealer. We do not have a segregated account for reservations of Washington residents, but the reservations are freely refundable and ZAP has not used the capital provided by such reservations. Our failure to comply with this requirement could require us to return or refund the reservation, or result in other fines or penalties. There can be no assurance that other state or foreign jurisdictions will not require similar segregation of reservation payment received from customers. Our inability to access these funds for working capital purposes could harm our liquidity.

Furthermore, while we have performed an analysis of the principal laws in the European Union relating to our distribution model and believe we comply with such laws, we have not performed a complete analysis in all foreign jurisdictions in which we may sell vehicles. Accordingly, there may be laws in jurisdictions we have not yet entered or laws we are unaware of in jurisdictions we have entered that may restrict our vehicle reservation practices or other business practices. Even for those jurisdictions we have analyzed, the laws in this area can be complex, difficult to interpret and may change over time.

In addition to licensing laws, specific laws and regulations in each of the states and their interpretation by regulators may limit or determine how we sell, market, advertise, and otherwise solicit sales, take orders, take reservations and reservation payments, deliver, and service vehicles for consumers and engage in other activities in that state. We have not performed a complete analysis in all jurisdictions in which we may sell vehicles. Accordingly, there may be laws in jurisdictions where we sell vehicles that may restrict our vehicle reservation practices or other business practices.

Warranties

Under the Magnuson-Moss Warranty Act, our written warranties must disclose, fully and conspicuously, in simple and readily understood language, the terms and conditions of the warranty to the extent required by rules of the Federal Trade Commission. Our warranties must comply with certain federal and state mandated requirements. We currently offer three and six-month warranties on our products.

Non-Highway Vehicle Regulations

The federal government and individual states have promulgated or are considering promulgating laws and regulations relating to the use and safety of certain of our products. The federal government is currently the primary regulator of product safety. The NHTSA has federal oversight over product safety issues related to NEVs and low speed vehicles. We have regulated the speed of our NEVs to comply with NHTSA requirements.

China Regulations for Jonway Vehicles

Filing or Approval Requirement for Automobile Manufacturing Projects

On May 21, 2004, the People’s Republic of China’s National Development and Reform Commission, or NDRC, promulgated the Policy on Developing the Automotive Industry, or the Developing Policy, which requires certain investment projects for automobile manufacturing to obtain an approval from the NDRC at the proper level and meet certain requirements regarding parts manufactured, technology development capacity, total investment and production scale. For example, to establish a new auto manufacturing company, the total investment shall be no less than RMB 2 billion, among which the self-owned capital shall be no less than RMB 800 million. The project must establish a research and development center and the investment in the research and development centre shall be no less than RMB 500 million. Investment projects of newly established passenger car or heavy-cargo vehicle manufacturer shall also manufacture engines that match the complete vehicles.

Under the laws of the People’s Republic of China, a foreign investor may not acquire more than a 50% equity interest in a company qualified to manufacture whole automobiles. A foreign investor-backed automobile manufacturer must also be structured such that the Chinese party owns not less than 50% of the equity shares of such a joint venture. The State Council, through the national NDRC and the Ministry of Commerce or its competent local delegate, must approve newly established projects for manufacturing automobiles with foreign investment.

National Catalog

Under the law of the People's Republic of China, only an enterprise approved by Ministry of Industry and Information Technology and listed in the National Catalog is allowed to manufacture whole automobiles and is limited to the models listed therein. Any new vehicle model must be listed in the National Catalog. At December 31, 2011 ZAP Jonway was not an approved enterprise. However, 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 Developing Policy, an investment project for manufacturing automobile components and parts must be filed with the provincial NDRC and a company with foreign investment must be approved by the Ministry of Commerce, or its competent local delegate. Jonway has complied with all the government regulations.

China Compulsory Certification

The Provisions on the Administration of Compulsory Product Certification promulgated by the People’s Republic of China’s State Administration on Quality Supervision, Inspection and Quarantine require the compulsory product certification, or CCC, for certain products, such as automobiles, which must be so marked before they leave the factory, are sold, are imported or are used in other business activities shall administer the compulsory product certification throughout the country. The SUVs manufactured by Jonway at the Sanmen Branch have this certification.

Competition

ZAP Jonway currently faces strong competition from established automobile manufacturers, including manufacturers of all-electric vehicles such as the Nissan LEAF. The electric Tesla Roadster and other models are already on the market or will be introduced soon. 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 other companies 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 automobile manufacturers Honda and Ford, and from China-based manufacturers Chery, Zongtai and Great Wall Auto.

Our competitors generally have more significant financial resources, established market positions, longstanding relationships with customers and dealers, and more significant name recognition, technical, marketing, sales, manufacturing, distribution and other resources than ZAP Jonway does. The resources available to ZAP Jonway's competitors to develop new products and introduce them into the marketplace exceed the resources currently available to ZAP Jonway. ZAP Jonway also faces competition from smaller companies with respect to ZAP's consumer products, such as ZAP's electric bicycle and scooter. ZAP Jonway expects to face competition from the makers of consumer batteries and small electronics with respect to the ZAP portable energy line. This intense competitive environment may require ZAP Jonway to make changes in our products, pricing, licensing, services, distribution or marketing to develop, maintain and improve ZAP Jonway's current technology and market position.

Seasonal Variations

ZAP Jonway's business is subject to seasonal influences for consumer products. Sales volumes in this industry typically slow down during the winter months from November to March in the United States and during the spring and summer months in China.

Inflation

ZAP and Jonway's raw materials and finished products and automobiles are sourced from stable, cost-competitive industries. As such, we do not foresee any material inflationary trends for our product sources.

Intellectual Property

ZAP Jonway's success depends, at least in part, on our ability to protect our core technology and intellectual property. To accomplish this, ZAP Jonway relies 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, 2011, ZAP had 20 issued patents and approximately 28 pending patent applications with the United States Patent and Trademark Office and internationally in a broad range of areas. Our issued patents start expiring in 2014. We intend to continue to file additional patent applications with respect to our technology.

As of December 31, 2011, Jonway had 19 issued patents (including ten utility model patents and nine exterior design patents) and nine pending patent applications with the China Patent and Trademark Bureau. Jonway's issued patents start expiring in 2019.

ZAP Jonway does not know whether any of ZAP or Jonway's pending patent applications will result in the issuance of patents or whether the examination process will require ZAP or Jonway to narrow their claims. Even if granted, there can be no assurance that these pending patent applications will provide ZAP Jonway with protection.

Subsidiaries

ZAP has the following wholly-owned subsidiaries: RAP Group, Inc., a California company, Voltage Vehicles, a Nevada company, ZAP Rental Outlet, a Nevada company, ZAP Stores, Inc., a California company, ZAP Manufacturing, Inc., a Nevada company, ZAP World Outlet, Inc., a California company and Portable Energy LLC, a California limited liability company. Voltage Vehicles is engaged primarily in the distribution and sale of advanced technology and conventional automobiles; ZAP Stores is engaged primarily in consumer sales of ZAP products at one location; ZAP Manufacturing is engaged primarily in the distribution of ZAP products; and Portable Energy is engaged in the sale of portable energy products. ZAP World Outlet, ZAP Rental Outlet and RAP Group are not currently operating subsidiaries.

We hold 51% of the equity shares of Jonway. There are no subsidiaries for Jonway.

Employees

As of April 9, 2012, ZAP had a total of 13 full-time employees. At present, there are no employment agreements with the officers of ZAP, except Benjamin Zhu, who was hired as ZAP’s Chief Financial Officer in March 2011.

As of April 9, 2012, Jonway had a total of over 540 employees, all of whom are full-time employees.

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.

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 that 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 incurred net losses attributable to ZAP of $40.8million, $19.0 million, and $11.3 million for years ended December 31, 2011, 2010 and 2009, respectively and has had net losses in each quarter since its inception. Jonway incurred net losses of $ 10.2 million and $445,000 for the years ended December 31, 2011 and 2010.

ZAP Jonway believes that it may continue to incur operating and net losses for our gas and electric vehicles until at least the time ZAP Jonway begins significant deliveries of the new models of Jonway's gasoline vehicles and the electric vehicle models, and when the international sales of the gasoline vehicles picks up volume. We expect to begin international sales of the electric vehicles and the gasoline vehicles in limited quantities for key countries in 2012 as we complete some of the type approvals in the latter part of 2012. However, due to the uncertainty of type approval processes in different countries, this international sales volume and the EV sales may occur later and could be postponed to beyond 2012 if the testing process requires substantial investment and corrective changes to the vehicles. We performed limited trial production of the enhanced version of the gas A380 SUV in late 2011, and is beginning the sales of this new model and the gasoline van in second quarter of 2012 in China. Even if we are able to successfully obtain type approvals in all the required countries for the electric vehicle models, there can be no assurance that it will be commercially successful as it depends on market adoption of full electric vehicles in the sales regions that ZAP Jonway targeted. Our profitability will be dependent upon the successful development of new and additional sales dealership networks and successful commercial introduction and acceptance of our new gas and electric vehicles models, which may not reach our targeted volumes to achieve profitability.

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

- expand our marketing and sales to build branding and add additional new dealerships in China
- increase our business development and manufacturing activities for the new van model and electric vehicles in China;
- begin international business development, marketing and sales;
- develop international semi-knock down kit (SKD) manufacturing activities that may be required in some of the countries to attain favorable import tax rates;

- continue to design, develop and manufacture our follow on planned new gas and electric vehicles;

- bolstering our after-sale services network especially internationally;
- build inventories of parts and components for our new gas and electric vehicles;
- develop and equip manufacturing facilities to produce our new gas and electric vehicle models;
- expand our design, development, maintenance and repair capabilities;
- increase our sales and marketing activities to support new models promotion;
- increase our general and administrative functions to support our growing operations; and
- Overall rising RMB is likely to continue which will increase the cost of operations in China.

Because ZAP Jonway will incur the costs and expenses from these efforts before we receive substantial incremental revenues to offset the operational costs with respect thereto, ZAP Jonway's losses in future periods will likely to continue to incur. In addition, we may find that these efforts are more expensive than we currently anticipated 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; $19.0 million for the year ended December 31, 2010 and $40.8 million for the year ended December 31, 2011. ZAP acquired 51% of the equity shares of Jonway in January 2011. ZAP Jonway as a combined Company 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 conventional fuel vehicles which are in development and which we intend to begin 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 supporting the sales and customer service 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, and what competition will likely introduced in the electric vehicle space. Despite wide interests in the major targeted countries, USA and China, in electric vehicles, the competition in this space is growing, with many new models offering plug-in hybrids which pose a more durable range compared to the full electric vehicles that ZAP Jonway plans to offer in its product plans.

ZAP's primary revenue, sales and manufacturing is from Jonway Automobile, based in China and Jonway's sales revenues are mostly in China currently, and subject to the market conditions, economy, as well as regulations of the Chinese government.

Most of ZAP Jonway's revenues and sales, as well as manufacturing production operations are in China, and is subject to the market and economic conditions as well as government regulations in China. Over the years, the Chinese government regulations and policies have tended to have very direct impact on the development of specific industry sectors, whether this is in the form of restrictions, or in the form of incentives and credit availability. Recently, the increased credit reserves placed on the banks in 2011 handicapped many small businesses in getting credit loans, and this has had some impact on the smaller direct dealerships Jonway Auto has in China. As a result, many smaller dealerships were unable to continue to get bank lines to support inventory purchases and display new products on their show room floors. This credit tightening by the Chinese government on the banks will continue this year. ZAP Jonway has replaced the smaller dealers with dealers that have a stronger financial backing in larger cities, in anticipation that bank credits will not loosen up much this year.

Automobile manufacturing is a strictly regulated industry and ZAP Jonway uses the valuable auto license granted from a subsidiary of its holding group Jonway Group that holds the UFO license (issued in Hangzhou). Regulations, policies and incentives from central and provincial government vary over time and could hinder or help the overall ZAP Jonway sales in China. This is especially the case with electric vehicles where the government has put forth incentives from both central and selective large provincial and city governments. These incentives which are substantial could be eliminated without warning and any business plans that rely on these incentives to succeed would be vulnerable to being severely impacted.

The Chinese government is exercising precaution in managing the economic growth of China. The GDP forecast for China for this year and the subsequent years will be lower than prior years, as the government puts control on escalating property value, restrictions on issuing licenses for new constructions and as well as restricting licenses for new auto ownerships in the major cities, in order to reduce traffic on the road for these large cities. However, the government has waived controls on full electric vehicles and also in some cities waived the auto license fees for EVs, which in Shanghai and Beijing can be as high as $7,000 or more. These incentives could be removed any time without warning and EVs would then be subject to the same dis-incentives as traditional gasoline vehicles.

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 gas and 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 the United States, while sales are generally higher as compared to the winter season during the spring and summer months. In China, sales declined over the spring, first quarter of the year due to holidays during Chinese New Year and summer months and were higher in the autumn and winter seasons, fourth quarter of the year due to promotions and year-end inventory clearance sales. ZAP Jonway expects sales of our vehicles to fluctuate on a seasonal basis and dependent on the country where the sales originated. However, ZAP Jonway’s limited operating history and its early entry into the international markets, this 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 variable sales and marketing 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, type approval both in China and international for the new models, incur costs for spare parts provisioning, 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 until there is more history built up of the combined companies’ performance 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 that may compare the results to established auto companies, since ZAP Jonway is in the early stages of building its business in the electric vehicle space, leveraging on the experience and resources available from its sales and manufacturing of gasoline vehicle business. If this occurs, the trading price of ZAP’s common stock could vary substantially depending on the results of the new business developments.

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 United States 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 make 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 anticipates that a substantial amount of its revenue in the future will be generated 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 vehicles, such as the Alias, electric A380 SUV and the improved gas fueled vehicle models 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 multi-national automobile manufacturers, and from China-based manufacturers such as Geely, Chery, BYD, Great Wall Auto and Zotye.

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 substantial customary discounts on our vehicles. The lack of direct financing options and the absence of substantial 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 the last couple of years, post the bankruptcy filing and only now are turning around with improved sales. 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 environment improvement is transient, we may experience a decline in the demand for new vehicles and thus ZAP Jonway's vehicles as well, 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 year ended December 31, 2011, ZAP Jonway incurred net losses of approximately $40.8 million and used approximately $8.3 million of cash in operations while recognizing approximately $56.2 million in revenue. As of December 31, 2011, ZAP Jonway had cash and cash equivalents of $5.9 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. ZAP has issued recall notices with respect to the 2008 Xebra® model and 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 in the US through third party service contracts with US partners. 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 arranging to have local US partners take up the service contracts with new vehicles delivered in the US supported by Jonway's service personnel in China. ZAP Jonway's customer service centers are distributed all over China and are trained to provide local support within their territories. We are adopting similar models internationally where ZAP will sign up local in-country partners who have presence in the major cities to provide customer service support, and provide these partners with service training and spare parts. 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 this 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 has not yet established US dealership network. It is unclear when such third party service providers will be able to acquire the expertise to service ZAPS 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, 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 regulations, certain aspects of our service program would need to be restructured to comply with state law, which may require additional investment and affect the efficiencies and operations of our business processes.

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 have additional restrictions and constraints placed by local regulatory government agencies that may affect their ability to continue to supply lithium batteries for electric vehicle manufacturers in the event that 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 bill of materials and 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, rising wages in China have increased operating costs and the rising RMB exchange rate is reducing the price competitiveness of our vehicles internationally. All of this is putting pressure on the operating costs of manufacturing plants. Meanwhile, due to numerous labor disputes in large manufacturing plants, local government regulatory authorities and labor union advocates have increased their scrutiny of wages, labor conditions in China. 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 is evaluating setting up assembly plants in strategic countries where local partners are willing to invest in the production assembly plants in order to improve tax rates. Jonway is developing international distribution activities in Brazil, Turkey, Russia, South Africa, Ghana and Thailand. In the near future, Jonway intends to add other new international distribution to Southeast Asia, the Middle East and South America depending on the opportunities and strengths of the local interested partners. 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:

- compliance of 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 as the RMB rises and still remain competitive;
- coordinating communications among and managing international operations;
- difficulties in marketing and 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 our international operation. 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.

In additional, ZAP's US office in California has had turnovers and staff reduction while the ZAP Jonway completes the type approval requirements for its new EV products for the US market. While all employees are hired at will, this reduction in operating expenses with staff reduction may leave the Company vulnerable to disputes with regard to wrongful termination. ZAP currently is insured against these allegations additional insurance policies put in place June 2011.

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. Over the last two years, the value of the Chinese Renminbi largely appreciated against U.S.

dollar and will continue to appreciate over time. 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 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. Additionally, the rising RMB could increasingly reduce the price competitiveness of our products internationally outside of China, and add to the overall manufacturing costs for each vehicle.

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 $0.9 million and $0.73 million for Jonway in 2010 and 2011, 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 payment in stocks in the US to compensate for services rendered by service providers and some employees may put downward pressure on stock prices.

ZAP in the US is continuing to pay some of the services provided by third parties for fund raising, marketing, engineering, legal and accounting may continue to put downward pressure on stock prices until the Company is able to raise sufficient capital to fund its US operations.

