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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to __________

Commission File No. 001-33935

FAB UNIVERSAL CORP.
(Exact name of registrant as specified in its charter)

COLORADO	87-0609860
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5001 Baum Boulevard, Suite 770
Pittsburgh, Pennsylvania 15213
(Address of Principal Executive Offices)

Registrant's Telephone Number: (412) 621-0902

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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. (1) Yes [X] No[ ]

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 [ ]

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 definition of ‘‘large accelerated filer”, “accelerated filer’’ and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

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

As of August 4, 2014, there were 20,805,860 shares of common stock, par value $0.001, of the registrant issued and outstanding.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Unaudited Condensed Consolidated Financial Statements of FAB Universal Corp., a Colorado corporation (the "Company," "we," "our," "us" and words of similar import), required to be filed with this 10-Q Quarterly Report were prepared by management and commence on the following page, together with related notes. In the opinion of management, the Unaudited Condensed Consolidated Financial Statements fairly present the financial condition of the Company.

FAB UNIVERSAL CORP AND SUBSIDIARIES
FINANCIAL STATEMENTS

CONTENTS

FAB UNIVERSAL CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2014		December 31, 2013	
ASSETS				
CURRENT ASSETS:				
Cash	$ 98,224,505		$ 99,546,530	
Restricted Cash	-		1,651,800	
Accounts receivable, net	1,543,384	[1]	7,554,919	[1]
Advances to suppliers, net	81,500		81,500	
Inventory	76,808		686,067	
Deferred tax assets, current	2,243,210		2,830,200	
Other current assets	2,370,768		591,194	
Total current assets	104,540,175		112,942,210	
Property, and equipment, net	15,575,730		16,574,131	
Goodwill	60,866,930		62,092,932	
Intangible assets, net	20,962,468		23,903,476	
Deferred tax assets, non-current	4,151,625		5,227,865	
Long-term prepaid expense	309,000		-	
Long-term deposits	19,606,179		20,092,845	
Total assets	$ 226,012,107		$ 240,833,459	
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term loans	$ 4,512,999		$ 6,276,842	
Accounts payable	2,821,245		3,309,610	
Accrued expenses	3,283,794		4,209,753	
Deferred revenue, current	14,438,504		15,457,102	
Taxes payable	402,108		2,608,821	
Notes Payable	390,159		1,651,801	
Contingent liability	1,208,839		1,238,850	
Due to related parties	121,685		122,596	
Other payable	2,431,859		1,976,119	
Total current liabilities	29,611,192		36,851,494	
Long-term deposits from customers	1,997,002		2,244,797	
Deferred revenue, non-current	17,796,833		25,432,654	
Long-term bond payable	16,117,854		16,518,005	
Total liabilities	65,522,881		81,046,950	
STOCKHOLDERS' EQUITY				
Preferred Stock	-	[2]	-	
Common stock	20,806	[3]	20,806	[3]
Additional paid-in capital	208,879,540		207,903,478	
Accumulated other comprehensive income	1,809,269		5,469,380	
Accumulated deficit	(50,220,389)		(53,607,155)	
Total stockholders' equity	160,489,226		159,786,509	
Total liabilities and stockholders' equity	$ 226,012,107		$ 240,833,459	

[1] net of $14,000 allowance
[2] $.001 par value, 10,000,000 shares authorized, 290 shares issued and outstanding
[3] $.001 par value, 200,000,000 shares authorized, 20,805,860 shares issued and outstanding

The accompanying notes are an integral part to the unaudited condensed consolidated financial statements.

FAB UNIVERSAL CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
		Restated		Restated
Revenue	$ 13,857,077	$ 25,857,239	$ 28,601,536	$ 48,493,632
Cost of Revenue	5,722,898	14,362,500	12,075,113	28,624,131
Gross Profit	8,134,179	11,494,739	16,526,423	19,869,501
OPERATING EXPENSES				
Selling expenses	1,183,471	1,039,850	2,426,611	1,976,171
General and administrative	3,909,905	2,487,458	6,731,327	5,117,790
Consulting fees	80,946	446,460	707,751	930,592
Research and development	79,061	73,189	157,043	140,539
Total Expenses	5,253,383	4,046,957	10,022,732	8,165,092
Income from operations	2,880,796	7,447,782	6,503,691	11,704,409
OTHER INCOME (EXPENSE):				
Interest income	55,260	8,461	127,263	37,020
Interest (expense)	(541,429)	(327,115)	(1,107,357)	(366,265)
Other (expense), net	(14,133)	(85,147)	(9,196)	(84,344)
Total Other Expense, net	(500,302)	(403,801)	(989,290)	(413,589)
Income from operations before income taxes	2,380,494	7,043,981	5,514,401	11,290,820
Income tax expense	1,000,310	1,658,842	2,127,635	2,901,684
Net income	1,380,184	5,385,139	3,386,766	8,389,136
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	263,266	1,542,802	(3,660,112)	2,033,011
COMPREHENSIVE INCOME (LOSS)	$ 1,643,450	$ 6,927,941	$ (273,346)	$ 10,422,147
BASIC AND DILUTED INCOME PER COMMON SHARE	$ 0.07	$ 0.26	$ 0.16	$ 0.41
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	20,805,860	20,761,025	20,805,860	20,708,042

The accompanying notes are an integral part to the unaudited condensed consolidated financial statements.