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. ZAP Jonway may be ineffective in fully adopting more efficient systems for timely recording and reporting to provide transparency and accuracy of all operations and finances. Delayed adoption of tracking systems may affect the performance of the Company.

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;

- 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 year ended December 31, 2011 of the total sales of $56.2 million Jonway Automobile accounted for $54.3 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 $2 million on a claim 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, 2011, 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 83.7% 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 46.6% 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 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The chart below contains a summary of ZAP's principal facilities at December 31, 2011.

Location	Use	Square Feet	Monthly Rent
501 Fourth Street, Santa Rosa, CA	Corporate Headquarters	2,100	$ 2,003
9 th Street, Santa Rosa, CA	Warehousing	36,764	$ 10,030
806 Donahue Street, Santa Rosa, CA	Vehicle Storage	21,954	$ 9,659
Zheijiang Province, China	China Office and Plant	915,386	$ --

ZAP's facilities are owned or rented. ZAP's principal executive offices are located at 501 Fourth Street, Santa Rosa, California. The property is rented on a month-by-month basis from Al Yousuf, LLC.

The 9th Street property, in Santa Rosa is rented on a month to month basis from Railroad Square Village LLC. We vacated this property on February 15, 2012

The 806 Donahue Street property, in Santa Rosa is rented on a month-by-month basis with Railroad Square Village LLC.

ZAP believes our insurance policies cover all insurance requirements of the landlords. ZAP owns the basic tools, machinery and equipment necessary for the conduct of our repairs, our research and development and vehicle prototyping activities. ZAP believes that the above facilities are generally adequate for ZAP's present operations.

Jonway's principal executive offices and manufacturing facility is located in Da Tang Industry Zone, Jiangtiao Village, Sanmen Country, Zheijiang Province, China. The building is 915,386 square feet and building includes offices, a canteen and dorms, plants for assembly, painting, pressing and welding, warehouses for paint and raw materials, and an area to store vehicles. Jonway occupies the entire space and has no properties pledged except for some land use rights for the grant of bank credit facilities. For such detailed pledges of land use rights, please refer to the below discussion of the liquidity and capital resources.

Jonway is the process of obtaining certificates of property for all of its buildings, but has not yet obtained them.

Item 3. Legal Proceedings.

In the normal course of business, ZAP Jonway may become involved in various legal proceedings. 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.

Item 4. Mine safety disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

Market Information

ZAP's common stock is quoted on the OTC Bulletin Board under the symbol "ZAAP".

	Bid price			
Period		High		Low
Fiscal Year 2011:				
December 31, 2011	$	0.38	$	0.16
September 30, 2011		0.62		0.33
June 30, 2011		0.80		0.42
March 31, 2011		1.84		0.69
Fiscal Year 2010:				
December 31, 2010	$	1.28	$	0.47
September 30, 2010		0.52		0.38
June 30, 2010		0.40		0.26
March 31, 2010		0.38		0.26

Holders

ZAP had approximately 3,412 record holders of our common stock as of April 16, 2012, according to a shareholders' list provided by our transfer agent as of that date. The number of registered shareholders does not include any estimate by us of the number of beneficial owners of common stock held in street name. The transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company.

Dividends

ZAP has never declared or paid any cash or stock dividends on our common stock, and ZAP does not anticipate that ZAP will pay any cash dividends on our common stock in the foreseeable future. Any future determination to declare and pay cash or stock dividends will be at the discretion of ZAP's Board of Directors and will be dependent upon our financial condition, results of operations, capital requirements and other factors as our Board of Directors may deem relevant at that time.

Securities Authorized for Issuance under Equity Compensation Plans

ZAP maintained its 2008 Equity Compensation Plan, 2007 Consultant Stock Plan, 2006 Incentive Stock Plan, 2004 Consultant Stock Plan, and 2002 Incentive Stock Plan, all of which were approved by our shareholders. All of the plans in the following table contain information about equity awards under those plans as of December 31, 2011:

Plan Category	(a) Number of Shares to be Issued Upon Exercise of Outstanding	(b) Weighted Average Exercise Price of Outstanding	(c) Number of Shares Remaining Available for Equity

	Options (000s)	Options	Compensation Plans (Excluding Shares Reflected in Column (a)) (000s)
Equity compensation plans approved by security holders:			
2008 Equity Compensation Plan	23,688	$0.41	11,780
2007 Consultant Stock Plan	1,384	$0.51	4,384
2006 Incentive Stock Plan	1,992	$0.90	814
2004 Consultant Stock Plan	—	—	1,000
2002 Incentive Stock Plan	2,514	$1.04	6,104
Equity compensation plans not approved by security holders:	—	—	—
Total	29,578	$0.50	24,082

Sales of Unregistered Securities

The following lists sales of unregistered ZAP securities during the last fiscal year. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions:

Zap issued 74.8 million shares of common stock valued at $18.02 million. These shares were issued for the following:

70 million shares valued at $15.4 million as payment to Jonway Group for the development and production of the Shuttle Van and Alias, 4 million shares of common stock valued at $1.720 million for the stock-portion for the 51% acquisition of Jonway Automobile and 800,000 shares of common stock valued at $896,000 for the settlement of debt with Al Yousuf. The shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, on the basis of each recipient's pre-existing relationship with Zap and the fact that no public offering was involved.

ZAP issued 8.2 million shares of common stock for cash of $4.2 million through private placements. These shares were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended, on the basis of each recipient's pre-existing relationship with Zap and the fact that no public offering was involved.

ZAP issued 569,125 shares of common stock valued at $143,907 in exchange for consulting services. These shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, on the basis of each recipient's pre-existing relationship with Zap and the fact that no public offering was involved.

ZAP issued 173,651 shares of common stock valued at $128,700 for employee compensation. These shares were issued pursuant to Section 4(2) of the Securities Act of 1933, as amended, on the basis of each recipient's pre-existing relationship with Zap and the fact that no public offering was involved.

Item 6. Selected Financial Data

A registrant that qualifies as a smaller reporting company is not required to provide information required by this Item 6.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Summary of Key Accomplishments during Fiscal Year 2011

Overview and 2011 Highlights

On January 21, 2011, we completed our acquisition of 51% of the capital stock of Zhejiang Jonway Automobile Co. Ltd. incorporated in Sanmen County, Zhejiang Province, China for a total purchase price of $31.75 million of which $29,030,000 in cash and 8 million shares of stock valued at $2.72 million have been paid. 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 gas fueled vehicles

The Company designs, develops, manufactures and sells fully electric and advanced technology vehicles, as well as conventional fuel sports utility vehicles. ZAP markets and sell our electric vehicles directly to consumers by phone, over the internet, in-person at our Santa Rosa location, by direct outreach through General Services Administration and participating in bid applications with government and corporate fleets. Jonway markets and sells our conventional fuel sports utility vehicles through distributors in China and internationally. Type approval of ZAP and Jonway's A380 SUV EV is underway and will continue over the next several months and into 2012. The extensive certification process includes not only the vehicle endurance testing and safety analysis, but also key supplier qualification certification as well as Jonway's EV manufacturing process qualification and certification. The EV type approval requirements in China have evolved in the last year to provide more comprehensive qualification and certification testing, and accordingly have taken a longer period of time for completion. We anticipate that the EV production facilities in Jonway will be ready for the certification process by the end of the second quarter 2012. We are targeting certification completion in the second half of 2012. Type approval of the EV is required to manufacture and sell the electric vehicles in China, but the type approval is not required for the export of vehicles for sale outside of China.

In September of 2011, we celebrated our 17th Anniversary in the industry. We are undertaking efforts to make changes we believe will make us more competitive in the global market, especially in China. In addition to continuing to develop new vehicles, ZAP completed its majority acquisition of Chinese automobile manufacturer Zhejiang Jonway Automobile Co. Ltd. in January 2011 and added several new executives with experience in the Chinese automobile and technology industries. Alex Wang, CEO of Zhejiang Jonway Automobile, has been named Co-CEO. Benjamin Zhu, with his extensive international financial management and automotive experience has been appointed CFO. Tony Nie, formerly of Lotus Engineering China, has taken charge of the Company's Hangzhou technology center as VP of Business Development to help prepare electric vehicles for type approval and safety certification. Additionally, new board members Georges Penalver, Goman Chong, and Patrick Sevian were elected in June 2011. ZAP is currently focusing on EV engineering and integration of sales and marketing. We believe ZAP's US operations now possesses the agility and flexibility to respond to ever-changing market demands.

Results of Operations

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net sales increased by $52.4 million in the year ended December 31, 2011 from $3.8 million for the year ended December 31, 2010 to $56.2 million in December 31, 2011. This increase related principally to the Jonway Acquisition that occurred in January 2011. Jonway's sales contributed $ 54.3 million in net sales.

From January 22, 2011, the date of acquisition by ZAP, to December 31, 2011, Jonway sold 4,976 gasoline vehicles with total revenue of approximately $54 million as compared to the full year ended December 31, 2010 in which Jonway sold 7,561 vehicles with total revenue of over $74 million. Two factors contributed to the Chinese automobile industry's overall reduction in sales this year. The Chinese government constrained the issuing of new gasoline vehicle licenses per family, and canceled some incentives and subsidies for purchasing gas vehicles, and placed credit restriction policies on the banks to reduce credit facilities available to businesses. Consequently, the automobile dealers in China, including Jonway's automobile dealers, have had a reduction in sales orders and overall sales throughput. In this year, more SUV models are launched into market by auto makers, which intensified the competition. Thus far, Jonway has not provided a floor to finance dealers' orders, and payments are made largely 100% upfront prior to delivery.

Approximately 32 percent of the Jonway vehicles sold in the full year of 2011 contained the Mitsubishi fully automatic transmission and engine rather than the Mitsubishi manual transmission and engine. The automatic transmission is priced higher than the manual transmission, but the sales return yields at a lower overall margin contribution due to relatively high cost and increased marketing costs—an inherent feature of new model launching.

In our Advanced Technology segment, sales decreased by $1.2 million from $1.6 million for the year ended December 31, 2010 to $410,000 for the year ended December 31, 2011. The tight United States credit and general economic conditions negatively impacted our dealer sales in 2011. We also began the transition of moving our operations from the U.S. to China and switching suppliers for advanced technology vehicles from outside contract manufacturers to our auto manufacturing plant in China.

In our Consumer Product segment, sales increased by $303,000 from $349,000 for the year ended December 31, 2010 to $652,000 for the year ended December 31, 2011 due to increases in sales of ZAPPY 3 scooters to two catalog distributors for resale.

In our Car Outlet segment, sales decreased by $996,000 from $1.9 million for the year ended December 31, 2010 to $ 876,000 for the year ended December 31, 2011. The decrease was due to a limited supply of consignment cars available for sale and a general downturn in the economy.

Proforma combined for net sales for the full year of 2011

	As reported		Proforma adjustments	Proforma combined
	ZAP	Jonway Auto		Total
Net sales	1,938	62,140	—	64,078

Gross profit increased by $4.1 million from $429,000 for the year ended December 31, 2010 to $4.5 million for the year ended December 31, 2011. The increase in gross profit for the year ended December 31, 2011 related primarily to the inclusion of Jonway gross profits since January 21, 2011. Jonway's gross profit contributed approximately $5 million as a result of this acquisition for the year ended December 31, 2011.

In our Advanced Technology segment, our gross profit decreased by $755,000 from a gross profit of $10,000 for the year ended December 31, 2010 to a gross loss of $745,000 for the year ended December 31, 2011. The decrease in gross profit was due to fewer sales of the XL models, which have been designed for fleets and we increased the inventory reserve $434,000 to allow for slow moving inventory.

In our Consumer Products segment, we experienced an increase of $9,000 in gross profits from a gross profit of $62,000 for the year ended December 31, 2010 to a gross profit of $71,000 for the year ended December 31, 2011. The increase was due to an increase of sales in 2011 compared to sales in 2010.

Gross profits for our retail car outlet segment decreased by $246,000 from a gross profit of $357,000 for the year ended December 31, 2010 to a gross profit of $111,000 for the year ended December 31, 2011. The decrease in gross profits was due to lower sales volumes due to a decline of consignment cars available for sale.

Sales and marketing expenses in the year ended December 31, 2011 increased by $10.2 million from $2.1 million for the year ended December 31, 2010 to $12.3 million for the year ended December 31, 2011. The increase in selling and marketing expense in the year ended December 31, 2011 principally related to the Jonway Acquisition in January 2011. Jonway's sales and marketing costs contributed approximately $9.2 million as a result of this acquisition, which substantially included the transportation, special supporting fees to strategic dealers, marketing, promotion and advertisement of new models, the rebranding of Jonway from the former name of UFO and payroll. In addition, we incurred approximately $2.2 million for the amortization of the distribution agreement for Goldenstone products and Better World's charging stations. See further explanation in Note 7, Distribution Agreements.

General and administrative expenses for the year ended December 31, 2011 increased by approximately $1.8 million from $11.4 million for the year ended December 31, 2010 to $13.2 million for the year ended December 31, 2011. The increase related principally related to the inclusion of Jonway's expenses since the Jonway Acquisition in January 2011. Jonway's general and administrative expenses contributed $4.5 million to total expenses. 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 year ended December 31, 2011.

Research and development expenses increased by $6.3 million from $996,000 for the year ended December 31, 2010 to $7.3 million for the year ended December 31, 2011. The increase was the result of the inclusion of $2 million in research and development expenses relating to further developing new gasoline and electric vehicle models, including

EV type approval testing, EV production facilities, new model engineering development and $3.8 million in research and development expenses relating to the shuttle van platform incurred by Jonway Group, but burdened by ZAP due to ZAP's purchasing this product platform from Jonway Group.

Interest expense, net increased by $17.5 million from an interest expense of $ 1.3 million for the year ended December 31, 2010 to $18.8 million for the year ended December 31, 2011.The increase was primarily due to amortization of the beneficial conversion feature recorded on the $19 million convertible debt which resulted from a discounted stock conversion price. Also included is interest expense of $1.5 million relating to the $19 million convertible debt at 8% per annum and Jonway Auto's bank facilities.

Joint venture operations we account for our 37.5% interest in the ZAP Hangzhou Joint Venture by the equity method of accounting. For the year ended December 31, 2011, the joint venture incurred an operating loss of $724,160 of which $271,560 is our share.

Other income (expense) increased $2.5 million which reflected the inclusion of other income principally related to Jonway‘s other business since the Jonway Acquisition in January 2011. Other income includes the incentive of $0.73 million from the Chinese government and income of $1.4 million from scrap sales.

Net loss attributable to ZAP for the year ended December 31, 2011 was $40.8 million loss compared to $19 million loss for the year ended December 31, 2010.

Liquidity and Capital Resources

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

Our principal sources of liquidity consist of our existing cash on hand, bank facilities from China-based banks for Jonway Auto, our investment in 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. In 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP 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 placement subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011. Pursuant to the stock purchase agreement, Mr. Luo agreed to purchase ZAP common stock for an aggregate purchase price of $2 million in multiple closings. On September 8, 2011, we issued approximately 2.3 million shares of ZAP common stock in connection with the initial closing of $771,000. We received an additional $1.025 million in subsequent closings for which we have issued approximately 3.35 million shares of ZAP common stock. During 2011, we issued 7.7 million shares to Mr. Liang for cash of $3.8 million.

In 2011, we were approved to have the grants of up to an aggregate of US$6.2 million of bank facilities from the Taizhou Branch of China Merchants Bank (“CMB”) through our majority-owned subsidiary, Jonway. Although we have been approved for these credit lines, there are no legal obligations or rights to the credit lines until we execute agreements with the respective lenders to borrow funds under the credit lines. When drawn down, the credit lines will be secured by lands owned by Jonway and guaranteed by Jonway Group.

Under the above mentioned credit line of US$6.2 million granted by CMB, on August 19, 2011, Jonway entered into a Credit Agreement CMB for a revolving short term bank loan in the aggregate amount of approximately US$3.2 million which was drawn down in 2011. The annual interest rate is 7.22%. The loan is secured by a Maximum Amount Mortgage Contract by and between Jonway and CMB dated August 11, 2011 in which land use rights over three parcels of land owned by Jonway at Sanmen Factory have been pledged as security for this loan. The remaining US$1.58 million of the credit line is available for future executions at the discretion of Jonway Auto.

On December 6, 2011, Jonway entered into a Bank promissory note agreement with Taizhou Branch of China Everbright Bank for a revolving bank note facility in the aggregate amount of approximately US$4.7 million. This bank note facility was issued to Jonway Auto’s suppliers and is secured by a Maximum Amount Mortgage Contract by and between Jonway and this bank dated December 6, 2011 in which land use right over one parcel of land owned by Jonway at Sanmen Factory has been pledged as security for this facility.

In December 2011, Jonway established additional short term bank loans amounting to over US$2.22 million from three small-size banks based in Taizhou City, which are subject to Jonway Group guarantee, and US$790,000 of such loans is secured by bank notes received from Jonway dealers.

Jonway intends to utilize the credit lines to expand its electric vehicle business as well as other future vehicle models. This includes on-going working capital needs, electric vehicle production equipment requirements, testing, homologation and new EV product molds. These credit lines will also be used to support the company's expansion plans, with emphasis on its electric vehicle production line facilities in China. The credit will also help advance new electric vehicle initiatives, launch new strategic global sales and marketing operations, bolster infrastructure, and finance working capital.