FAB UNIVERSAL CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For The Six Months Ended June 30, 2014	For The Six Months Ended June 30, 2013
Cash Flows from Operating Activities		Restated
Net income	$ 3,386,766	$ 8,389,136
Adjustments to reconcile net income to net cash used in operating activities:		
Stock issued to employees and consultants	-	329,600
Non-cash compensation - options vested	324,079	49,858
Deferred tax benefit	1,476,901	(1,657,406)
Depreciation and amortization expense	3,649,110	3,354,115
Change in assets and liabilities:		
Accounts receivable	5,871,161	(2,078,275)
Other assets	(2,178,852)	144,161
Inventory	596,223	(2,068,141)
Accounts payable	(419,740)	110,807
Accrued expense	(325,496)	327,527
Taxes payable	(2,156,479)	740,704
Deferred revenue	(7,744,231)	14,406,939
Net Cash Provided by operations	2,479,442	22,049,025
Cash Flows from Investing Activities:		
Purchase of property and equipment	(62,393)	(328,166)
Purchase of copyrights	(601,019)	-
Payment of long-term deposits	-	(14,391,157)
Net Cash Used in Investing Activities	(663,412)	(14,719,323)
Cash Flows from Financing Activities:		
Capital contribution to the VIE	648,614	-
Decrease in restricted cash	1,621,534	
Proceeds from long-term bond offering	-	16,294,075
Proceeds from related party	-	80,154
Payment of customer deposits	(194,584)	-
Payment of loans	(1,621,534)	-
Proceeds from notes payable	621,196	1,615,434
Payments of notes payable	(1,852,571)	(1,842,892)
Net Cash Provided by (Used in) Financing Activities	(777,345)	16,146,771
Effect of Exchange Rate Change on Cash	(2,360,710)	340,544
Net Increase (Decrease) in Cash	(1,322,025)	23,817,017
Cash at Beginning of Period	99,546,530	19,671,937
Cash at the end of Period	$ 98,224,505	$ 43,488,954
Supplemental Disclosures of Cash Flow Information		
Interest expenses paid	$ 2,006,531	$ 99,734
Income taxes paid	$ 2,308,940	$ 3,803,188

The accompanying notes are an integral part to the unaudited condensed consolidated financial statements.

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

FAB Universal Corp. ("Parent", "Company"), a Colorado corporation was organized on July 1, 1998. The Company operates in three segments, Wholesale, Retail and Digital Media Services. The Wholesale segment engages primarily in the sale of audio-visual products as well as books and magazines to retail businesses. The Retail segment conducts its business through our retail stores, selling copyright protected audio and video products, including CDs, VCDs, DVDs, books, magazines and portable electronic devices. The Digital Media Services segment licenses its multi-year programs for our FAB brand. It also includes the revenue share for advertising, and includes the services provided by our podcast hosting, content management tools and advertising services. (See Note 2) On February 27, 2007, the Company organized Wizzard Acquisition Corp., a Pennsylvania corporation, to acquire and dissolve into the operations of Webmayhem, Inc. ("Libsyn", "Libsyn Media"), a Pennsylvania corporation, in a transaction accounted for as a purchase. Libsyn is a wholly owned subsidiary of the Company.

On September 26, 2012, (the "Closing") Parent purchased all of the issued and outstanding shares of Digital Entertainment International Ltd. ("DEI"), a company incorporated under the law of the Hong Kong Special Administrative Region, in a transaction accounted for as a purchase. The accompanying consolidated financial statements include the financial statements of DEI; its wholly owned subsidiary, Beijing Dingtai Guanqun Culture Co., Ltd. ("DGC"); Beijing FAB Culture Media Co., Ltd. ("FAB Media"), which is a variable interest entity ("VIE"), and Beijing FAB Digital Entertainment Products Co., Ltd. ("FAB Digital"), a wholly owned subsidiary of FAB Media.

DEI is a holding company and conducts its business through its wholly owned subsidiary, DGC, which is a wholly foreign-owned enterprise ("WFOE") with limited liability incorporated in the PRC in March 2011. DGC has entered into a series of contractual agreements with the owners of FAB Media. . On March 10, 2014, the owners of FAB Media injected additional $653,200 (RMB 4 million) into FAB Media, which will be accounted for as additional paid-in capital in consolidation.

DEI, through its wholly owned subsidiary and its VIE, is engaged in marketing and distributing various officially licensed digital entertainment products under the "FAB" brand throughout the PRC, including but not limited to audiovisual products such as digital music files, Compact Discs, Video Compact Discs and Digital Video Disks as well as books, magazines, mobile phone accessories and cameras. DEI's products and services are primarily distributed through its flagship stores, wholesale services, proprietary "FAB" kiosks, and online virtual stores.

FAB Digital is a wholly owned subsidiary of FAB Media and specializes in the distribution of entertainment and audio visual products through its two flagship stores in Beijing as well as its online stores. Beijing Jinglvtong Travel and Science Technology Co., Ltd., which is fully owned by FAB Digital, changed to Beijing FAB Huzhong Times Technology Co., Ltd. in May 2013, and the name was changed again to Beijing FAB Interactive Culture Media Co., Ltd. ("BFICM") in December 2013.

In November 2013, three subsidiaries of DGC were incorporated in PRC with a registered capital of RMB 1 million each. These three organizations are each 100% owned by DGC and they are: Beijing FAB Vast Cosmos Technology Co. Ltd. ("BFVCT"), Beijing FAB Wide Spread Culture Development Co., Ltd. ("BFCD") and Beijing FAB Prosperous Trading Co., Ltd. ("BFPT"). In December 2013, FAB Entertainment Corp., a California Corporation, which is also fully owned by DGC, was formed. These four companies had no operations in 2013 and were formed for the purpose of developing international business.

In June 2012, a series of contractual arrangements were entered into between DGC, FAB Media and the individual shareholders of FAB Media. Such arrangements include an Exclusive Service Agreement; an Equity Pledge Agreement; a Call Option Agreement; and a Shareholders' Voting Right Proxy Agreement.

Pursuant to these agreements, DGC has the exclusive right to provide to FAB Media consulting services related to business operation and management. The key terms of these agreements include:

1) DGC has the sole discretion to make all operating and business decisions for FAB Media on behalf of the equity owners, including business operations, policies and management, approving all matters requiring shareholder approval;
2) FAB Media has agreed to pay all of the operating costs incurred by DGC, and transfers 100% of the income earned to DGC; DGC also has the right to determine the amount of the fees it will receive;
3) During the term of these agreements, DGC will retain the rights to the intellectual properties if they are created by DGC;

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION (Continued)

4) FAB Media may not enter into any other agreements with any third party to receive consulting service without the prior consent of DGC;
5) The equity owners pledge their respective equity interests in the FAB Media as a guarantee for the payment of technical and consulting services fees under the Exclusive Service Agreement;
6) The shareholders of FAB Media have irrecoverably and unconditionally granted DGC or its designee an exclusive option to purchase, to the extent permitted by PRC laws, all or any portion of equity interest of the FAB Media.

All these contractual agreements obligate DGC to absorb a majority of the risk of loss from FAB Media's activities and entitle DGC to receive a majority of its residual returns. In essence, DGC has gained effective control over FAB Media. Based on these contractual arrangements, the Company believes that FAB Media should be considered a variable interest entity under the Statement of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, "Consolidation". Accordingly, the accounts of this entity are consolidated with those of DGC, the primary beneficiary.

DEI is effectively controlled by the majority shareholders of FAB Media. DEI has 100% equity interest in DGC. Accordingly, DGC, and FAB Media are effectively controlled by the same majority shareholders.

Therefore, DGC and FAB Media are considered under common control. The consolidation of DGC and FAB Media into DEI has been accounted for at historical cost and prepared on the basis as if the aforementioned exclusive contractual agreements between DGC and FAB Media had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

Selected information of the consolidated balance sheet of FAB Media and its wholly-owned subsidiaries as of June 30, 2014 and December 31, 2013, and the consolidated results of operations for the six months ended June 30, 2014 and 2013 are summarized as follows:

	June 30, 2014	December 31, 2013
Cash	$ 97,032,235	$ 99,077,811
Accounts receivable, net	1,313,771	7,227,270
Deferred tax assets, current	2,243,210	2,830,200
Other current assets	6,309,124	4,820,393
Total current assets	106,898,340	113,955,674
Property, plant and equipment, net	14,041,543	14,989,176
Intangible assets, net	670,178	434,304
Deferred tax assets, non-current	4,151,625	5,227,865
Long-term deposits	19,602,597	20,089,263
Total assets(1)	145,364,283	154,696,282

	June 30, 2014	December 31, 2013
Short-term bank loans	$ 4,512,999	$ 6,276,842
Accounts payable	2,390,062	2,924,374
Accrued expenses	3,032,717	4,008,363
Deferred revenue, current	14,241,842	15,294,998
Other current liability	3,630,102	7,491,885
Total current liabilities	27,807,722	35,996,462
Long-term deposits from customers	1,997,002	2,244,797
Deferred revenue, non-current	17,796,833	25,432,654
Long-term bonds payable	16,117,854	16,518,005
Total liabilities(1)	63,719,411	80,191,918

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION (Continued)

	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Revenue	$ 25,793,559	$ 46,180,732
Net income	5,630,129	8,889,372

(1) Total assets and liabilities of the VIE are reported net of intercompany balances that have been eliminated with the VIE consolidation

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation - The accompanying unaudited condensed consolidated financial presented reflect the accounts of Parent, Libsyn, and DEI. All significant inter-company transactions have been eliminated in consolidation. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2013 included in the Company's annual report on Form 10-K filed on June 27, 2014.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management made assumptions and estimates for determining reserve for accounts receivable, obsolete inventory, the realization of deferred tax assets and in determining the impairment of finite life intangible assets and goodwill and accruals for income tax uncertainties and other contingencies when applicable. Actual results could differ from those estimated by management.

Reclassification – The financial statements for the period ended June 30, 2013 have been reclassified to conform to the headings and classifications used in the June 30, 2014 financial statements.

Inventory - Inventory includes books and video products and is recorded at the lower of cost or market, using the first-in, first-out ("FIFO") method. The Company estimates net realizable value based on current market value and inventory aging analyses. As of June 30, 2014 no reserve for slow-moving or obsolete inventory is considered necessary.

Revenue Recognition - Revenue is recognized when earned. The Company's revenue recognition policies are in compliance with FASB ASC Topic 985-605, Software — Revenue Recognition. The Company's revenue recognition policies are also in compliance with the Securities and Exchange Commission Staff Accounting Bulletin No. 101 and 104.

Digital media publishing services are billed on a month to month basis. The Company recognizes revenue from providing digital media publishing services when the services are provided and when collection is probable. The Company recognizes revenue from the insertion of advertisements in digital media, as the digital media with the advertisement is downloaded and collection is probable. The Company recognizes revenue from the sale of apps and premium subscriptions when sold and collection is probable.