On December 11, 2011, Zhejiang Jonway Automobile Co., Ltd. ("Jonway"), a majority owned subsidiary of ZAP, entered into a Promissory Note with Jonway Group Co. Ltd. ("Jonway Group") pursuant to which Jonway could borrow up to a maximum of $3,000,000 to be repaid on demand. The principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. All unpaid principal, together with any interest then unpaid and accrued interest, are due and payable within ten (10) calendar days following demand by Jonway Group. Payment shall be made in the form of cash. As of December 31, 2011, a total of $1.6 million had been advanced to Jonway under the Promissory note arrangement.

In January 2011, ZAP issued $19 million of convertible debt to make a partial payment in connection with the Jonway Acquisition. On March 22, 2012, ZAP entered into an amendment to the note which extended the maturity date of the note from August 12, 2012 to August 12, 2013. This amendment adjusted the rate at which the note would convert into shares of ZAP Common Stock or shares of capital stock of Zheijiang Jonway Automobile, Co. Ltd. held by ZAP. In addition, the warrant issued in connection with the CEVC note was amended to change the terms of conversion and to extend the maturity date until February 12, 2014. The interest accrued through the maturity date of February 12, 2012 in the amount of $1.5 million has been added to the existing principal. The total amount of the convertible note is approximately $20.5 million with a new maturity date of August 12, 2013.

We used cash in operations of $8.3 million and $6.4 million during the years ended December 31, 2011 and 2010, respectively. Cash used in operations in 2011 was the result of the net loss incurred for the year of $45.4 million, offset by non-cash expenses of $31.5 million. In 2011, non-cash expenses included $144,000 for stock–based compensation for consulting and other services, $2.3 million for stock-based compensation to employees, $3.8 million for stock-based compensation for research and development expenses and an increase of $.67 million in inventory reserves. In addition, $24.3 million of non cash expenses was due to $16.9 million of amortization of the convertible note discount and $7.4 million of non cash expenses of depreciation and amortization. Cash used in operations in 2010 was the result of the net loss of $19 million, offset by non-cash expenses of $12.2 million. In 2010, non-cash expenses included $1 million related to stock-based compensation for consulting and other services, $2.7 million for stock-based compensation to employees and $2.5 million for stock-based compensation for management fees.

In 2011, the net change in operating assets and liabilities resulted in a cash increase of $5.6 million. The change was primarily due to decreases in the following: notes receivable of $3.3 million, accounts receivable of $0.9 million, inventories of $3.3million, due from related parties of $0.6 million, due to related parties of $3.5 million and accounts payable of $0.3 million, offset by increases in prepaid expenses and other assets of $0.2 and accrued liabilities of $1.5 million.

In 2010, the net change in operating assets and liabilities resulted in a cash increase of $360,000. The change was primarily due to increases in prepaid expenses of $220,000 and accrued liabilities of $575,000 offset by decreases in account receivable of $122,000, inventory of $183,000 and accounts payable of $130,000.

Investing activities used cash of $20.6 million and $12.1 million during the years ended December 31, 2011 and 2010, respectively. In 2011, $19 million was used for the acquisition of 51 % of Jonway Auto. In addition, $2.1 million was used for the acquisition of property and equipments. In 2010, the Company advanced $10.0 million for the 51% acquisition of Jonway Auto and $2.0 million was used to purchase marketable securities.

Financing activities provided cash of $33.1 million and $15.2 million during the year ended December 31, 2011 and 2010, respectively. In 2011, we financed the following activities: $4.2 million from issuance of common stock to investors, $19 million of convertible debt was issued to partially finance the 51% acquisition of Jonway Automobile, and Jonway Auto gained $ 7 million of short term borrowings from China-based banks. Proceeds from notes payable $5.9 million and proceeds from related parties $1.5 million. These transactions were offset by repayments of $2.3 million of short term debt and an increase in restricted cash of $2.8 million. In 2010, we received $13.0 million from investors and $3.0 million from the issuance of convertible debt; these were offset by settlement of

$1.3 million of short term debt.

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

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

We had cash and cash equivalents of $5.9 million at December 31, 2011 as compared to $1.5 million at December 31, 2010. We had a working capital deficit of $14.9million at December 31, 2011 versus working capital of $2.6 million at December 31, 2010. We believe that there is sufficient liquidity for our operations through March 31, 2013 based on the following considerations:

In the event that we require additional liquidity, our principal shareholders, Cathaya and Jonway Group, have agreed to provide the necessary support to meet our financial obligations through April 2013.

Critical Accounting Policies and Use of Estimates

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

The Company accounts for stock-based compensation awards and warrants granted to non-employees 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.

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 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.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience. The allowance for doubtful accounts was $9,000 and $27,000 at December 31, 2011 and 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 for ZAP and moving average basis for Jonway Auto) 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.

Principles of Consolidation and Investments in Associated Companies

Our consolidated financial statements include the accounts of all majority-owned subsidiaries. All intercompany balances and transactions have been eliminated. Investments in other entities are accounted for using the equity method or cost basis depending upon the level of ownership and/or our ability to exercise significant influence over the operating and financial policies of the investee. Investments of this nature are recorded at original cost and adjusted periodically to recognize our proportionate share of the investee’s net income or losses after the date of investment. When net losses from an investment accounted for under the equity method exceed its carrying amount, the investment balance is reduced to zero and additional losses are not recorded. We resume accounting for the investment under the equity method when the entity subsequently reports net income and our share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred.

Business combination accounting

We have acquired a number of businesses during the last several years, and we may acquire additional businesses in the future. Business combination accounting, often referred to as purchase accounting, requires us to determine the fair value of all assets acquired, including identifiable intangible assets, and liabilities assumed. The cost of the acquisition is allocated to the assets acquired and liabilities assumed in amounts equal to the estimated fair value of each asset and liability, and any remaining acquisition cost is classified as an amortizable intangible asset, a non-amortizable intangible asset or goodwill. This allocation process requires extensive use of estimates and assumptions, including estimates of future cash flows to be generated by the acquired assets. Certain identifiable intangible assets, such as customer lists and covenants not to compete, are amortized based on the pattern in which the economic benefits of the intangible assets are consumed over the intangible asset’s estimated useful life. The estimated useful life of our amortizable identifiable intangible assets ranges from three to twenty years. Goodwill is not amortized. Accordingly, the acquisition cost allocation has had, and will continue to have, a significant impact on our current operating results.

Goodwill and Intangibles

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.

As a result of our acquisition of Jonway, we have recorded goodwill and various amortizable intangible assets. Businesses acquired are recorded at their fair value on the date of acquisition. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is recognized as goodwill. We also sometimes acquire specific intangibles such as our acquisition in 2010 of a license agreement. Our goodwill at December 31, 2011 was approximately$0.3million.

Revenue Recognition

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

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

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

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

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

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

- The Company has received a binding purchase order from the customer or distributor authorized by a representative empowered to commit the purchaser (evidence of a sale);

- The purchase price has been fixed, based on the terms of the purchase order;

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

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

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

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which have been prepared in conformity with U.S. generally accepted accounting principles which requires our management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as revenues and expenses during the reporting period. The amounts estimated could differ from actual results.

Foreign Currency

The functional currencies of our foreign subsidiary/investments are their respective local currencies. The financial statements are maintained in local currencies and are translated to U.S. dollars using period-end rates of exchange for assets and liabilities and average rates during the period for revenues, cost of revenues and expenses. Translation gains and losses resulting from the translation of assets and liabilities of our foreign subsidiaries are recorded in the accumulated other comprehensive gain or loss as a separate component of stockholders' equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions related to our interest rate swap. Gains and losses from foreign currency transactions are included in the consolidated statements of income.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

A registrant that qualifies as a smaller reporting company is not required to provide information required by this Item 7A.

Item 8. Financial Statements and Supplementary Data.

The information required by Item 8 and the index thereto commences on the next page.

ZAP and Subsidiaries

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

To the Board of Directors
and Shareholders of ZAP

We have audited the accompanying consolidated balance sheets of ZAP and Subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity, comprehensive loss and cash flows for each of the two years in the period ended December 31, 2011. These consolidated financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express not such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ZAP and Subsidiaries as of December 31, 2011 and 2010 and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Friedman LLP
East Hanover, NJ

April 16, 2012

ZAP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(In thousands, except share data)

ASSETS

	December 31, 2011	2010
Current assets:		
Cash and cash equivalents	$ 5,859	$ 1,503
Restricted Cash	6,128	—
Marketable Securities	1,830	1,888
Notes receivable from Jonway Auto dealers	1,457	—
Accounts receivable	2,963	294
Inventories	11,118	1,822
Prepaid expenses and other current assets	1,984	266
Total current assets	31,339	5,773
Property and equipment - net	46,953	173
Land use rights	10,075	—
Other assets:		
Investment in non-consolidated joint venture	554	808
Distribution rights for Jonway Products and Better Worlds Products	13,439	15,599
Intangible assets, net	5,002	97
Goodwill	324	—
Due from related party	1,137	—
Advance to Jonway Group	11,616	—
Deposit on Zhejiang Jonway Automobile	—	11,000
Deposits and other assets – net	1,049	62
Total other assets	33,121	27,566
Total assets	$ 121,488	$ 33,512

LIABILITIES AND EQUITY

	2011	2010
Current liabilities:		
Short term lines of credit	$ 5,485	$ 668
Accounts payable	15,164	328
Accrued liabilities	8,030	2,197
Short term loans	10,528	—
Advances from customers	1,971	—
Taxes payable	885	—
Due to related party	2,122	—
Other payables	2,116	—
Total current liabilities	46,301	3,193
Long term liabilities:		
Accrued liability	592	—
Derivative Liability	—	5,539
8% Senior convertible debt	19,000	—
Total long term liabilities	19,592	5,539

Total liabilities		65,893		8,732
Commitments and contingencies				
ZAP Shareholders' Equity:				
Common stock;800 million shares authorized; no par value; 297,746,376 and 207,254,789 shares issued and outstanding at December 31, 2011 and 2010, respectively		225,378		179,691
Accumulated other comprehensive income (loss)		1,051		(112)
Accumulated deficit		(195,596)		(154,799)
Total ZAP shareholders' equity		30,833		24,780
Non-controlling interest		24,762		—
Total equity		55,595		24,780
Total liabilities and equity	$	121,488	$	33,512

See accompanying notes to the consolidated financial Statements

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

	Year ended December 31, 2011	2010
Net sales	$ 56,237	$ 3,816
Cost of goods sold	51,777	3,387
Gross profit	4,460	429
Operating expenses:		
Sales and marketing	12,303	2,123
General and administrative (includes stock compensation of $2.3 million in 2011 and $2.6 million in 2010	13,171	11,406
Research and development	7,259	996
Total operating expenses	32,733	14,525
Loss from operations	(28,273)	(14,096)
Other income (expense):		
Interest expense, net	(18,812)	(1,322)
Loss from equity in Joint Venture	(272)	(319)
Loss on financial instruments	(423)	(4,094)
Other income (expense), net	2,213	817
Total other income (expense)	(17,294)	(4,918)
Loss before income taxes	(45,567)	(19,014)
Income tax benefit (expense)	145	(4)
Loss from operations of the Company and its consolidated subsidiaries	(45,422)	(19,018)
Less: net loss attributable to non controlling interest	4,625	—
Net loss attributable to Zap's common shareholders	(40,797)	(19,018)
Net loss per share attributable to common shareholders:		
Basic and diluted	$ (0.19)	$ (0.16)
Weighted average number of common shares outstanding:		
Basic and diluted	213,935	119,075
Other Comprehensive income		
Foreign currency translation adjustment	2,394	—
Net unrealized gain (loss) on available for sale securities	(57)	(112)
Other Comprehensive income (loss)	2,337	(112)
Comprehensive loss	(43,085)	(19,130)
Less: Comprehensive loss attributable to non controlling interest	(3,452)	—
Comprehensive loss attributable to Zap's common shareholders	$(39,633)	$(19,130)

See accompanying notes to the consolidated financial Statements

ZAP AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY
(In thousands)

	Common Shares	Stock No Par	Accumulated Deficit	Accumulated Comprehensive Loss	Non-controlling interest	Total ZAP Shareholders Equity
Balance December 31, 2009	104,029	$ 137,855	$ (135,781)	$ —	$ —	$ 2,074
Issuance of common stock for:						
Consulting and other services	1,807	957	—	—	—	957
Cash	51,498	13,042	—	—	—	13,042
Employee Compensation	352	197	—	—	—	197
Purchase of fixed assets and intangibles	479	189	—	—	—	189
Conversion of Samyang debt	8,090	5,259	—	—	—	5,259
Distribution rights for Jonway Products and Better Worlds Products	36,000	16,560	—	—	—	16,560
Management agreement Cathaya Capital	5,000	2,500	—	—	—	2,500
Fair value of warrants and options issued for:						
Consulting and other services	—	407	—	—	—	407
Employee compensation	—	2,058	—	—	—	2,058
Beneficial conversion feature	—	—	—	—	—	—
Associated with senior debt	—	667	—	—	—	667
Change in unrealized gains on available for sale securities	—	—	—	(112)	—	(112)

Net loss	—	—	(19,018)	—	—	(19,018)
Balance at December 31, 2010	207,255	179,691	(154,799)	(112)	—	24,780
Issuance of common stock for:						
Private placements	8,236	4,198	—	—	—	4,198
Acquisition of 51% Interest Jonway Auto	4,000	1,721	—	—	25,828	27,549
Expired option to acquire 49% of Jonway Auto		(2,385)	—	—	2,385	—
Stock issuance to Jonway Group for development	70,000	15,400	—	—	—	15,400
and production of Shuttle Van and Alias	—	—	—	—	—	—
Purchase of 50% interest in Portable Energy	800	895	—	—	—	895
Fair value of warrants and options issued for:						
Consulting and other services	569	144	—	—	—	144
Employee Compensation	485	197	—	—	—	197
Stock Based Compensation	—	2,135	—	—	—	2,135
Warrant exercise	4,382	5,884	—	—	—	5,884
Option Exercise	2,019	561	—	—	—	561
Beneficial conversion feature associated with convertible senior debt	—	16,937	—	—	—	16,937
Foreign currency translation gain	—	—	—	1, 220	1,174	2,394
Unrealized loss on securities available for sale	—	—	—	(57)	—	(57)
Net loss	—	—	(40,797)	—	(4,625)	(45,422)
Balance at December 31,	297,746	$ 225,378	$ (195,596)	$ 1,051	$ 24,762	$ 55,595

2011

See accompanying notes to the consolidated financial Statements

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

	Year ended December 31, 2011	2010
Cash flows from operating activities:		
Loss from operations of the Company and its consolidated subsidiaries	$ (45,422)	$ (19,018)
Reconciling items:		
Stock-based employee compensation, consulting and other services	2,327	2,660
Stock-based compensation for R&D cost	3,784	961
Depreciation and amortization	7,357	117
Inventory Reserve	667	360
Allowance for doubtful accounts	11	30
Stock-based compensation for consulting and other services	144	1,032
Stock based compensation for management fees due to a related party	—	2,500
Accretion of financial instruments	16,937	799
Loss from joint venture	254	417
Impairment of other investments	56	90
Gain on Debt extinguishment	—	(818)
Gain on disposal of equipment	(220)	—
Deferred Tax benefit	(149)	—
Change in fair value of derivative liability	349	4,094
Changes in assets and liabilities: (net of acquisition)		
Notes receivable from Jonway auto Dealers	3,313	—
Accounts receivable	913	(122)
Inventories	3,293	(183)
Prepaid expenses and other assets	(126)	220
Due from related parties	633	—
Accounts payable	(308)	(130)
Accrued liabilities	1,534	575
Due to related parties	(3,497)	—
Advances to customers	(145)	—
Cash used for operations	(8,295)	(6,416)
Cash flows from investing activities:		
Acquisition of 51% Interest in Zhejiang Jonway Automobile , net	(18,037)	(10,000)
Purchase of marketable securities	—	(2,000)
Investment made for unconsolidated entities	(774)	—
Acquisition of property and equipment	(2,108)	(70)
Disposal of equipment	279	18
Cash flows used in investing activities:	(20,640)	(12,052)
Cash flows from financing activities:		
Restricted cash	(2,827)	—
Proceeds from capital raises	4,198	13,043
Proceeds from issuance of convertible debt	19,000	3,260

Proceeds from stock option exercises		561		—
Proceeds from short term debt		6,984		149
Proceeds from notes payable		5,921		—
Proceeds from related parties		1,549		—
Payment of short term debt		(2,300)		(1,281)
Cash provided by financing activities		33,086		15,171
Effect of exchange rate changes on cash and cash equivalents		205		—
Increase (decrease) in cash and cash equivalents		4,356		(3,297)
Cash and cash equivalents at beginning of year		1,503		4,800
Cash and cash equivalents at end of year	$	5,859	$	1,503
Supplemental disclosure of cash flow information				
Cash paid during period for interest	$	177	$	—
Cash paid during period for taxes	$	4	$	4

See accompanying notes to consolidated financial statements.