In the PRC, Value Added Tax ("VAT") of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities.

The Company derives revenue from Retail sales, Wholesale, and Digital sales. Revenue from Digital sales includes advertisement revenue, membership card revenue, download revenue and licensing revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product revenue is recognized when title to the product has transferred to customers in accordance with the terms of the sale; the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Revenues are recorded net of applicable sales taxes.

Revenue from retail sales is recognized at the point-of-sale. Revenue from Wholesale is recognized at the point of delivery of the product. Download service revenue is recognized when substantially all material services or conditions relating the sales have been performed or satisfied, and the Company has no obligation to refund any payment (cash or otherwise) received. Revenue generated from Membership sales is non-refundable. Membership card revenue is amortized over the life of the membership period, membership cards with par value of RMB 100 have an expiration period of three months, and par value of RMB 200, 300, 400 and 500 have an expiration period of twelve months. Advertisement revenue is recognized over the contract period. Licensing revenue is amortized ratably over the term of the agreement which is generally five years. Deferred revenue represents unearned revenues related primarily to sales of licenses and FAB Membership cards.

Accounts Receivable – We evaluate the creditworthiness of our customers based on their financial information, if available, as well as information obtained from suppliers and past experiences with customers. Accounts receivable consist of trade receivables arising in the normal course of business. Any allowance established is subject to judgment and estimates made by management. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. We established an allowance for doubtful accounts of $14,000 at June 30, 2014 and 2013
.

Stock-based Compensation - The Company accounts for options in accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC Topic 718, *Compensation – Stock Compensation*. For the six months ended June, 2014 and 2013, the Company recorded stock-based compensation expense of $324,079 and $49,858 for vesting of stock options, respectively, and stock–based compensation expense to employees and consultants of $0 and $329,600, respectively, for options that were issued and immediately exercised.

Functional Currency / Foreign Currency Translation – The functional currency of FAB Universal Corp is the United States Dollar (USD). The functional currency of DEI is the Renminbi ("RMB") and its reporting currency is U.S. dollars for the purpose of these financial statements. The Company's consolidated balance sheet accounts are translated into U.S. dollars at the period-end exchange rates (6.2043 RMB to $1 at June 30, 2014) and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during 2014 (6.1669 RMB to $1) in which these items arise. Translation gains and losses are deferred and accumulated as a component of other comprehensive income in stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the statement of operations as incurred.

Fair Value of Financial Instruments - The Company accounts for fair value measurements for financial assets and financial liabilities in accordance with FASB ASC Topic 820. The authoritative guidance, which, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is defined as the exit price, representing the amount that would either be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1. Observable inputs such as quoted prices in active markets for identical assets or liabilities;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Unless otherwise disclosed, the fair value of the Company's financial instruments including cash, accounts receivable, prepaid expenses, accounts payable, accrued expenses, current deferred revenue and notes payable approximates their recorded values due to their short-term maturities. Long-term deposits represent cash and therefore, their carrying value represents fair value. The fair value of the Company's long-term deposits, non-current deferred revenue, long-term bond payable and other liabilities has no material difference with the book values based on the calculated results.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment are stated at cost less accumulated depreciation. Depreciation and amortization is calculated on the straight-line method over the estimated useful lives of the assets as set out below:

	Estimated Useful Life
Electronic equipment	2-5 years
Office furniture and equipment	2-10 years
Vehicles	5 years
Building	48.5 years
Leasehold improvements	Shorter of lease terms or estimated useful life

Goodwill and other Intangible Assets - The Company accounts for Goodwill and other intangible assets in accordance with provisions of FASB -ASC Topic 350, Intangibles--Goodwill and Other. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead are tested for impairment at least annually in accordance with the provisions of Topic 350. Impairment losses arising from this impairment test, if any, are included in operating expenses in the period of impairment. Topic 350 requires that intangible assets with finite lives be amortized over their respective estimated useful lives, and reviewed for impairment in accordance with Topic 360, criteria for recognition of an impairment of Long-Lived Assets. There was no indication of goodwill or other intangible impairment during the six months ended June 30, 2014.

Income Taxes - The Company is subject to the Income Tax Laws of U.S. and the PRC. The Company accounts for income taxes in accordance with ASC 740, “Income Taxes”. ASC 740 requires an asset and liability approach for financial accounting and reporting for income taxes and allows recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain. The components of deferred tax assets are individually classified as current and non-current based on their characteristics.

ASC 740-10-25 prescribes a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, years open for tax examination, accounting for income taxes in interim periods and income tax disclosures. There is no material uncertain tax position as of June 30, 2014 and 2013, respectively (See note 12 – Capital Stock and note 15- Contingencies).

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consists of:

		June 30, 2014		December 31, 2013
Digital Entertainment International - DEI	$	49,382,679	$	50,608,681
Webmayhem Inc.(Libsyn)		11,484,251		11,484,251
Total Goodwill	$	60,866,930	$	62,092,932

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

The following is a summary of goodwill:

	For the six Months Ended June 30, 2014	For the Year Ended December 31, 2013
Goodwill at beginning of period	$ 62,092,932	$ 60,652,957
Effect of exchange rate	(1,226,002)	1,439,975
Goodwill at end of period	$ 60,866,930	$ 62,092,932

Other intangible assets - Other intangible assets consist of customer relationships, intellectual property, trade name, copyright protected content and non-compete, which were obtained through the acquisition of DEI. Management considers these intangible assets to have finite-lives except trade name. These assets are being amortized on a straight-line basis over their estimated useful lives.