ZAP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

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

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

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

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

With the completion of the acquisition of a majority interest in Jonway, the combined companies’ new product lines planned for 2012 include the A380 SUV EV and the minivan EV. Both products leverage the production moldings, the manufacturing engineering infrastructure and facilities currently in place for the gasoline models of these vehicles. Since the acquisition, the companies have been working on developing the joint product line, marketing and sales plans for the 2012 EV product lines.

Jonway is preparing for certification of the EV production line by the Chinese electric vehicle authorities, which we expect to occur in the second half of 2012, while we anticipate that the EV production facilities in Jonway will be ready for the certification process in the first half of 2012. Meanwhile, the engineering teams from both companies are undertaking extensive testing of the A380 SUV EV at Jonway Auto and ZAP Hangzhou EV research and development center.

Our target is to deliver the EV A380 SUV and EV minivan in the second half of 2012, with the purpose of obtaining the Chinese central government electric vehicle incentives of up to 60,000 RMB per vehicle. ZAP intends to use the existing manufacturing plant from Jonway that is being upgraded for the production of the electric vehicles and utilizing the existing Jonway models to gain economy of scale and reduce molding investment costs. ZAP also intends to leverage Jonway's distribution and customer support centers in China to support the sales and marketing of its new EV product line.

ZAP's strategy outside of China is to open up markets ready to accept affordable, fully electric SUVs and vans for fleets.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the financial statements of ZAP, and its subsidiaries: Jonway Automobile, Voltage Vehicles and ZAP Stores for the years ended December 31, 2011 and 2010 and are in accordance with United States ("U.S.") generally accepted accounting principals ("GAAP"). In these financial statements, "subsidiaries" are companies that are over 50% controlled, the financial statements of which are consolidated with those of the Company. Significant intercompany transactions and balances are eliminated in consolidation; profits from intercompany sales, are also eliminated; non –controlling interests are included in equity. We account for our 37.5% interest in the ZAP Hangzhou Joint Venture using the equity method of accounting. During the year ended December 31, 2011, ZAP Hangzhou incurred an operating loss of $724,160 of which $271,560 is our share.

ZAP's common stock is quoted on the OTC Bulletin Board under the symbol "ZAAP.OB."

Liquidity and Capital Resources

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

Our principal sources of liquidity consist of our existing cash on hand, bank facilities from China-based banks for Jonway Auto, our investment in 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. In 2011, we entered into private placement subscription agreements with Mr. Luo for the purchase of ZAP 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 placement subscription agreements were superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011. Pursuant to the stock purchase agreement, Mr. Luo agreed to purchase ZAP common stock for an aggregate purchase price of $2 million in multiple closings. On September 8, 2011, we issued approximately 2.3 million shares of ZAP common stock in connection with the initial closing of $771,000. We received an additional $1.025 million in subsequent closings for which we have issued approximately 3.35 million shares of ZAP common stock. During 2011, we issued 7.7 million shares to Mr. Liang for cash of $3.8 million.

In 2011, we were approved to have grants of up to an aggregate of US$6.2 million of bank facilities from the Taizhou Branch of China Merchants Bank ("CMB") through our majority-owned subsidiary, Jonway. Although we have been approved for these credit lines, there are no legal obligations or rights to the credit lines until we execute agreements with the respective lenders to borrow funds under the credit lines. When drawn down, the credit lines will be secured by lands owned by Jonway and guaranteed by Jonway Group.

Under the above mentioned credit line of US$6.2 million granted by CMB, on August 19, 2011, Jonway entered into a Credit Agreement with CMB for a revolving short term bank loan in the aggregate amount of approximately US$3.2 million which was drawn down in 2011. The annual interest rate is 7.22%. The loan is secured by a Maximum Amount Mortgage Contract by and between Jonway and CMB dated August 11, 2011 in which land use rights over three parcels of land owned by Jonway at Sanmen Factory have been pledged as security for this loan. The remaining US$1.58 million of the credit line is available for future executions at the discretion of Jonway Auto.

On December 6, 2011, Jonway entered into a Bank promissory note agreement with Taizhou Branch of China Everbright Bank for a revolving bank note facility in the aggregate amount of approximately US$4.7 million. This bank note facility was issued to Jonway Auto's suppliers and is secured by a Maximum Amount Mortgage Contract by and between Jonway and this bank dated December 6, 2011 in which land use right over one parcel of land owned by Jonway at Sanmen Factory has been pledged as security for this facility.

In December 2011, Jonway established additional short term bank loans amounting to over US$2.22 million from three small-size banks based in Taizhou City, which are subject to Jonway Group guarantee, and US$790,000 of such loans is secured by bank notes received from Jonway dealers.

Jonway intends to utilize the credit lines to expand its electric vehicle business as well as other future vehicle models. This includes on-going working capital needs, electric vehicle production equipment requirements, testing, homologation and new EV product molds. These credit lines will also be used to support the company's expansion plans, with emphasis on its electric vehicle production line facilities in China. The credit will also help advance new electric vehicle initiatives, launch new strategic global sales and marketing operations, bolster infrastructure, and finance working capital.

On December 11, 2011, Zhejiang Jonway Automobile Co., Ltd. ("Jonway"), a majority owned subsidiary of ZAP, entered into a Promissory Note with Jonway Group Co. Ltd. ("Jonway Group") pursuant to which Jonway could borrow up to a maximum of $3,000,000 to be repaid on demand. The principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. All unpaid principal, together with any interest then unpaid and accrued interest, are due and payable within ten (10) calendar days following demand by Jonway Group. Payment shall be made in the form of cash. As of December 31, 2011, a total of $1.6 million had been advanced to Jonway under the Promissory note arrangement.

In January 2011, ZAP issued $19 million of convertible debt to make a partial payment in connection with the Jonway Acquisition. On March 22, 2012 this note was amended to extend its maturity to August 12, 2013.

We used cash in operations of $8.3 million and $6.4 million during the years ended December 31, 2011 and 2010, respectively. Cash used in operations in 2011 was the result of the net loss incurred for the year of $45.4 million, offset by non-cash expenses of $31.7 million. In 2011, non-cash expenses included $144,000 for stock–based compensation for consulting and other services, $2.3 million for stock-based compensation to employees and $3.8 million for stock-based compensation for research and development expenses. In addition, $24.3 million of non cash expenses was due to $16.9 million of amortization of the convertible note discount and $7.4 million of non cash expenses of depreciation and amortization. Cash used in operations in 2010 was the result of the net loss of $19 million, offset by non-cash expenses of $12.2 million. In 2010, non-cash expenses included $1 million related to stock-based compensation for consulting and other services, $2.7 million for stock-based compensation to employees and $2.5 million for stock-based compensation for management fees.

In 2011, the net change in operating assets and liabilities resulted in a cash increase of $5.6 million. The change was primarily due to decreases in the following: notes receivable of $3.3 million, accounts receivable of $0.9 million, inventories of $3.3million, due from related parties of $0.6 million, due to related parties of $3.5 million and accounts payable of $0.3 million, offset by increases in prepaid expenses and other assets of $0.2 and accrued liabilities of $1.5 million.

In 2010, the net change in operating assets and liabilities resulted in a cash increase of $360,000. The change was primarily due to increases in prepaid expenses of $220,000 and accrued liabilities of $575,000 offset by decreases in account receivable of $122,000, inventory of $183,000 and accounts payable of $130,000.

Investing activities used cash of $21.6 million and $12.1 million during the years ended December 31, 2011 and 2010, respectively. In 2011, $19 million was used for the acquisition of 51 % of Jonway Auto. In addition, $2.1 million was used for the acquisition of property and equipments. In 2010, the Company advanced $10.0 million for the 51% acquisition of Jonway Auto and $2.0 million was used to purchase marketable securities.

Financing activities provided cash of $33.1 million and $15.3 million during the year ended December 31, 2011 and 2010, respectively. In 2011, we financed the following activities; $4.2 million from issuance of common stock to investors, $19 million of convertible debt was issued to partially finance the 51% acquisition of Jonway Automobile, and Jonway Auto gained $ 7 million of short term borrowings from China-based banks. Proceeds from notes payable $5.9 million and proceeds from related parties $1.5 million. These transactions were offset by repayments of $2.3 million of short term debt and an increase in restricted cash of $2.8 million. In 2010, we received

$13.0 million from investors and $3.0 million from the issuance of convertible debt; these were offset by settlement of $1.3 million of short term debt.

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

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

We had cash and cash equivalents of $5.9 million at December 31, 2011 as compared to $1.5 million at December 31, 2010. We had a working capital deficit of $14.9 million at December 31, 2011 versus working capital of $2.6 million at December 31, 2010. We believe that there is sufficient liquidity for our operations through March 31, 2013 based on the following considerations:

In the event that we require additional liquidity, our principal shareholders, Cathaya and Jonway Group, have agreed to provide the necessary support to meet our financial obligations through April 2013.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Revenue Recognition

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

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

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

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

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

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

· The Company has received a binding purchase order from the customer or distributor authorized by a representative empowered to commit the purchaser (evidence of a sale);

· The purchase price has been fixed, based on the terms of the purchase order;

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

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

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

Shipping and handling costs

Shipping and handling costs have been included in cost of goods sold. Jonway's shipping costs are included in selling expenses.

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 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 12 stock options 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. Compensation cost is periodically remeasured as the underlying options vest in accordance with ASC Topic 505-50 and is recognized over the service period.

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 December 31, 2011, Jonway has $331, 000 in short term and $192,000 in long term deferred tax assets remaining.

Foreign Currency Translation

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

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

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

	December 31, 2011	December 31, 2010
Balance sheet items, except for share capital, additional paid in capital and retained earnings, as of year end	$1=RMB6.3009	$1=RMB6.6227
Amounts included in the statements of operations and cash flows for the year	$1=RMB6.4618	$1=RMB6.7567

Net Loss per Share attributable to common stockholders

Basic and diluted net loss per share is computed by dividing consolidated net loss by the weighted-average number of common shares outstanding during the period. The Company’s potentially dilutive shares, which include outstanding common stock options convertible debt and warrants, have not been included in the computation of diluted net loss per share for all periods presented as the result would be anti-dilutive. Such potentially dilutive shares are excluded when the effect would be to reduce a net loss per share. Outstanding common stock options, warrants and debentures totaled 185 million shares and 84.1 million shares at December 31, 2011 and 2010, respectively.

(Dollars in thousands, except per share amounts)	2011	2010
Net loss attributable to ZAP's common shareholders	$40,797	$19, 018
Weighted-average shares outstanding (in thousands)	213,935	119,075
Basic and diluted loss per share	$(0.19)	$(0.16)

- 60 -

Cash and cash equivalents

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

Restricted Cash

The Company has cash restricted in connection with the issuance of bank acceptance notes to various suppliers of spare parts which were issued through Jonway's banks. To issue these bank acceptance notes to Jonway's suppliers, the banks require a deposit of approximately 40-60% of the full amount of such notes which are payable within 6 months from issuance. Upon the maturity date, restricted funds will be used to settle the bank acceptance notes.

Marketable equity securities-related party

Marketable securities are classified as available for sale and are carried at fair value, with related unrealized gains and losses reported, net of tax, as accumulated other comprehensive income ("AOCI"), a separate component of shareholders' equity. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

Investment securities are reviewed for impairment in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and FASB Staff Position ("FSP") 115-1 "The meaning of Other than Temporary Impairment and its Application to Certain Investments." We periodically review our investments for indications of other than temporary impairment considering many factors, including the extent and duration to which a security's fair value has been less than its cost, overall economic and market conditions, and the financial condition and specific prospects for the issuer. Impairment of investment securities results in a charge to income when a market decline below cost is other than temporary.

At December 31, 2011, an unrealized loss of $169,000 was recognized in other comprehensive income.

Fair value of financial instruments

The Company measures its financial assets and liabilities in accordance with GAAP. The fair value of financial instruments 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 and cash equivalents, marketable securities, notes receivable, accounts receivable, other current assets, accounts payable, accrued liabilities and notes payable etc., the carrying amount approximates fair value because they are short term maturities. The below tiers are adopted by us to measure the fair value of financial instructions, they 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.

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 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.

The following table summarizes those assets and liabilities measured at fair value on a recurring basis (in thousands):

December 31, 2011

Assets	Level 1	Level 2	Level 3	Fair Value Measurements
Marketable Securities (1)	$1,830			$1,830
Total assets	$1,830			$1,830

(1) Marketable securities consist of common stock of a related party. The fair value of marketable securities is based upon market value quoted by Korean stock exchange

The Company's other financial instruments at December 31, 2011 consist of accounts receivable, accounts payable and debt. For the year ended December 31, 2011 the Company did not have any derivative financial instruments. The Company believes the reported carrying amounts of its accounts receivable and accounts payable approximate fair value, based upon the short-term nature of these accounts. The carrying value of the Company's loan agreements approximate fair value as each of the loans bears interest at a floating rate.

December 31, 2010

Assets	Level 1	Level 2	Level 3	Fair Value Measurements
Marketable Securities (1)	$ 1,888			$ 1,888
Liabilities:				
Derivatives (2)			$ 5,539	$ 5,539
Total Liabilities			$ 5,539	$ 5,539

(1) Marketable securities consist of common stock of a related party. The fair value of marketable securities is based upon market value quoted by Korean stock exchange

(2) The change in fair value of derivative liabilities is classified in other income (expense) in the Company's Statement of Operations. We recognized losses of $349 and $4,094 for December 31, 2011 and 2010 respectively. 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.

The Company's other financial instruments at December 31, 2010 consist of accounts receivable, accounts payable and debt. The Company believes the reported carrying amounts of its accounts receivable and accounts payable approximate fair value, based upon the short-term nature of these accounts. The carrying value of the Company's loan agreements approximate fair value as each of the loans bears interest at a floating rate.

Nonrecurring Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. Assets measured at fair value on a nonrecurring basis for the years ended December 31, 2011 and 2010, are summarized below (in thousands):

Gains (losses)

	December 31, 2011	2010
Equity method investments	$(272)(1)	$(319)(1)
Total	$(272)	$(319)

(1) The Company recognized impairment charges of $272 and $319 for the years ended December 31, 2011 and 2010 respectively. These charges relate to the investment in a nonconsolidated joint venture accounted for under the equity method of accounting. Subsequent to the recognition of these impairment charges, the Company's financial exposure related to this entity is not significant.

This charge was determined using Level 3 inputs.

Accounts and Note Receivable

Accounts and note receivable consist mainly of receivables from our established dealer network. A credit review is performed by the Company before the dealer is approved to purchase vehicles form the Company. The Company performs ongoing credit evaluations of its dealers, and generally does not require collateral on its accounts receivable. The Company estimates the need for allowances for potential credit losses based on historical collection activity and the facts and circumstances relevant to specific customers and records a provision for uncollectible accounts when collection is uncertain. The Company has not experienced significant credit related losses to date. The allowance for doubtful accounts was $9,390 and $27,000 at December 31, 2011 and 2010, respectively.

Inventories

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

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 method over the asset's estimated useful life. Costs of maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Estimated useful lives are as follows:

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

Land use Rights

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

Long-lived assets

Long-lived assets are comprised of property and equipment and intangible assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. An estimate of undiscounted future cash flows produced by the asset, or by the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flow and fundamental analysis. The Company reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value. Asset impairments were $220,000 with corresponding accumulated depreciation of $182,000 for 2011 and $55,000 with no corresponding accumulated depreciation for 2010.

Intangible Assets-Finite

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

Goodwill and Intangible Assets – Indefinite

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

Non-Controlling Interests

The Financial Accounting Standards Board (“FASB”) issued a statement which established accounting and reporting standards that require non-controlling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent’s ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be re-measured at fair value, with any gain or loss recognized in earnings.

On January 21, the Company acquired 51% of Zhejiang Jonway Automobile Co. Ltd from Jonway Group, a related party, who holds a 49% of the remaining interest in Jonway Auto. (see Note 5) Pursuant to the Jonway Acquisition Agreement, ZAP had the right to acquire the remaining 49% of Jonway at the same valuation, which expired on March 31, 2011. To account for the expired option, we recorded a reduction of common stock.

	2011		
Contribution by non-controlling interest	$	25,828	
Option to purchase remaining 49%		2,385	
Accumulated Deficits		(4,625	)
Accumulated other comprehensive income		1,174	
Balance forward	$	24,762	

Advertising

The cost of advertising is expensed as incurred. Advertising and marketing expenses amounted to over $4.7 million and $126,000 for the years ended December 31, 2011 and 2010, respectively.

- 64 -

Product warranty costs

ZAP provides 30 to 90 day warranties on its personal electric products and provides six month warranties for the Xebra® and its safety recall, for the ZAP Truck and ZAP Shuttle Van vehicles and other varying warranties. 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.

ZAP	2011	2010
Balance as of January 1,	$ 152	$ 296
Warranties expired	(14)	(203)
Provision for warranties	188	120
Charges against warranties	(5)	(61)
Balance December 31,	$ 321	$ 152

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

Jonway	2011
Balance as of January 21,	$ 590
Warranties expired	—
Provision for warranties	1,327
Charges against warranties	(820)
Balance December 31,	1,097
Less: long term portion	(592)
Current portion	$ 505

Risks and Uncertainties

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

Reclassification

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation. These reclassifications had no effect on net loss or cash flows as previously reported.