As of June 30, 2014, identifiable intangible assets consist of following:

	Preliminary Fair Value	Weighted Average Useful Life (in Years)	Accumulated Amortization	Currency Translation Adjustment	Net Carrying Amount
Customer Relationships	$ 8,900,000	3	$ 5,331,987	$ 172,833	$ 3,740,846
Intellectual Property	4,300,000	3	2,576,128	83,503	1,807,375
Trade name	13,876,000	(a)	(a)	222,086	14,098,086
Non-compete	1,885,200	2	1,694,134	39,829	230,895
Copyright	1,488,073	(b)	402,807	-	1,085,266
Total	$ 30,449,273		$ 10,005,056	$ 518,251	$ 20,962,468

(a) The FAB trade name has been determined to have an indefinite life.

(b) The copyrights useful lives are from 1 year to 10 years.

The estimated future amortization expenses related to other intangible assets other than trade name as of June 30, 2014 are as follows:

For twelve months ending June 30,	
2014	$ 5,177,106
2015	1,469,619
2016	117,201
Thereafter	100,456
Total	$ 6,864,382

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 and December 31, 2013 consist of the following:

	June 30, 2014	December 31, 2013
Accounts receivable	$ 1,557,384	$ 7,568,919
Allowance for doubtful accounts	(14,000)	(14,000)
Accounts receivable, net	$ 1,543,384	$ 7,554,919

Currently, the Company grants credit to customers with well-established credit history with terms from net 30 days to twelve months while the Company generally requests other customers to pay either in advance or upon delivery. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation are as follows:

	June 30, 2014	December 31, 2013
Electronic equipment	$ 1,633,371	$ 1,726,239
Office furniture and equipment	59,579	62,248
Vehicles	363,960	372,996
Building	14,060,138	14,072,796
Leasehold improvements	3,712,232	3,804,395
	19,829,280	20,038,674
Less: Accumulated depreciation	(4,253,550)	(3,464,543)
Total property and equipment, net	$ 15,575,730	$ 16,574,131

Depreciation expense for the three months ended June 30, 2014 and 2013 was $ 447,192 and $326,619, respectively. Depreciation expense for the six months ended June 30, 2014 and 2013 was $839,064 and $641,204, respectively.

NOTE 6 – LONG-TERM DEPOSITS

Long term deposits consist of following:

	June 30, 2014	December 31, 2013
Prepayments for setting up flagship stores	$ 3,223,571	$ 3,303,601
Anti-piracy sales guarantee deposits	3,223,571	3,303,601
Building Deposit	12,894,283	13,214,404
Rent deposits	264,754	271,239
Total Long-Term Deposits	$ 19,606,179	$ 20,092,845

Long term deposits include anti-piracy sales guarantee deposits made to product licensors by FAB Media, rent deposits made to landlords, prepayment for real estate purchase and prepaid payment which made to commission agents. The deposits for no-piracy sales guaranties are fully refundable when FAB Media decides to terminate the license agreements with the licensors to sell their products. The rent deposits are also fully refundable at the end of the lease term. The prepaid payments are used for new FAB flagship stores opening in other locations and real estate purchasing. On January 7, 2014, the Board of Directors decided not to purchase the Longyuan building. We are currently in negotiations with the owner of the building as to the amount of the compensation to be paid per the terms of the agreement of Intent for Property Transfer.

NOTE 7 – SHORT-TERM LOANS

Short-term bank loans consist of:

	June 30, 2014	December 31, 2013
Bank of Communication	$ -	$ 1,651,800
Minsheng Bank	1,289,428	1,321,440
Nanjing Bank	1,611,786	1,651,801
China Dalian Bank	1,611,785	1,651,801
Total Short-Term Loans	$ 4,512,999	$ 6,276,842

NOTE 7 – SHORT-TERM LOANS (Continued)

Short-term bank loans are primarily used for working capital needs. On March 25, 2013, FAB Digital entered into a new loan agreement with Bank of Communications ("BCM") for a one-year term loan due March 28, 2014 in amount of RMB 10,000,000 (approximately $1.6 million). The interest of the loan is 7.8%, which is a variable interest rate based on the one year benchmark rate of the actual loan payment day plus 30 basis points. In connection with the loan agreement, FAB Digital entered into a cooperation agreement with Beijing Caizhirongda Investment Management Co. LTD ("BCIM"), the loan was guaranteed by BCIM. The loan was fully repaid on April 2, 2014, and was not renewed as of June 30, 2014.

On December 12, 2013, FAB Digital entered into a new loan agreement with China Nanjing Bank for a one-year term loan due December 12, 2014 in amount of RMB 10,000,000 (approximately $1.6 million). The loan has a fixed interest rate of 7.80%. Based on the relevant guarantee agreement, the loan was guaranteed and collateralized by the property owned by Company's major shareholder.

On June 30, 2013, FAB Digital entered into a new loan agreement with Bank of Dalian Corp.Ltd. ("DLBC") for a one-year term loan due to June 30,2014 in the amount of RMB 10,000,000 (approximately $1.6 million). The interest rate of the loan is approximately 8.10%, which is a variable interest rate based on the one year benchmark rates of similar loans published by the People's Bank of China.