Recent Accounting Pronouncements

In December 2011, FASB issued Accounting Standards Update No. 2011-12, Comprehensive Income (“ASU 2011-12”). Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated

Other Comprehensive Income in Accounting Standards Update No. 2011-05. Among the new provisions in ASU 2011-05 was a requirement for entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements); however this reclassification requirement is indefinitely deferred by ASU 2011-12 and will be further deliberated by the FASB at a future date.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment ("ASU 2011-08") that gives an entity the option of performing a qualitative assessment to determine whether it is necessary to perform Step 1 of the annual goodwill impairment test. An entity is required to perform Step 1 only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. An entity may choose to perform the qualitative assessment on none, some or all of its reporting units or an entity may bypass the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the impairment test. ASU 2011-08 is effective January 1, 2012 and we do not believe that the adoption of ASU 2011-08 will have a significant effect on our results of operations or financial position.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05") which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after Dec. 15, 2011 with early adoption permitted. The Company does not expect the adoption of ASU 2011-05 to have a material impact on the Company's consolidated results of operation and financial condition.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRSs")." Under ASU 2011-04, the guidance amends certain accounting and disclosure requirements related to fair value measurements to ensure that fair value has the same meaning in U.S. GAAP and in IFRSs and that their respective fair value measurement and disclosure requirements are the same. ASU 2011-04 is effective for public entities during interim and annual periods beginning after December 15, 2011. Early adoption by public entities is not permitted. The Company does not expect the adoption of ASU 2011-04 to have a material impact on the Company's consolidated results of operation and financial condition.

NOTE 3 - INVENTORIES

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

		2011		2010
Advanced technology vehicles	$	713	$	1,163
Vehicles-conventional		4,630		345
Work in Process		2,234		—
Parts and supplies		4,879		656
Finished goods		240		277
		12,696		2,441
Less - inventory reserve		(1,578)		(619)
	$	11,118	$	1,822

Changes in the Company’s inventory reserve during the years ended December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Balance as of January 1,	$ 619	$ 259
Balance carried from Jonway Auto	292	—
Provision for slow moving inventory	667	360
Balance as of December 31,	$ 1,578	$ 619

NOTE 4 - Fixed Assets

Property and equipment at December 31, 2011 and 2010 are summarized as follows (in thousands):

	2011	2010
Buildings and improvements	$ 21,649	$ —
Machinery and equipment	39,566	106
Office furniture and equipment	415	260
Leasehold improvements	37	36
Vehicles	745	379
	62, 412	781
Less - accumulated depreciation and amortization	(15,459)	(608)
	$ 46,953	$ 173

Four pieces of land were acquired from the acquisition of Jonway auto in 2011, all land in the People's Republic of China is government owned and cannot be sold to any individual or company. However, the government grants the user a "land use right" (the Right) to use the land. The Company has the right to use the land for 50 years and amortized the Right on a straight-line basis over the period of 50 years. As of December 31, 2011, intangible assets consist of the following:

	2011
Land use right	$ 10,518
Software	92
	10,610
Less: accumulated amortization	(535)
	$ 10,075

As of December 31, 2011, estimated future amortization expense for intangibles assets, subject to amortization, is as follows (in thousands):

Year	Amortization Expense
2012	$ 229
2013	229
2014	210
2015	210
2016	210
Thereafter	8,987
	$ 10,075

Depreciation and amortization expense was approximately $4,233,000 and $100,000 for the years ended December 31, 2011 and 2010.

NOTE 5 - ACQUISITION

In December 2009, ZAP issued 4 million shares of ZAP common stock to Jonway Group's designee, Alex Wang, which was attributed towards $1 million of the purchase price under the amendment to the Jonway Acquisition Agreement. In June 2010, ZAP issued 40 million shares of stock to Cathaya Capital, L.P., or Cathaya, in order to pay $10 million of the purchase price under the Jonway Acquisition Agreement.

On January 21, 2011(the "Closing Date"), the Company completed the acquisition of 51% of the equity shares of 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 determination of the fair value of the various assets acquired and liabilities assumed. The values assigned in these financial statements 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 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		12,740
Property & equipment		57,071
Other tangible assets		11,472
Accounts payable		(14,549)
Notes payable		(4,261)
Deferred tax liability		(1,689)
Other liabilities assumed		(12,669)
Net tangible assets acquired		52,196
Goodwill and intangible assets		5,382
Net assets acquired		57,578
Non controlling interest - fair value		(28,213)
Less: Option to purchase remaining 49%		2,385
		(25,828)
Purchase price	$	31,750

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

		Date of Acquisition Fair Value	Weighted Average Useful Life (in Years)
Customer relationships	$	745	8

Developed technology		2,076	7
Tradename		2,078	(a)
In-process research and development costs		175	(b)
Total	$	5,074	

(a) The Jonway trade name 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.

The revenue and net income (loss) of the acquired company (Jonway Auto) included in 2011's operation results are as below:

Revenue	54,299
Net loss	(9,090)

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 $249,679 and $595,958 for the years ended December 31, 2011 and 2010. respectively.

The excess of the purchase price over the net tangible assets and intangible assets was recorded as goodwill. The allocation of the purchase price was based upon a valuation for which the estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date).

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):

	2011	2010
Net sales	$ 64,078	$ 77,958
Net loss attributable to ZAP	$ (46,190)	$ (31,898)
Net loss per common share, basic and diluted	$ (0.22)	$ (0.27)
Shares outstanding, basic and diluted	213,935	119,075

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 - GOODWILL & OTHER INTANGIBLES

The goodwill and other intangible assets at December 31, 2011 are summarized as follows:

	Useful Life (In Years)	Net Book Value 12/31/2010	Intangibles Acquired in Jonway Acquisition 2011	Accumulated Amortization 12/31/2011	Net Book Value 12/31/2011
Patents and Trademarks	7	$ 98	—	$ (23)	$ 75
Customer Relationships	8.5	—	779	(87)	692
Developed Technology	7	—	2,171	(292)	1,879
In Process Technology		—	183	—	183

Trade name	—	2,173	—	2,173
Intangibles	98	5,306	(402)	5,002
Goodwill Assets		324	—	324
	$ 98	$ 5,630	$ (402)	$ 5,326

- 69 -

As of December 31, 2011, estimated future amortization expense for intangibles assets, subject to amortization, is as follows (in thousands):

Year		Amortization Expense
2012	$	416
2013		416
2014		416
2015		391
2016		391
Thereafter		617
	$	2,647

NOTE 7 - DISTRIBUTION AGREEMENTS

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

		2011		2010
Better World Products-related party	$	2,160		2,160
Jonway Products		14,400		14,400
		16,560		16,560
Less amortization		(3,121)		(961)
	$	13,439	$	15,599

Amortization expense related to these distribution agreements for the years ended December 2011 and 2010 was $2,160,000 and $961,000 respectively. Amortization is based over the term of the agreements. The estimated future amortization expense, as follows (in millions):

Year ended December 31,		
2012	$	2,160
2013		1,440
2014		1,440
2015		1,440
2016		1,440
Thereafter		5,519
Total	$	13,439

Distribution Agreement with Better World, Ltd.

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

- 70 -

Distribution Agreement with Goldenstone Worldwide Limited for Jonway Products

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

Distribution Agreement with Samyang Optics

On January 27, 2010, ZAP entered into an International Distribution Agreement (the "Distribution Agreement") with a related party, 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. In addition, the Distribution Agreement 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. Samyang has not met the sales quotas as of this filing date.

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 December 31, 2011.

NOTE 8 - ACCRUED LIABILITIES

Accrued liabilities at December 31, 2011 and 2010 consisted of the following (in thousands):

		2011		2010
Accrued professional fees	$	406	$	352
Accrued Sales Rebates		3,712		—
Accrued Salaries		566		—
Accrued Transportation fees		625		—
Accrued interest payable		1,457		—
Customer deposits		—		134
Warranty liabilities-short term		826		164
Management fee payable		350		—
Accrued payables		—		1,382
Other accrued expenses		88		165
	$	8,030	$	2,197

NOTE 9 - LINE OF CREDIT, SHORT TERM DEBT AND BANK ACCEPTANCE NOTES

Line of credit

In 2011, we were approved to have the grants of up to an aggregate of US$6.2 million of bank facilities from the Taizhou Branch of China Merchants Bank through our majority-owned subsidiary, Jonway. Although we have been approved for these credit lines, there are no legal obligations or rights to the credit lines until we execute agreements with the respective lenders to borrow funds under the credit lines. When drawn down, the credit lines will be secured by lands owned by Jonway and guaranteed by Jonway Group.

Short term debt

Under the above mentioned credit line of US$6.2 million granted by Taizhou Branch of China Merchants Bank , on August 19, 2011, Jonway entered into a Credit Agreement with this bank for a revolving short term bank loan in the aggregate amount of approximately US$3.2 million which was drawn down in 2011. The annual interest rate is 7.22%. Such bank loan under the Credit Agreement are secured by a Maximum Amount Mortgage Contract by and between Jonway and this bank dated August 11, 2011 in which land use rights over two parcels of land owned by Jonway at Sanmen Factory have been pledged as security for this loan. The remaining $1.58 million of the credit line is available for future executions at the discretion of Jonway Auto.

In December 2011, Jonway established additional short term bank loans amounting to over $2.22 million from three small-size banks based in Taizhou City, which are subject to Jonway Group guarantee, and US$790,000 of such loans is secured by bank notes received from Jonway dealers.

As of December 31, 2011, ZAP had $5.4 million in short term bank loans, which are borrowed from the above stated China-based banks with interest rate range of 7.22% to 9.82% per annum due from March 2012 to August 2012.

	December 31, 2011	
Loan from China Merchants Bank	$	3,174
Loan from Taizhou Bank		1,428
Loan from Zhejiang Tailong Commercial Bank		794
Loan from Pay-Ins Prem		89
	$	5,485

Bank acceptance notes- 6 month term for each note issued

	December 31, 2011	
a) Bank acceptance notes payable to Taizhou Bank	$	2,451
b) Bank acceptance notes payable to China Merchants Bank		3,316
c) Bank acceptance notes payable to China Everbright Bank		4,761
	$	10,528

On December 6, 2011, Jonway entered into a bank acceptance note Agreement with Taizhou Branch of China Everbright Bank for a revolving bank note facility in the aggregate amount of approximately US$4.7 million. Such bank note facility were issued to Jonway Auto's suppliers under the Credit Agreement and are secured by a Maximum Amount Mortgage Contract by and between Jonway and this bank dated December 6, 2011 in which land use right over one parcel of land owned by Jonway at Sanmen Factory has been pledged as security for this facility. Except for the bank acceptance notes payable to China Everbright Bank, other bank acceptance notes payable to other banks were granted through the below mentioned cash deposit practice.

As of December 31, 2011, the Company has bank acceptance notes payable in the amount of $10.5 million. The notes are guaranteed to be paid by the banks and usually for a short-term period of six (6) months. The Company is required to maintain cash deposits at a minimum 40%-60% of the notes payable with these banks, in order to ensure future credit availability. As of December 31, 2011, the restricted cash for the notes was $6.1 million.

On December 11, 2011, Zhejiang Jonway Automobile Co., Ltd. ("Jonway"), a majority owned subsidiary of ZAP, entered into a Promissory Note with Jonway Group Co. Ltd. ("Jonway Group") pursuant to which Jonway borrowed $3,000,000 to be repaid on demand. The unpaid principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. All unpaid principal, together with any then unpaid and accrued interest, are due and payable within ten (10) calendar days following demand by Jonway Group. Payment shall be made in the form of cash. As of December 31, 2011, a total of $1.6 million had been advanced to Jonway Automobile under the Promissory note arrangement.

NOTE 10 - LONG–TERM DEBT

8% SENIOR CONVERTIBLE NOTE - China Electric Vehicle Corporation ("CEVC") Note

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

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

The Note which initially was scheduled to mature on February 12, 2012 but was extended to August 12, 2013 according to the representation letter dated March 21, 2012 from CEVC. On March 22, 2012, ZAP entered into an amendment to the note which extended the maturity date of the note from August 12, 2012 to August 12, 2013. This amendment adjusted the rate at which the note would convert into shares of ZAP Common Stock or shares of capital stock of Zheijiang Jonway Automobile, Co. Ltd. held by ZAP. In addition, the warrant issued in connection with the CEVC note was amended to change the terms of conversion and to extend the maturity date until February 12, 2014. The interest accrued through the maturity date of February 12, 2012 in the amount of $1.5 million has been added to the existing principal. The total amount of the convertible note is approximately $20.5 million with a new maturity date of August 12, 2013. The note accrues interest at a rate per annum of 8% effective to February 12, 2012. The note is convertible upon the option of CEVC at any time, into (a) shares of Jonway capital stock owned by ZAP at a conversion rate of 0.003743% of shares of Jonway capital stock owned by ZAP for each $1,000 principal amount of the Note being converted or (b) shares of ZAP common stock at a conversion rate of 4,435 shares of common stock for each $1,000 principal amount of the Note being converted.

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

In addition, the Company recorded $1.5 million in interest expense through the year ended December 31, 2011 related to this note.

NOTE 11 - INCOME TAXES

The Company is subject to United States ("USA") and People's Republic of China ("China") profit tax. ZAP's operations are in US and Jonway's operations are in PRC. The Company has incurred net accumulated operating losses for income tax purposes for both ZAP and Jonway.

Income (loss) before provision for income taxes consisted of:

		2011			2010	
USA	$	(36,327	)	$	(19,014	)
China		(9,239	)		—	
	$	(45,566	)	$	(19,014	)

Provision for income taxes consisted of:

		2011			2010
Current provision:					
USA	$	4		$	4
China		—			—
Total current provision		4			4
Deferred provision (benefit):					
USA		—			—
China		(149	)		—
Total Deferred provision (benefit)		(149	)		—

Total provision for income taxes	$	(145)	$	4

The tax effect of temporary differences from USA and China that give rise to significant portions of the deferred tax assets at December 31, 2011 and 2010 is presented below:

		2011		2010
Net operating loss carryovers				
- USA	$	56,768	$	44,415
- China		2,982		—
Total net operating loss carryovers		59,750		44,415
Timing differences				
- USA		(15,029)		(12,643)
- China		523		—
Total gross deferred tax assets		45,244		31,772
Valuation allowance		(44,721)		(31,772)
Deferred tax assets, net of valuation allowance		523		—
Less: current portion		331		—
Non-current portion	$	192	$	—

For USA

The provision for income taxes for all periods presented in the consolidated statements of operations represents minimum California franchise taxes. Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34% to pretax losses as a result of the following:

	2011		2010	
Computed expected tax expense	$	(12,353)	$	(6,466)
Losses and credits for which no benefits have been recognized		9,969		3,517
Stock grants and warrants not deductible for income tax purposes		1,340		2,092
Other amortization and impairments		1,038		
other amortization and impairments		6		14
State tax expense, net of federal income tax benefit		4		4
	$	4	$	4

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets at December 31, 2011 and 2010 is presented below:

	2011	2010
Net operating loss carryovers	$56,768	$44,415
Temporary differences, including stock based compensation, amortization and bad debts	(5,489)	(3,983)
Fixed assets, due to differences in depreciation	(288)	(288)
Non qualified options and warrants	(6,728)	(6,186)
Reserves on investments	(1,673)	(1,376)
Intangible assets, due to impairment	(99)	(99)
R&D credit	138	138
Other differences	(890)	(849)
Total gross deferred tax assets	$41,739	$31,772
Valuation allowance	(41,739)	(31,772)
Net deferred tax assets	—	—

The net change in the valuation allowance for the year ended December 31, 2011 was an increase of $10.0 million. Because there is uncertainty regarding the Company's ability to realize its deferred tax assets, a 100% valuation allowance has been established.

As of December 31, 2011, the Company had federal tax net operating loss carry forwards of approximately $150 million, which will begin to expire in the years 2012 through 2027. The Company also has federal research and development carry forwards as of December 31, 2011 of approximately $138,000, which will begin to expire in the years 2012 through 2026.

The State net operating loss carry forwards were approximately $ 103 million as of December 31, 2011. The State net operating loss carry forwards will begin to expire in the years 2012 through 2018.

- 74 -

The Company's ability to utilize its net operating loss and research and development tax credit carry forwards may be limited in the future if it is determined that the Company experienced an ownership change, as defined in Section 382 of the Internal Revenue Code. Federal and State tax laws impose substantial restrictions on the utilization of net operating loss and credit carry forwards in the event of an "ownership change" for tax purposes as defined in the Internal Revenue Code section 382.

The company adopted the provisions of FIN 48. The Company did not have any unrecognizable tax benefits as a component of income tax expense. The Company did not have any unrecognized tax benefits at December 31, 2011 and 2010, and as a result, there was no effect on the Company's financial condition or results of operations as a result of implementing FIN 48.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expense recognized for the year ended December 31, 2011 and 2010.

For CHINA
Under the relevant regulations of the Corporate Income Tax Law in China, the corporate income tax rate applicable to Jonway is 25%.

		2011	
Computed expected tax expense	$	(2,465	)
Loss for which no benefits have been recognized		2,159	
Others (a)		157	
Income tax benefit	$	(149	)

(a) Other represents expenses incurred by the Company that are not deductible for PRC income taxes for the year ended December 31, 2011.