On December 26, 2013, FAB Digital entered into a new loan agreement with China Minsheng Bank for a one-year term loan due December 26, 2014 in amount of RMB 8,000,000 (approximately $1.3 million). The loan has a fixed interest rate of 7.80%. Based on the relevant guarantee agreement, the loan was guaranteed by Company's major shareholder.

NOTE 8 – LONG TERM BOND PAYABLE

On April 25, 2013, FAB Digital received the proceeds from a bond offering in the amount of RMB 97,000,000 (Approximately $15.8 million), net of the underwriter's fee of RMB 3,000,000. The bond matures in three years and bears simple interest at the rate of 11% per annum with an option to adjust the interest rate at the end of the second year. The bonds are puttable by the holders at the end of the second year. The bonds are secured by a pledge of shares in a company that does business with the Company, a certain real estate asset owned by a third party and are guaranteed by the Company's Chairman. Interest is paid annually on the anniversary of the bond. The bond is due in full upon maturity on April 25, 2016. On April 18, 2014, interest totaling RMB 11,000,000 (Approximately $1.8 million) was paid.

NOTE 9 – STATUTORY RESERVE

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the PRC (the "PRC GAAP"). Appropriation to the statutory surplus reserve should be at least 10% of the after-tax net income. Such appropriation may cease if the balance of the fund is equal to 50% of the entities' registered capital or shareholders' equity. The Company has reserved $131,825 at both June 30, 2014 and 2013 since the amount has reached the statutory limit of 50% of the registered capital.

NOTE 10 – RELATED PARTIES

The table below sets forth the related parties and their affiliation with the Company:

Related Parties	**Affiliation with the Company**
Guangdong Endless Culture Co., Ltd.(GEC)	Affiliated Company controlled by the chairman and major shareholder
Zhang Hongcheng	Chairman and major stockholder

Amounts due to related parties are as follows:

	June 30 2014	December 31 2013
Zhang Hongcheng	$ 121,685	$ 122,596
Total due to related parties	$ 121,685	$ 122,596

Mr. Zhang Hongcheng paid certain professional fees on behalf of FAB Media for the quarter ended September 30, 2012. Mr. Zhang Hongcheng also loaned $85,000 to DEI for investment purposes on March 1, 2013.

FAB Media has five business locations, one of which is subleased from GEC. In addition, GEC entered into a lease agreement with Xidan Joy City on behalf of FAB Media for a term of eight-years from April 2008 to March 2016.

Subsequently, FAB Media entered into a sublease agreement with GEC. The average monthly rent expense is $50,507. FAB Media paid the rental and promotion expense to Xidan Joy City directly.

NOTE 11 – INCOME TAXES

The Company is subject to income taxes on an entity basis on income arising in or derived from U.S. as well as the People's Republic of China ("PRC") in which each entity is domiciled.

DEI was incorporated in Hong Kong in November 2010, and has not earned any income that was derived in Hong Kong since inception and therefore was not subject to Hong Kong income tax.

Certain subsidiaries of the Company were organized under the laws of the PRC which are subject to Enterprise Income Tax ("EIT") on the taxable income as reported in their respective statutory financial statements adjusted in accordance with the Enterprise Income Tax Law. Pursuant to the PRC Income Tax Laws, DGC, FAB Digital, BFICM, BFWSCD, BFPT and BFVCT are subject to EIT at a statutory rate of 25%.

FAB Media was qualified as a High and New Technology Enterprise in Beijing High-Tech Zone in December 24, 2010, and is entitled to a preferential tax rate of 15% through December 2015.

DEI files income tax returns with both the National Tax Bureau and the Local Tax Bureaus in the PRC. All tax returns of DEI since inception are subject to tax examination by tax authorities.

DEI recognized deferred tax assets in the amount of $6,394,835 as of June 30, 2014. Deferred tax assets represent temporary differences arising primarily from deferred revenue and the allowance for doubtful accounts. The components of deferred tax assets are as follows:

	June 30, 2014	December 31, 2013
Current deferred tax assets		
Deferred revenue	$ 2,243,210	$ 2,830,200
Valuation allowance	-	-
Net current deferred tax assets	$ 2,243,210	$ 2,830,200
Non-current deferred assets		
Deferred revenue	$ 4,151,625	$ 5,227,865
Valuation allowance	-	-
Net non-current deferred tax assets	$ 4,151,625	$ 5,227,865

Income tax expense (benefit) consists of:

	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013
Current income tax expense	$ 650,734	$ 4,559,090
Deferred income tax benefit	1,476,901	(1,657,406)
Total net income tax expense	$ 2,127,635	$ 2,901,684

Taxes payable consist of the following:

	June 30, 2014	December 31, 2013
Value added tax payable	$ -	$ 365,558
Income tax payable	291,684	1,988,083
Business tax payable	(6,432)	(6,592)
Other	116,856	261,772
Total taxes payable	$ 402,108	$ 2,608,821

NOTE 11 – INCOME TAXES (Continued)

FAB Universal is incorporated in the U.S. and incurred a net operating loss for income tax purposes. As of June 30, 2014, the estimated net operating loss carryforwards for U.S. income tax purposes amounted to $52,000,000 which may be available to reduce future years' taxable income. These carryforwards will expire, if not utilized by 2033. Management believes that the realization of the benefits arising from this loss appears to be uncertain due to the Company's continuing losses for U.S. income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at June 30, 2014. The net change in the valuation allowance for the six months ended June 30, 2014 and 2013 was an increase of approximately $0 and $48,000, respectively. Management reviews this valuation allowance periodically and makes adjustments as necessary.