Jonway accounts for income taxes using an asset and liability method for financial accounting and reporting purposes. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, operating loss and tax credit carry-forwards and are measured using the currently enacted tax rates and laws. Jonway has not provided for any enterprise income taxes since it has no taxable income in each year.

Jonway analyzes its deferred tax assets with regard to potential realization. Jonway has established a valuation allowance on its deferred tax assets to the extent that management has determined that it is more likely than not that some portion or all of the deferred tax asset will not be realized based upon the uncertainty of their realization. Jonway has considered estimated future taxable income and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance.

The tax effect of temporary differences that gave rise to significant portions of the deferred tax assets at December 31, 2011 and 2010 is presented below (in thousand):

		December 31, 2011
Deferred tax assets:		
Property and equipment,		
due to differences in depreciation	$	192

Inventories, due to impairment		57
Accrued liabilities		274
Net operating loss Carry forward		2,982
Total deferred tax assets, gross		3,505
Valuation allowance		(2,982)
Deferred tax assets, net of valuation allowance		523
Less: current portion		331
Non-current portion	$	192

NOTE 12 – EQUITY COMPENSATION AND EMPLOYEE BENEFIT PLANS

Stock Options

The Company has five Equity Compensation Plans: The 2008 Equity Compensation Plan (the “2008 Plan”), the 2007 Consultant Stock Plan (the “2007 Plan”), the 2006 Incentive Stock Plan (the “2006 Plan”), the 2004 Consultant Stock Plan, and the 2002 Incentive Stock Plan (the “2002 Plan”). These plans provide for the grant of incentive stock options and non-statutory options to employees, directors and consultants to the Company. The 2004 Consultant Stock Plan covers 1 million shares, none of which have been granted. The Company granted incentive stock options and non-statutory options at exercise price per share equal to the fair market value per of the common stock on the date of grant. The vesting term is generally, three years, and exercise provisions were determined by the Board of Directors, with a maximum life from five to ten years.

Option activity under the 2008 Plan, 2007 Plan, 2006 Plan and 2002 Plan are as follows (in thousands):

	2008 Plan		2007 Plan		2006 Plan		2002 Plan	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	18,974	$ 0.37	1,400	$ 0.37	2,282	$ 0.86	2,796	$ 1.08
Plan transfers and adjustments	40	—	(1,000)	0.40	1,074	0.40	1	—
Granted	1,260	$ 0.34	1,100	0.48	—	—	—	—
Exercised	(140)	$ 0.25	—	—	—	—	—	—
Forfeited	(840)	$ 0.27	—	—	—	—	—	—
Outstanding at December 31, 2010	19,294	$ 0.37	1,500	$ 0.51	3,290	$ 0.72	2,694	$ 0.92
Granted	6,985	0.47	—	—	—	—	—	
Exercised	(1,801)	0.27	(116)	0.41	(3)	0.94	(100)	0.25
Forfeited	(790)	0.33	—	—	(1,295)	0.44	(80)	1.16
Outstanding at December 31, 2011	23,688	$ 0.41	1,384	$ 0.51	1,992	$ 0.90	2,514	$ 1.04

The weighted average fair value of options granted during the years ended December 31, 2011 and 2010 was $0.47 and $0.41.

The fair value of each option and warrant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2011	2010
Dividends	None	None
Expected volatility	104.6 to 105.4	107.5% to 122.6%
Risk free interest rate	1.14% to 2.01%	1.20% to 2.98%
Expected life	5.0 to 6.06 years	5.0 – 5.75 years

The following table provides information about options under the 2008 Plan, 2007 Plan, 2006 Plan and 2002 Plan that are outstanding and exercisable at December 31, 2011. (In thousands):

Plan	Exercise Price Range	Options Outstanding	Options exercisable at December 31, 2011
2008	\$0.25 - \$1.10	23,688	15,072
2007	\$0.25 - \$1.15	1,384	394
2006	\$0.40 - \$1.00	1,992	1,992
2002	\$0.25 - \$1.32	2,514	2,514
		29,578	19,972

At December 31, 2011, the Company has outstanding stock options for employees to purchase 29.6 million shares at exercise prices ranging from $0.25 to $1.32.

401K Retirement Savings Plan

The Company has an Employees' Retirement Savings Plan ("the 401K Plan"). Employees are eligible to participate in the 401(K) Plan if they have been continuously employed for three months or more. The Company matches each employee's 401(K) elective deferrals in common stock. At December 31, 2011, the Company matched $68,410 of the employee's elective deferrals in common stock.

NOTE 13 – EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock, including convertible preferred stock, stock options and warrants, in the weighted average number of common shares outstanding for the period, if dilutive. The numerators and denominators used in the computations of basic and dilutive earnings per share are presented in the following table:

	December 31,			
		2011		2010
BASIC				
Net loss used in computing basic earnings per share	$	(40,797)	$	(19,018)
Basic earnings per share	$	(0.19)	$	(0.16)
Basic weighted average shares outstanding		213,935		119,075
DILUTED				
Net loss used in computing diluted earnings per share	$	(40,797)	$	(19,018)
Diluted earnings per share	$	(0.19)	$	(0.16)
Weighted average outstanding shares of common stock		213,935		119,075
Potential common shares outstanding as of December 31:				
Warrants outstanding		75,233		57,335
Options outstanding		29,578		26,838

For the years ended December 31, 2011 and 2010, 29.6 million and 26.8 million options, and 75.2 million and 57.3 million warrants, respectively were not included in the diluted earnings per share because the average stock price was lower than the strike price of these options and warrants.

NOTE 14 – SUPPLEMENTAL CASH FLOW INFORMATION

A summary of non-cash investing and financing information is as follows (in thousands):

	December 31,	
	2011	2010

Supplemental disclosure of non-cash investing and financing activities				
Purchase of Distribution rights for Jonway Products	$	—	$	(14,400)
Purchase of Distribution rights for Better World Products	$	—	$	(2,160)
Common stock issued for 50% interest in PE	$	896	$	—
Value of ZAP Shares Issued in the acquisition of Jonway	$	1,720	$	—
Option to purchase remaining 49%	$	2,385	$	—
Loss on marketable securities	$	58	$	—
Stock issued to affiliate for R&D expenses	$	15,400	$	—
Settlement of derivative Liability	$	5,888	$	—

NOTE 15 – 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 Vehicles, Advanced Technology Vehicles, Consumer Product and Car Outlet. The Jonway Vehicles segment represents sales of the gas fueled Jonway A380 three and five-door sports utility vehicles and spare parts principally through distributors in China. Jonway and ZAP are also jointly developing various electric vehicles anticipated to enter into the electric vehicle market during 2012. The Advanced Technology Vehicles segment represents sales and marketing outside of China of the ZAPTRUCK XL, the ZAPVAN Shuttle and the Xebra® Sedan and will transition to selling mostly Jonway's EV A380SUV and EV minivan in 2012. The Consumer Product segment represents rechargeable portable energy products, our Zapino scooter, and our ZAPPY3 personal transporters. Our Car Outlet segment represents operation of a retail car outlet that sells pre-owned conventional vehicles and advanced technology vehicles. These segments are strategic business units that offer different services. They are managed separately because each business requires different resources and strategies. The Company's chief operating decision making group, which is comprised of the 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):

	Jonway Vehicles	Electric Consumer Products	Car Outlet	Advanced Technology Vehicles	Totals
For the year ended December 31, 2011:					
Net sales	54,299	652	876	410	56,237
Gross profit (loss)	5,023	71	111	(745)	4,460
Depreciation, amortization	5,091	2,127	9	40	7,357
Net loss	(9,090)	(33,656)	(220)	(2,456)	(45,422)
Total assets	93,011	27,719	493	265	121,488
For the year ended December 31, 2010:					
Net sales	—	349	1,872	1,595	3,816
Gross profit (loss)	—	62	357	10	429
Depreciation, amortization	—	1,034	8	36	1,078
Net loss	—	(17,474)	(130)	(1,414)	(19,018)
Total assets	—	31,516	436	1,560	33,512

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. Individual company's results are listed below:

Jonway	ZAP	ZAP	Totals

	Auto		Voltage Vehicles Car Lot	Portable Energy	Stores	Voltage Vehicles	
For the year ended December 31, 2011:							
Net sales	54,299	622	876	27	3	410	56,237
Gross profit (loss)	5,023	118	111	(36)	(11)	(745)	4,460
Depreciation, amortization	5,091	2,217	9	—	—	40	7,357
Net loss	(9,090)	(33,697)	(220)	(52)	(11)	(2,456)	(45,422)
Total assets	93,011	27,674	493	45	—	265	121,488
For the year ended December 31, 2010:							
Net sales	—	307	1,873	23	18	1,595	3,816
Gross profit (loss)	—	43	357	1	18	10	429
Depreciation, amortization	—	1,034	8			36	1,078
Net loss	—	(17,425)	(130)	(60)	11	(1,414)	(19,018)
Total assets	—	31,432	436	83	—	1,561	33,512

Customer information

Approximately 96.56% or $54.3 million of our 2011 revenues are from sales in China. Jonway Auto distributes its products to an established network of over 100 factory level dealers in China with some contributing to more than 10% of our consolidated revenue

Supplier information

Approximately 89% or $45.8 million of our 2011 spare parts, components and materials are purchased from China-based suppliers with some contributing to more than 10% of our consolidated cost of goods sold. For the year ended December 31, 2011, Haerbin Dongan Auto Engine Manufacturing Co., Ltd., as the sole supplier of engine to Jonway, contributed more than 10% of our cost of goods sold.

NOTE 16 - SHAREHOLDERS' EQUITY

Common stock

At the ZAP Annual Meeting held on June 20, 2011, the shareholders approved an amendment to increase the authorized shares of common stock from 400 million to 800 million;

2011 ISSUANCES

STOCK ISSUED FOR CASH. During 2011, the Company received $4.2 million in cash through the issuance of 8.2 million shares of common stock through private placements and exercise of employee stock options.

STOCK ISSUED FOR EXERCISE OF WARRANTS. In the first quarter of 2011, the Company issued 4.4 million shares of common stock valued at $5.9 million for the exercise of warrants.

STOCK ISSUED AS PAYMENT FOR DEVELOPMENT OF VEHICLES. In December, 2011 the Company issued 70 million shares of common stock valued at $15.4 million as payment to Jonway Group for the development and production of the Shuttle Van and Alias. See Note 17 Related parties

STOCK ISSUED FOR ACQUISITION. In December, 2011, the Company issued 4 million shares of common stock valued at $1.72 million for the final stock portion payment for the 51% acquisition of Jonway Automobile which was completed in January, 2011.

STOCK ISSUED FOR SETTLEMENT OF DEBT. In January 2011, the Company issued 800,000 shares of common stock valued at $896,000 to Al Yousuf as payment to settle outstanding debt.

STOCK ISSUED FOR SERVICES. In 2011, the Company issued shares of its common stock for consulting and other services and employee compensation. The stock grants were recorded at the fair market value of the stock on the date of grant. During 2011, the Company issued grants for 569,000 shares as consideration under agreements for consulting and related services, and 174,000 shares were issued for employee compensation.

STOCK ISSUED EMPLOYEE BENEFITS. During December 2010, the Company issued 311,000 shares of stock valued at $68,450 for employee 401K matching contribution.

Shares acquired through exercises of warrants for all Series other than Series B, C, D and K are restricted as to sale. However, the warrants may be assigned, sold, or transferred by the holder without restriction.

Series B, C, and D warrants not exercised may be redeemed by ZAP for a price of $0.01 per warrant upon thirty (30) days' written notice to the holders thereof; provided, however, that if not all unexercised warrants in a particular series are redeemed, then the redemption shall be pro-rated equally among the holders of unexercised warrants in the series.

Total warrants outstanding at December 31, 2011 are summarized as follows (in thousands):

	Number of Warrants	Exercise Price	Expiration Dates
Series B-Unrestricted	2,693	1.09	7-1-12
Series B-2-Restricted	1,019	1.09	7-1-12
Series C-Unrestricted	5,388	1.08	various
Series C-2-Restricted	1,239	1.09	10-9-12
Series D-Unrestricted	6,705	1.08	7-1-12
Series D-2-Restricted	1,294	1.09	various
Series K-Unrestricted	4,356	0.91	7-1-12
Series K-2-Restricted	4,106	0.91	7-1-12
$0.50 Warrants-Restricted	38,000	0.50	various
$0.70 Warrants-Unrestricted	100	0.70	6-2-13
$0.91 Warrants-Unrestricted	2,470	0.91	various
$1.20 Warrants-Restricted	6,565	1.20	various
$1.36 Warrants Restricted	935	1.36	various
$2.27 Warrants Restricted	363	2.27	2-15-12
	75,233		

NOTE 17 – RELATED PARTIES

Due from (to) related parties

Amount due from related parties are follows:

	December 31, 2011
Sanmen Branch of Zhejiang UFO Automobile Manufacturing Co., Ltd	$ 978
Jonway Group for normal business	159
Total	$ 1,137
Advance payments to Jonway Group	$ 11,616

Amount due to related parties are follows:

	December 31, 2011
Jonway Group	$ 2,104
Sanmen Branch of Zhejiang UFO Automobile Manufacturing Co., Ltd	18
Total	$ 2,122

- 80 -

Issuance of stock to Jonway Group for the Development and Production of Vehicles

On December 11, 2011, ZAP entered into a Payment Agreement with Jonway Group pursuant to which ZAP paid Jonway Group for the already completed interior and exterior design, R&D activities, testing and trial production and molding equipments etc. of the mini-van product platform, and the Alias interior and exterior design and molding, which is underway. Pursuant to the Payment Agreement, ZAP agreed to grant Jonway Group 70,000,000 shares of ZAP's Common Stock valued at $15.4 million. All intellectual property rights related to the work performed by Jonway Group for the mini-van and Alias shall be owned jointly by ZAP and Jonway. As of December 31, 2011, $3.78 million of the payment of $15.4 million were recognized as R&D expense in ZAP, the remaining of $11.6 million was accounted for as advance payment to Jonway Group.

Promissory notes and Down Payment Convertible Note from Jonway Group

On December 11, 2011 Jonway entered into a Promissory Note with Jonway Group pursuant to which Jonway borrowed $3,000,000 to be repaid on demand. The unpaid principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. All unpaid principal, together with any then unpaid and accrued interest, are due and payable within ten (10) calendar days following demand by Jonway Group. Payment shall be made in the form of cash. As of December 31, 2011, $1.6million has been advanced to Jonway Auto under the Promissory Note arrangement.

On December 11, 2011, ZAP entered into a Down Payment Convertible Note with Jonway Group pursuant to which ZAP borrowed $3,000,000 for the production of seventy-five Alias electric vehicles to be delivered and sold in 2012. The unpaid principal amount of the note bears interest at a rate per annum equal to 8%, calculated on the basis of a 365 day year and the actual number of days lapsed. Upon the completion of selling seventy-five Alias vehicles, ZAP will repay the unpaid principal, together with any then unpaid and accrued interest, on or before December 31, 2012. Repayment shall be made at the option of Jonway Group in the form of either cash or ZAP's Common Stock priced as of the date the principal was deposited into Jonway's bank account on behalf of ZAP. As of December 31, 2011, no advance has been made to ZAP from Jonway Group.

Transactions with Jonway Group

Jonway Group is considered as a related party as the Wang Family, one of the shareholders of the Company, has controlling interests in Jonway Group. Jonway Group supplies some of plastics spare parts to Jonway and gave guarantees on Jonway short term bank facilities from China-based banks. For the year ended December 31, 2011 Jonway made purchases from Jonway Group for a total of $1.36 million.

Investment in non-consolidated joint venture, Shanghai Zapple Electric Vehicle Technologies Co., Ltd.

In November 2011, Jonway and ZAP Hangzhou jointly set up Shanghai Zapple Electric Vehicle Technologies Co., Ltd. (Shanghai Zapple) with the registered capital of RMB 20 million. As of December 31, 2011, Jonway injected RMB 5 million into this joint venture and ZAP Hangzhou injected RMB 3 million. Shanghai Zapple's approved scope of business includes: technical advice, technical development, technical services, technology transfer regarding electric vehicle technology, auto technology, energy technology, material science and technology, sale of commercial vehicle and vehicle for nine seats or more, auto parts, auto supplies, lubricant, mechanical equipment and accessories, business management consulting, industrial investment, exhibition services, business marketing planning, car rental (shall not be engaged in financial leasing), import and export of goods and technologies.

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

On January 14, 2011, we entered into private placement subscription agreements with Luo Hua Liang, the brother-in-law of Alex Wang, the Co-CEO and director of ZAP for the purchase of ZAP's common stock for the aggregate purchase price of $7 million, of which we received $2 million. The private placement subscription agreement was superseded and terminated by a stock purchase agreement with Mr. Luo in August 2011. Pursuant to the stock purchase agreement, Mr. Luo will purchase ZAP's common stock for an aggregate purchase price of $2.6 million in multiple closings. On September 8, 2011, we issued approximately 2.3 million shares of ZAP common stock in connection with the initial closing of $771,000. We received an additional $1.025 million in subsequent closings for which we have issued approximately 3.35 million shares of ZAP common stock.

During 2011, the Company issued 7.7 million shares of common stock for cash of $3.8 million through private placement subscription agreements with Luo Hua Liang.

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 $54,000 and $116,000 for the years ended December 31, 2011 and 2010. The company discontinued paying rent in August, 2011.

Management Agreement with Cathaya Capital, L.P.

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 one warrant 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 for the year ended December 31, 2010. 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 but fees paid in subsequent periods are subject to renegotiation based on the fair market values of services rendered, and the management fee was payable in cash or in common stock of ZAP at $0.50 per share. Five million shares were issued to Cathaya Capital L.P. in payment of this fee for the year ended December 31, 2010. As of December 31, 2011, ZAP has accrued $350,000 for management fees due to Cathaya Capital L.P. The fee for 2011 was an agreed upon amount between Cathaya and the Company. The management agreement was terminated effective December 31, 2011.

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. 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 each 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 year ended December 31, 2011 and 2010, the joint venture incurred an operating losses of $724,160 and $848,000, of which $271,560 and $318,000 are 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 Jonway assembles in the Sanmen Branch 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. In December 2012, Zhejiang UFO, Jonway Group and Jonway amended the above contract, and agreed that the accumulated payable to Zhejiang UFO for the above variable contractual fees as of December 31, 2011 will not be repaid. From 2012 onwards, Jonway still has obligation for payment for such fees based on 2012 and thereafter the number of SUVs with the deferred payment without interest indefinitely. The balance due to Zhejiang UFO at December 31, 2011 is nil.

NOTE 18 – LITIGATION

In the normal course of business, ZAP Jonway may become involved in various legal proceedings. 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.

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Employment agreement

As of Jan 16, 2011, The Company entered into indefinite employment agreements with Benjamin Zhu. The agreements provide for an annual salary of $140,000 for each year for the term of the agreement with Mr. Zhu.

Guarantees

Jonway Auto guaranteed certain financial obligations of outside third parties including suppliers to support our business and economic growth. Guarantees will terminate on payment and/or cancellation of the obligation once it is repaid. A payment by us would be triggered by failure of the guaranteed party to fulfill its obligation covered by the guarantee. Maximum potential payments under guarantees total $952,000 for 2011. Our performance risk under these guarantees is reviewed regularly, and has resulted in no changes to our initial valuations.

NOTE 20 – SUBSEQUENT EVENTS

On January 12, 2011, ZAP entered into a Senior Secured Convertible Promissory Note with China Electric Vehicle Corporation pursuant to which ZAP borrowed $19,000,000. On December 19, 2011, ZAP entered into an amendment to the note which extended the maturity date of the note from February 12, 2012 to August 12, 2012. On March 22, 2012, ZAP entered into an amendment to the note which extended the maturity date of the note from August 12, 2012 to August 12, 2013. This amendment adjusted the rate at which the note would convert into shares of ZAP Common Stock or shares of capital stock of Zheijiang Jonway Automobile, Co. Ltd. held by ZAP. In addition, the warrant issued in connection with the CEVC note was amended to change the terms of conversion and to extend the maturity date until February 12, 2014. The interest accrued through the maturity date of February 12, 2012 in the amount of $1.5 million has been added to the existing principal. The total amount of the convertible note is approximately $20.5 million with a new maturity date of August 12, 2013.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Management's Report on Internal Control over Financial Reporting

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized and reported within the specified time periods. Our Chief Executive Officer and our Principal Financial Officer (collectively, the "Certifying Officers") are responsible for maintaining our disclosure controls and procedures. Prior to the filing of this report, our Certifying Officers evaluated the effectiveness of our disclosure controls and procedures for the period covered by this report. Based on the evaluation, our Certifying Officers concluded that our disclosure controls and procedures were ineffective to provide reasonable assurance that (a) information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and (b) that it is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

We have conducted a review of the effectiveness of our internal control over financial reporting as disclosed herein. Our management is also responsible for establishing and maintaining a system of adequate internal control over financial reporting. Internal control over financial reporting is defined as a process designed by, or under the supervision of, our principal executive officer and principal financial officer, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles, and receipts and expenditures are being made only in accordance with authorizations of management and our directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2011, we determined that there was a control deficiency that constituted a material weakness.

Management, in assessing its review and approval procedures, identified a lack of sufficient control in the area of technical competency in review and approval of financial reporting processes. This control weakness allowed for reconciliations, reports and other documents to be insufficiently reviewed prior to being approved by management and audit adjustments to be identified by our auditors as part of their year-end audit work. This material weakness resulted in errors in the recording of non-routine and complex accounting transactions in the preparation of our annual consolidated financial statements and disclosures. The fiscal year ended for ZAP was very unusual for transactions where a major complex business combination occurred. We utilized outside expertise of independent consultants to assist us in the valuation of these transactions, however, the initial information provided to them had to be adjusted various times which resulted in errors in the preliminary recording of these transactions.

Managements Remediation Initiatives

In response to the above identified material weakness and to continue strengthening the Company’s internal control over financial reporting, we are considering utilizing outside accounting experts to assist us in accounting for future complex transactions.

Management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the consolidated financial statements for the year ended December 31, 2011 fairly present in all material respects the financial condition and results of operations for Zap in conformity with GAAP.

Under the supervision and with the participation of our Certifying Officers, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of our evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2011 and the date of the filing of the annual report. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm, pursuant to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permit us to provide only management’s report in this Annual Report on Form 10-K.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of Zap, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Changes in internal control over financial reporting

No significant changes were made in our internal control over financial reporting during the Company’s fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The Company’s directors and executive officers and their ages as of March 30, 2012 are as follows:

Name	Age	Position
Steven M. Schneider	51	Director, Co-Chief Executive Officer, Secretary
Alex Wang	29	Director, Co-Chief Executive Officer
Benjamin Zhu	41	Chief Financial Officer
Priscilla Marilyn Lu, Ph.D.	59	Director, Chairman of the Board of Directors
Mark Abdou	38	Director
Goman Chong	37	Director
Georges Penalver	54	Director
Patrick Sevian	54	Director

Business Experience of Directors

Mr. Schneider, 51, has served as Secretary of ZAP since April 2011 and a director and Chief Executive Officer of ZAP since October 2002, when ZAP acquired RAP Group and Voltage Vehicles, businesses he founded which specialized in the distribution of electric and alternative fuel vehicles including automobiles, motorcycles and bicycles. Mr. Schneider currently serves as the Vice Chairman of Samyang Optics Co., Ltd., a Korean optical lens manufacturing and distribution company turning to the electronic vehicle market in Korea and an investor in ZAP. Mr. Schneider was also recently appointed the President of Voltage Vehicles, one of ZAP’s subsidiaries. Recently, Mr. Schneider was named a member of the Bay Area Council; (business leaders committed to promoting the health and well-being of the Bay Area with a focus on building the economic region’s relationship with China) and was appointed a Senior Advisor for Economic Development to Hangzhou, one of China's "Innovation Zones". Mr. Schneider possesses particular knowledge and experience in automobile industry that strengthens the Board of Directors’ collective qualifications, skills, and experience.

Mr. Wang, 29, has served as Co-Chief Executive Officer and director of ZAP since October 2010. Mr. Wang has also been the Chief Executive Officer of ZAP’s now 51% owned subsidiary Zhejiang Jonway Automobile Co. Ltd., or Jonway, since March 2009. He has been the Chief Operating Officer of Jonway Group Co., Ltd. from June 2006 to March 2009. Mr. Wang graduated from the University of Sunderland in the United Kingdom with an undergraduate degree in business administration.

Mr. Zhu, 41, has been ZAP’s Chief Financial Officer since March 2011. Prior to that, he was the deputy head of finance at BAIC Foton Auto Group, a large commercial vehicle manufacturer, since August 2009. From July 2008 to July 2009, Mr. Zhu served as the CFO of Ready Medicine Group, a drug wholesale and retail business, where he oversaw mergers and acquisitions in China in addition to financial responsibilities. From March 2007 to June 2008, Mr. Zhu was the finance director of Chery Global, one of China’s largest automobile manufacturers. From August 2005 to February 2007, Mr. Zhu was an audit director at Homeworld Hypermarket Group, a large retailer in China, where he helped prepare for its initial public offering. Mr. Zhu also has 9 years of combined experience at the international accounting firms of Deloitte & Touche LLP and PricewaterhouseCoopers LLP. Mr. Zhu obtained a degree in Industry Economics from the Southwest University of Finance and Economics in China in 1993.

Dr. Lu, 59, has served as a director of ZAP since August 2009. Dr. Lu has served as founder and general partner of Cathaya Capital, L.P., a private equity venture fund focused on technology-based mature businesses, leveraging cross border alliances in China, with an emphasis in the clean technology and health care industries. From 2003 to 2009, Dr.

Lu was a China advisor to Mayfield Fund, a venture capital firm with over $2.8 billion under management. While at Mayfield Fund, Dr. Lu helped found the GSR Fund, a venture capital fund in China overseeing more than $700 million in investments. In 2006, Dr. Lu founded ViDeOnline Inc., a company which delivered digital media over secured broadband and mobile networks to service providers to China broadband operators, and Dr. Lu served as its Chief Executive Officer from 2005 to 2007. In 1994, Dr. Lu founded InterWAVE Communications, Inc., a provider of mobile GSM and CDMA networks. Dr. Lu served as its Chief Executive Officer and its Chairman until 2003. Dr. Lu oversaw the initial public offering of interWAVE's Common Stock on the NASDAQ stock exchange. Before this, Dr. Lu was at AT&T Bell Laboratories for 16 years, where she led efforts in digital switching and networking and developed the early technologies in CMOS VLSI in microprocessors. Dr. Lu has a B.S. and M.S. in Computer Science and Mathematics from University of Wisconsin, Madison and holds a Ph.D. in Electrical Engineering and Computer Science from Northwestern University, funded as a Bell Labs Scholar. Dr. Lu possesses particular knowledge and experience in technology and international business that strengthen the Board of Directors' collective qualifications, skills, and experience.

Mr. Abdou, 38, has served as a director of ZAP since June 2009. Mr. Abdou founded and has been the Managing Partner of Libertas Law Group, a law firm, since April 2009. From August 2008 to March 2009, Mr. Abdou served as General Counsel and Senior Vice President of GTX Corp, which developed miniaturized GPS tracking and cellular location-transmitting technology platforms for integration into a wide variety of consumer products. From December 2003 to August 2008, Mr. Abdou was a partner at Richardson & Patel, LLP, a law firm. Mr. Abdou received his Bachelor of Arts degree in Biological Sciences from the University of Southern California in 1996, and his Juris Doctorate from the UC Berkeley School of Law (Boalt Hall) in 1999. Thereafter, he was licensed to practice law by the California State Bar in 1999. In March of 2011, Mr. Abdou was engaged by the Company to handle the corporate legal work including SEC compliance.

Mr. Penalver, 54, serves as a general partner of Cathaya Capital, L.P. Formerly, he joined Orange / France Telecom Group, a publicly traded French telecommunications company, in September 2005, serving as Group Senior Executive Vice President for Strategic Marketing, where he was in charge of the creation and the development of all products and services for the entire Orange / France Telecom Group. From 2009 to April 2011, he was in charge of Group Strategy and Development and Strategic Initiatives and Partnerships for the Group. Before joining Orange / France Telecom Group, Mr. Penalver was Deputy CEO of SAGEM Communications (SAFRAN group), a communication electronics company. From 2002 to 2005, he developed SAGEM's Broadband Communications Business, overseeing the launch of new fixed and mobile product offers, industrial deployment in Tunisia, Asia and Eastern Europe, and the development of sales networks in Europe, China, Southeast Asia, Australia, the Middle East, Africa and the Americas. Mr. Penalver is a graduate of the Ecole nationale supérieure d' arts et métiers (gold medal, 1974) and the Ecole nationale supérieure des télécommunications in Paris (1980). He is also a Knight of the French Ordre National du Mérite.

Mr. Chong, 37, serves as a general partner of Cathaya Capital, L.P. He has also been the President of Daifu Waste Management Holdings Limited since September 2007, a medical waste management company invested in by Goldman Sachs. Mr. Chong served as the Chief Executive Officer of Daifu Group, a medical information portal, from June 2007 to January 2009. From April 2004 to January 2006, he served as a Business Development Manager in Beijing for News Corporation, a global media company. Mr. Chong received his MBA degree from the Tsinghua–M.I.T. Sloan joint program at Tsinghua School of Economics and Management in 2004, and his Bachelor of Arts degree in Economics, Statistics and Actuarial Science from the University of Toronto in 1997.

Mr. Sevian, 54, has served as the Chief Executive Officer and Chairman of the Board of Directors of Sagemcom Group (formerly SAGEM Communications), a French communication electronics company, since 2007 and has been its President since 2008. Before that, he served in various positions with SAGEM Communications since 1982, including Deputy CEO in charge of the Broadband Communications Business Group from 2005 to 2007. Mr. Sevian is a graduate of the Ecole nationale supérieure d' arts et métiers (silver medal, 1981).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires ZAP's officers and directors and persons who own more than 10% of ZAP's Common Stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. These persons are required to provide ZAP with copies of all Section 16(a) forms that they file. Based solely upon a review of Forms 3,4 and 5 and amendments thereto furnished to Zap during its most recent fiscal year and written representations from reporting persons that filing a Form 5 is not require,,., ZAP believes that all Section 16(a) filing requirements were met during fiscal 2011.

Corporate Governance

ZAP is committed to excellence in corporate governance and maintains clear policies and practices that promote good corporate governance. To this end, we have adopted a clear Corporate Governance Policy, as well as charters for our

Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee that clearly establish the committees' respective roles and responsibilities. ZAP has also adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees.

A copy of our Code of Business Conduct and Ethics is posted on our Internet website at www.zapworld.com/corporate-governance. Information on or accessible through, this website is not a part of, and is not incorporated into, this annual report. If we make any amendment or modification to any provision of the Code of Business Conduct and Ethics that applies to our officers or directors, we intend to disclose such amendment or waiver and the reasons therefore on our Internet website at www.zapworld.com within two days of the action by the Board of Directors approving such amendment or modification or pursuant to applicable SEC rules.

ZAP's primary corporate governance documents, including our Corporate Governance Policy, Code of Ethics and Committee Charters, are available to the public on our website at http://www.zapworld.com/corporate-governance.

ZAP's Audit Committee is currently composed of Mr. Abdou and Mr. Chong and Ms Lu. At present, none of the audit committee members are deemed independent.

There have been no changes to the procedures by which stockholders may recommend nominees to our board of directors.

Item 11. Executive Compensation

Director Compensation

This section provides information regarding the compensation policies for directors and amounts paid and securities awarded to directors in fiscal 2011.

Directors who are employees of ZAP do not receive compensation from us for the services they provide as directors. ZAP entered into an agreement with each of the independent directors, Mark Abdou, and Patrick Sevian pursuant to which they were entitled to receive $30,000 per annum as compensation for services and $4,000 per annum for each committee served. In addition in 2011 the outside independent directors also were entitled to receive $58,140 in shares of Common Stock, an option to purchase up to $139,535 in shares of Common Stock and an option to purchase up to $41,860 in shares of Common Stock for each committee of the Board of Directors on which the outside directors serve.

Directors are reimbursed for out-of-pocket travel and other expenses incurred in attending Board of Directors and/or committee meetings.

The Compensation Committee is responsible for establishing components of compensation for directors and recommending changes to the Board of Directors.

The following table provides information as to compensation for services of the directors during fiscal 2011.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	Option Awards ($) (2)	All Other Compensation ($)	Total ($)
Steven Schneider	—	—	—	—	—
Alex Wang	—	—	—	—	—

Priscilla Lu	—	—	—	—	—
Mark Abdou	38,000	58,140	78,654	—	174,794
Patrick Sevian	—	51,140	64,493	—	122,633
Peter Scholl	8,405	—	—	—	8,405

(1) The amounts in the Stock Awards column represent the aggregate grant date fair values, computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, of restricted stock unit awards issued pursuant to the 2008 Equity Compensation Plan. The grant date fair value of these awards is calculated using the closing price of ZAP's Common Stock on the grant date as if these awards were vested and issued on the grant date. There can be no assurance that these grant date fair values will ever be realized by the non-employee directors. For information regarding the number of unvested restricted stock units held by each non-employee director as of December 31, 2010, see the column "Unvested Restricted Stock Units Outstanding" in the table below.
(2) Options to purchase Shares of ZAP Common Stock were awarded to independent directors in fiscal 2011.
(3) Resigned as a director in June, 2011.