NOTE 12 - CAPITAL STOCK

Preferred Stock - The Company has authorized 10,000,000 shares of preferred stock, $.001 par value. As of June 30, 2014, the Company had 290 Series B Preferred shares issued and outstanding.

On September 26, 2012, at the Closing of the DEI acquisition, the Company issued, as additional consideration 290 "unregistered" and "restricted" shares of its Series B Convertible Preferred Stock.

The Preferred Stock has no dividend rights or voting rights or the right to receive any assets of the Company upon liquidation, dissolution or winding up. The Preferred Stock will be convertible into shares of the Company's common stock in three tranches upon the occurrence of certain conversion events (see note 15 – Contingencies).

Upon the occurrence of each conversion event, the three tranches of Preferred Stock will be convertible into a number of shares of common stock that will bring the overall equity position in the Company of the holders of the Initial Company Shares, the Preferred Stock and the common stock issuable upon conversion of the Preferred Stock, on a fully diluted basis as of the date of Closing, to 70%, 74% and 78%, respectively. Based on a total of 10,702,309 fully-diluted outstanding common shares as of the Closing date, 14,689,444 common shares will be issuable upon conversion of the first tranche of Preferred Stock; 5,488,364 common shares upon conversion of the second tranche; and 7,484,132 common shares upon conversion of the third tranche.

Common Stock - The Company has authorized 200,000,000 shares of common stock, $.001 par value. As of June 30, 2014, the Company had 20,805,860 common shares issued and outstanding.

On May 21, 2013, the Company issued 80,000 common shares valued at $164,800 to consultants for services rendered.

On January 25, 2013, the Company issued 257,000 common shares valued at $529,080 to consultant for services rendered.

NOTE 13 – STOCK OPTIONS AND WARRANTS

At June 30, 2014, the Company had 99,060 warrants outstanding to purchase common stock of the Company at $5.16 per share held by Iroquois Master Fund Ltd.

Under the terms of the warrant held by Iroquois Master Fund Ltd., if it is deemed that another person acquires more than 50% of the outstanding shares of Common Stock of the Company, a Fundamental Transaction, the holder of the warrant is entitle to receive the shares of stock originally represented by the warrant upon subsequent exercise of the warrant and any additional consideration, the "Alternate Consideration".

Alternatively, at the Holder's option, exercisable at any time concurrently with, or within 30 days after, the consummation of the Fundamental Transaction, the Company may purchase this Warrant from the Holder by paying to the Holder an amount of cash equal to the Black Scholes Value of the remaining unexercised portion of this Warrant on the date of the consummation of such Fundamental Transaction.

The Company has multiple Stock Options plans. Under the plans, the Board is empowered to grant stock options to employees and officers of the Company. The following table shows the total number of shares of common stock available under each plan, the number of options exercised during 2014 and the options that remain available under each plan.

NOTE 13 – STOCK OPTIONS AND WARRANTS - Continued

Plan Name	Total Available	Options Granted During 2014	Options Exercised During 2014	Remaining Available
2013 Plan	3,000,000	-	-	3,000,000
2012 Plan	3,000,000	-	-	1,788,667
2010 Plan	166,667	-	-	-
2009 Plan	166,667	-	-	-
2008 Plan	16,667	-	-	28
2008 Key Employee Plan	33,334	-	-	260
2007 Plan	16,667	-	-	12
2007 Key Employee Plan	16,667	-	-	-
2006 Key Employee Plan	11,459	-	-	-
Total	6,428,128	-	-	4,788,967

There were no options grants during the six months of 2014.

A summary of the status of options granted at June 30, 2014, and changes during the six months then ended are as follows:

	For the Six Months Ended June 30, 2014			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	250,000	$ 3.52	10.5 years	$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
Outstanding at end of year	250,000	3.52	10.0 years	-
Vested and expected to vest in the future	-	-	-	-
Exercisable at end of year	-	-	-	-
Weighted average fair value of options granted	250,000	$ 3.52	10.0 years	$ -

There have been no option grants during the first six months of 2014. The Company had no non-vested options at the beginning of the year. At June 30, 2014 the Company had 250,000 vested options that remain unexercised at an exercise price of $3.52.

During the six months ended June 30, 2014 and 2013, the Company recorded $324,079 and $49,858 of non-cash compensation expense related to the vested stock options issued to employees.

For the six months June 30, 2014 and 2013, the Company recorded non-cash compensation cost of $0 for vested and exercised options issued to management, board members, employees and consultants.

NOTE 14 - INCOME PER COMMON SHARE

The following data show the amounts used in computing loss per share and the weighted average number of shares of common stock outstanding for the periods presented:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013 Restated	2014	2013 Restated
Net income from operations	$ 1,380,184	$ 5,385,139	$ 3,386,766	$ 8,389,136
Net income available to common shareholders (numerator)	$ 1,380,184	$ 5,385,139	$ 3,386,766	$ 8,389,136
Weighted average number of common shares outstanding during the period used in basic and diluted loss per share (denominator)	20,805,860	20,761,025	20,805,860	20,708,042

At June 30, 2014, the Company had 99,060 warrants outstanding to purchase common stock of the Company at $5.16 per share, and 250,000 stock options to purchase common stock of the Company at $3.52 per share, which were not included in the earnings per share computation as they were anti-dilutive.