Summary of Compensation
The following table sets forth the compensation earned by the named executive officers for services rendered in all capacities to ZAP and its subsidiaries for each of the last two or fewer fiscal years during which such individuals served as executive officers. ZAP's named executive officers for fiscal 2011 include ZAP's Co-Chief Executive Officers and the two most highly compensated executive officers other than the Co-Chief Executive Officers in fiscal 2011, or the Named Executive Officers.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock awards ($)(1)	Option awards ($)(2)	Nonequity incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Steven Schneider, Co-Chief Executive Officer and Secretary	2011	236,530	—	—	—	—	—	—	236,530
	2010	240,000	—	—	—	—	—	—	240,000
Alex Wang, Co-Chief Executive Officer (3)	2011	123,804	—	—	1,031,700	—	—	—	1,155,504
	2010	121,448	—	—	—	—	—	—	121,488
Benjamin Zhu Chief Financial Officer (8)	2011	116,666	—	—	427,500	—	—	—	544,166
H. David Jones, Chief Operations Officer (5)	2011	57,685	—	—	—	—	—	6,250	63,935
	2010	66,656	—	40,000	120,000	—	—	—	226,656
Gary Dodd, President (7)	2011	67,472	—	25,000	—	—	—	—	94,472
	2010	100,000	—	25,000	—	—	—	—	125,000

(1) The amounts in the Stock Awards column represent the aggregate grant date fair values, computed in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, of restricted stock unit awards issued pursuant to the 2008 Equity Compensation Plan. The grant date fair value of these

awards is calculated using the closing price of ZAP's Common Stock on the grant date as if these awards were vested and issued on the grant date. There can be no assurance that these grant date fair values will ever be realized by the Named Executive Officers.

(2) The fair value of each option and warrant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2011	2010
Dividends	None	None
Expected volatility	104.6 to 105.4	107.5% to 122.6%
Risk free interest rate	1.14% to 2.01%	1.20% to 2.98%
Expected life	5.0 to 6.06 years	5.0 – 5.75 years

(3) Mr. Wang was appointed as ZAP's Co-Chief Executive Officer on October 25, 2010.
(4) Mr. Jones was appointed as ZAP's Chief Operations Officer on April 19, 2010. He was terminated on June 30, 2011.
(5) ZAP paid $6,250 in 2011 and $10,000 in 2010 for the rental of an apartment for Mr. Jones in Santa Rosa, California.
(6) Mr. Dodd resigned as ZAP's President on September 1, 2011.
(7) Mr. Zhu was appointed Chief Financial Officer on March 1, 2011.

ZAP has only one employment agreement at December 31, 2011 with Mr. Zhu as of March 1, 2011. This agreement provides for a base salary of $140,000, an option grant of 500,000 vesting ¼ upon the first anniversary and in equal portions monthly for the remaining 3 years and certain housing, travel and expense allowances or reimbursements. If Mr. Zhu is terminated after three months of employment with ZAP, unless terminated for cause, by death or disability, Mr. Zhu will be paid an amount equal to his salary for the remainder of the 21-month period following his initial 3 months of employment.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable)	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares of Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock that Have Not Vested ($)
Steven Schneider, Co-Chief Executive Officer and Secretary	220,000	0	$0.23	7/5/2012	—	—
	550,000	0	$1.15	6/23/2014		
	566,117	0	$1.20	11/16/2014		
	348,588	0	$0.85	6/7/2015		
	572,686	0	$0.94	11/9/2017		
	390,966	0	$0.83	8/11/2016		
	1,000,000	0	$0.39	8/9/2014		
	7,870,943	1,462,998	$0.39	8/9/2014		
Alex Wang, Co-Chief Executive Officer	3,000,000	—	$0.43	9/6/2016	3,000,000	1,031,700
Benjamin Zhu, Chief Financial Officer	125,000	375,000	$1.10	3/1/2016	500,000	427,500
	—	800,000	$0.43	9/6/2016	800,000	800,000

Outstanding Equity Awards at 2011 Fiscal Year-End

Potential Payments upon Termination or Change in Control

Acceleration of Equity Awards

Each outstanding award to all employees under the 2008 Equity Compensation Plan, the 2006 Incentive Stock Plan, and the 2002 Incentive Stock Plan that is subject to vesting provisions may vest in full and become immediately exercisable upon a change in control or in the event of the named executive officer’s death, terminal illness or long-continued and indefinite illness. The 2007 Consultant Stock Plan and 2004 Consultant Stock Plan do not contain such a provision.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information known to ZAP with respect to beneficial ownership of ZAP Common Stock as of April 16, 2012 for (i) each director, (ii) each holder of 5.0% or greater of ZAP Common Stock, (iii) ZAP’s Co-Chief Executive Officers and the two most highly compensated executive officers other than the Co-Chief Executive Officers and the Chief Financial Officer named in the table entitled “Summary Compensation Table” below (the “named executive officers”), and (iv) all executive officers and directors as a group. Unless otherwise listed below, the address for each investor is ZAP’s address: 501 Fourth Street, Santa Rosa, CA 95401.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, to ZAP’s knowledge the persons named in the table below have sole voting and investment power with respect to all shares of Common Stock beneficially owned. In addition, unless otherwise indicated, all persons named below can be reached at ZAP, 501 Fourth Street, Santa Rosa, CA 95401. The number of shares beneficially owned by each person or group as of April 16, 2012 includes shares of Common Stock that such person or group had the right to acquire on or within 60 days after April 16, 2012, including, but not limited to, upon the exercise of options or the vesting of restricted stock units. References to options in the footnotes of the table below include only options to purchase shares outstanding as of April 16, 2012 that were exercisable on or within 60 days after April 16, 2012, and references to restricted stock units in the footnotes of the table below include only restricted stock units outstanding as of April 16, 2012 that would vest and could settle on or within 60 days after April 16, 2012. For each individual and group included in the table below, percentage ownership is calculated by dividing the number of shares beneficially owned by such person or group by the sum of the 298,712,792 shares of Common Stock outstanding on April 16, 2012 plus the number of shares of Common Stock that such person or group had the right to acquire on or within 60 days after April 16, 2012.

Name	Number of Shares Beneficially Owned	Percent Owned
Goldenstone Worldwide Limited	30,000,000	10.1%
The Banks Group (1)	12,848,297	4.4%
Alex Wang	85,690,981	28.7%
Steven Schneider (2)	26,917,199	8.4%
Benjamin Zhu	125,000	*
Cathaya Capital L.P. (3)	195,529,342	46.6%
Priscilla Lu (4)	195,529,342	46.6%

Mark Abdou (5)	352,568	*
Goman Chong	—	*
Georges Penalver	—	*
Patrick Sevian	—	*
All Directors and Executive Officers as a group 8 persons) (6)	308,615,090	83.7%

* Less than one percent.

(1) Includes warrants to purchase 8,000,000 shares of Common Stock issued to Jeffrey Banks, and Banks Development, an affiliate of the Banks Group.

(2) Includes 12,231,952 shares of Common Stock issuable upon the exercise of various warrants and 11,519,300 shares of Common Stock issuable upon the exercise of stock options that are currently exercisable or will be exercisable within 60 days of April 16, 2012.

(3) Includes (a) 84,265,000 shares of Common Stock issuable upon conversion of a promissory note and 20,000,000 shares of Common Stock issuable upon exercise of a warrant held by China Electric Vehicle Corporation, (b) 10,000,000 shares of Common Stock issuable upon the exercise of a warrant and 69,000,000 shares of Common Stock held by Cathaya Capital, L.P., (c) 6,000,000 shares of Common Stock held by Better World International Limited, (d) options to purchase 6,264,342 shares of Common Stock that are currently exercisable or will be exercisable within 60 days of April 16, 2012 held by Dr. Priscilla Marilyn Lu.

(4) Dr. Lu is the Chairman of the Board of Directors of ZAP and is also founder and general partner of Cathaya Capital Co., Ltd.., the general partner of Cathaya Capital GP, L.P., which is the general partner of Cathaya Capital L.P.; a Cayman Islands exempted limited partnership (“Cathaya”). Cathaya is the sole shareholder of China Electric Vehicle Corporation, a British Virgin Islands Company (“CEVC”). Dr. Lu is also a director of Better World International Limited, a British Virgin Islands company (“Better World”) and Cathaya is the majority shareholder of Better World. Accordingly, Ms. Lu’s beneficial ownership may be deemed to include (a) a promissory note convertible into 84,265,000 shares of Common Stock and a warrant to purchase 20,000,000 shares of Common Stock held by China Electric Vehicle Corporation, (b) 10,000,000 shares of Common Stock issuable upon the exercise of a warrant and 69,000,000 shares of Common Stock held by Cathaya Capital, L.P., (c) 6,000,000 shares of Common Stock held by Better World International Limited, (d) options to purchase 6,264,342 shares of Common Stock that are currently exercisable or will be exercisable within 60 days of April 16, 2012 held by Dr. Priscilla Marilyn Lu. Dr. Lu disclaims ownership of the shares beneficially owned by China Electric Vehicle Corporation, Cathaya Capital, L.P. and Better World International Limited, except to the extent of her pecuniary interest therein.

(5) Includes 58,000 shares of Common Stock issuable upon the exercise of stock options that are currently exercisable or will be exercisable within 60 days of April 16, 2012.

(6) Includes shares, options and warrants described in the notes above, as applicable.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Certain Relationships and Related Transactions

Other than as described below, since the beginning of Zap's last fiscal year, there are no transactions or currently proposed transactions in which any related person had or will have a direct or indirect material in which Zap was or is to be a participant and the amount involved exceeds the lesser of $120,000 or one percent of Zap's total assets at year end for the last two completed fiscal years.

Financing Provided to ZAP by Cathaya Capital, L.P., Better World International Limited and China Electric Vehicle Corporation, Who Are Affiliated with Dr. Lu, Chairman of the Board of ZAP

Dr. Priscilla Lu was appointed to the Board of Directors of ZAP on August 6, 2009. Ms. Lu is also a founder and general partner of Cathaya Capital Co., Ltd., the general partner of Cathaya Capital GP, L.P., which is the general partner of Cathaya Capital L.P. a Cayman Islands exempted limited partnership ("Cathaya"). Cathaya is the sole shareholder of China Electric Vehicle Corporation, a British Virgin Islands Company ("CEVC"). Dr. Lu is also a director of Better World International Limited, a British Virgin Islands company ("Better World") and Cathaya is the majority shareholder of Better World.

On January 12, 2011, ZAP entered into a Senior Secured Convertible Note and Warrant Purchase Agreement (the "CEVC Agreement") with CEVC. Pursuant to the CEVC Agreement, (i) CEVC purchased from ZAP a Senior Secured Convertible Note (the "CEVC Note") in the principal amount of US$19 million, (ii) ZAP issued to CEVC a warrant (the "CEVC Warrant") exercisable for two years for the purchase of up to 20 million shares of ZAP's Common Stock at $0.50 per share, subject to adjustments as set forth therein, (iii) ZAP, 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) ZAP, 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) ZAP and CEVC entered into a Security Agreement that secures the Note with all of ZAP's assets other than those assets specifically excluded from the lien created by the Security Agreement.

The CEVC Note matures 13 months from issuance, accrues interest at a rate per annum of 8%, and is convertible upon the option of CEVC at any time, subject to any adjustments called for by the terms of the Note, into (a) shares of Common Stock of ZAP at a conversion rate of 4,435 shares of capital stock for each $1,000 principal amount of the Note being converted, or (b) the capital stock of Zhejiang Jonway Automobile Co, Ltd. at a conversion rate of 0.003743% of such shares owned by ZAP for each $1,000 principal amount of the Note being converted. Upon such a conversion, any accrued interest on the Note is waived.

ZAP used the proceeds of the CEVC Note to complete the acquisition of 51% of the capital stock of Zhejiang Jonway Automobile Co. Ltd.

Rental Agreements Related to Steven Schneider, ZAP's Co-Chief Executive Officer and Director

ZAP rents office space, land and warehouse space from Mr. Steven Schneider, its Co-Chief Executive Officer, Secretary and director. These properties are used to operate the car outlet and to store inventory. Rental expense was approximately $53,900 and $116,000 for the years ended December 31, 2011and 2010, respectively. The company discontinued paying rent to Mr. Schneider in August, 2011.

Joint Venture ZAP Hangzhou

On December 11, 2009, ZAP entered into a Joint Venture Agreement to establish a new U.S.-China company incorporated as ZAP Hangzhou to design and manufacture electric vehicle and infrastructure technology with Better World International Limited, a company focused on infrastructure technology and services for electric vehicles. Priscilla Lu, PhD, the Chairman of the Board of Directors of ZAP, is also a director and shareholder of Better World International Limited. ZAP and Better World International Limited each have a 37.5% interest in ZAP Hangzhou, and Holley Group owns a 25% interest. 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.

Independent Directors

ZAP is not required by the OTC Bulletin Board on which it is traded to determine or comply with independent director requirements. The following information concerning director independence is based on the director independence standards of The NASDAQ Stock Market Corporate Governance Rules. According to Listing Rule 5615(c) and IM-5615-5, because more than 50% of our voting power is beneficially held by Cathaya Capital, L.P. and its affiliates, we would be considered a "Controlled Company" under such rules a Controlled Company is exempt from the majority independent board requirement, as set forth in Listing Rule 5615(b), except for the requirements of subsection (b)(2), which pertain to executive sessions of independent directors, and from the requirement for independent director oversight of executive officer compensation and director nominations, as set forth in Listing Rules 5605(d) and 5605(e).

In determining independence, the Board of Directors reviews and seeks to determine whether directors have any material relationship with ZAP, direct or indirect, which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board of Directors reviews business, professional, charitable and familial relationships of the directors in determining independence. A member of the Board of Directors is not considered independent under the objective standards if, for example, he or she is, or at any time during the past three years was, employed by ZAP, or he or she is an executive officer of an entity that has an executive officer of ZAP serving on the compensation committee of its board of directors. Mr. Schneider is not deemed independent because he is an officer of ZAP. Mr. Wang is not deemed independent because he is an executive officer of ZAP and ZAP's 51% owned subsidiary, Jonway. Mr. Abdou is also not independent since his law firm has been engaged to handle the corporate legal activities for the Company. Ms. Lu, Mr. Chong and Mr. Penalver are not deemed independent because they are general partners of Cathaya Capital, L.P., which along with its affiliates, beneficially owns more than 50% of ZAP.

ZAP's Audit Committee is currently composed of Mr. Abdou and Mr. Chong and Ms. Lu. None of whom are deemed independent. The Audit Committee should be a three director committee and as such, ZAP does not comply with the NASDAQ criteria.

Item 14. Principal Accountant Fees and Services.

Principal Accountant Fees and Services

The following is a summary of the fees billed to ZAP by Friedman LLP for professional services rendered for the fiscal years ended December 31, 2011 and December 31, 2010:

Fee Category	Fiscal 2011 Fees	Fiscal 2010 Fees
Audit Fees	$225,000	$185,000
Audit-Related Fees	—	—
Tax Fees	—	—
All Other Fees	—	—
Total Fees	$225,000	$152,500

Audit Fees. Consists of fees accrued for professional services rendered for the audit of ZAP's consolidated financial statements for review of the interim consolidated financial statements included in quarterly reports and for services that are normally provided by Friedman LLP in connection with statutory and regulatory filings or engagements.

Audit-Related Fees. Consists of fees accrued for assurance and related services that are reasonably related to the performance of the audit or review of ZAP's consolidated financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits, accounting consultations in connection with transactions, merger and acquisition due diligence, attest services that are not required by statute or regulation, and consultations concerning financial accounting and reporting standards.

Tax Fees. Consists of fees accrued for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, assistance with tax reporting requirements and audit compliance, assistance with customs and duties compliance, value-added tax compliance, mergers and acquisitions tax compliance, and tax advice on international, federal and state tax matters. None of these services were provided under contingent fee arrangements.

All Other Fees. For Consists of fees accrued for products and services other than the services reported above. These services included translation of filings and other miscellaneous services. No management consulting services were provided.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to report periodically to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

[There were no hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.]

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) 1. Financial Statements

See Index to Financial Statements in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

2. Financial Statement Schedules

All other financial statement schedules have been omitted because they are either not applicable or the required information is shown in the financial statements or notes thereto.

3. Exhibits

See the Exhibit Index which follows the signature page of this Annual Report on Form 10-K, which is incorporated herein by reference.

(b) Exhibits

(c) Financial Statement Schedules

See Item 15(a) (2) above.

EXHIBIT INDEX

23.1	Consent of Friedman LLP — Form S-8
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14/15d-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	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 Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZAP

By: /s/ Steven M. Schneider
Steven M. Schneider
Co-Chief Executive Officer
(Co-Principal Executive Officer)

Date: April 16, 2012

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

Date: April 16, 2012

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Steven M. Schneider, Alex Wang and Benjamin Zhu as his or her attorney-in-fact for him or her, in any and all capacities, to sign this annual report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Position	Date
By: /S/ STEVEN M. SCHNEIDER Steven M. Schneider	Director and Co-Chief Executive Officer (co-principal executive officer)	April 16, 2012
By: /S/ ALEX WANG Alex Wang	Director and Co-Chief Executive Officer (co-principal executive officer)	April 16, 2012
By: /S/ BENJAMIN ZHU Benjamin Zhu	Chief Financial Officer (principal financial and accounting officer)	April 16, 2012
By: /S/ PRISCILLA LU	Director and Chairperson	April 16, 2012

Priscilla Lu		
By: /S/ MARK ABDOU	Director	April 16, 2012
Mark Abdou		
By: /S/ GORMAN CHUNG	Director	April 16, 2012
Gorman Chung		
By: /S/ GEORGES PENALVER	Director	April 16, 2012
Georges Penalver		
By: /S/ PATRICK SEVIAN	Director	April 16, 2012
Patrick Sevian		