At June 30, 2013, the Company had 99,060 warrants outstanding to purchase common stock of the Company at $5.16 per share, which were not included in the earnings per share computation as they were anti-dilutive.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Contingent Consideration for the Acquisition of DEI As further discussed in Notes 1 and 12, the Initial Company Shares are subject to the terms of the Voting Agreement, which assigns to the Company's Board of Directors the right to vote all of the Initial Company Shares until the following milestones are achieved for a period of eight (8) consecutive and complete reporting quarters of the Company after the Closing:

(i) if DEI and the VIE Entity successfully complete all of the Corporate Governance Objectives for two (2) consecutive and complete reporting quarters after the Closing, the Company's Board of Directors will release the voting rights to 50% of the Initial Company Shares held by the designees at such time. (The voting rights were released on 50% of the Initial Company shares.)

(ii) upon successful completion of all of the Corporate Governance Objectives for six (6) consecutive and complete reporting quarters after the Closing, the Company's Board of Directors will release the voting rights to another 25% of the Initial Company Shares and; (The voting rights were not released on 25% of the Initial Company shares.)

(iii) upon the successful completion of all of the Corporate Governance Objectives for eight (8) consecutive and complete reporting quarters after the Closing, the Company's Board of Directors will release the voting rights to the remaining Initial Company Shares. (The voting rights were not released on the remaining Initial Company shares.)

Fifty percent of the Initial Company Shares (the "Lock-up Shares") are also subject to the terms of a Lock-up Agreement by which UEG's designees have agreed not to transfer, sell, hypothecate or gift such Lock-up Shares for a period of 12 months following the Closing date.

In addition, during the first 24 months after the Closing, DEI and each of its permitted transferees or designees will have piggyback registration rights with respect to all Initial Company Shares that are not then subject to the restrictions of the Lock-up Agreement or the Voting Agreement, and all Company shares that have been issued upon conversion of Preferred Stock to cause such shares to be included in (i) any registration statement that the Company files with the Securities and Exchange Commission to register under the Securities Act of 1933, as amended, common shares held by any person who was a stockholder of the Company at the time of Closing (or any transferee thereof); or (ii) any other registration statement filed by the Company so long as a majority of the Company's Board of Directors has made a good faith determination that such piggyback registration will not significantly prejudice the Company's ability to raise capital.

NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies:

As additional consideration for the acquisition, the Company issued 290 shares of Series B Convertible Preferred Stock. The Company further agreed to convert these shares of Preferred Stock into additional shares of common stock upon DEI achieving corporate government requirement and financial results.

The Preferred Stock will be convertible into shares of the Company's common stock in three (3) tranches upon the occurrence of the following conversion events:

(i) upon the successful completion of certain Corporate Governance Objectives for the four (4) consecutive and complete reporting quarters of the Company immediately following the Closing, the designees shall have the right to convert the first tranche of 210 shares of Preferred Stock into 14,689,444 shares of the Company's common stock;

(ii) upon the successful completion of: (a) all of the Corporate Governance Objectives for the four (4) consecutive and complete reporting quarters of the Company immediately following the Closing; and (b) a Revenue Objective requiring DEI to attain sales revenues of at least US$60,000,000 and net income of US$12,000,000 for fiscal year 2011, UEG's designees shall have the right to convert the second tranche of 40 shares of Preferred Stock into 5,488,364 shares of the Company's common stock. Only the revenue and net income objectives were met.

(iii) upon the successful completion of (a) all of the Corporate Governance Objectives for the six (6) consecutive and complete reporting quarters of the Company immediately following the Closing; and (b) a Revenue Objective requiring that DEI attain sales revenues of at least US$70,000,000 and net income of US$14,000,000 for fiscal year 2012, UEG's designees shall have the right to convert the third tranche of 40 shares of Preferred Stock into 7,484,132 shares of the Company's common stock. Only the revenue and net income objectives were met.

Pending lawsuits

In November and December 2013, three putative class action lawsuits were filed in the federal court for the Southern District of New York against FAB Universal Corp., its CEO and its CFO. The actions are: *Simmons v. Spencer et al.* (1:13-cv-08216-RWS. filed 11/18/13), *Stubblefield v. Fab Universal Corp. et al.* (1:13-cv-08499-RWS, filed 11/27/13), and *Cox v. Fab Universal Corp. et al.* (1:13-cv-08716-RWS, filed 12/09/13). According to the complaints, defendants made false and/or misleading statements and failed to disclose material adverse facts about FAB's business, operations, prospects and performance. Plaintiffs allege that defendants overstated the number of kiosks that FAB had deployed. FAB's kiosks are "inundated with pirated digital entertainment content," and the company's Chinese subsidiary issued RMB 100 million ($16.4 million) worth of bonds to Chinese investors that are not reflected in the Company's publicly disclosed financial statements. Based on the foregoing, plaintiffs assert causes of action for violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs seek unspecified compensatory damages, recessionary damages, fees and costs.

In February 2014, two derivative actions were filed in the federal court for the Southern District of New York against its CEO, CFO and board of directors. The suits are *Thorbjonsen v. Spencer et al.* (1:14-cv-00687-UA, filed 02/03/14) and *Rowekamp v. Spencer et al*. (1:14-cv-01114-RWS, filed 02/21/14). Plaintiffs in the derivative action claim, on behalf of FAB Universal that Defendants breached their fiduciary duties of loyalty, due care, good faith, independence, candor and full disclosure to shareholders; misappropriated material, non-public information of FAB Universal, and violated of Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9 promulgated there under.

In 2009, West Chang'an Avenue Development Co., Ltd ("landlord") filed a lawsuit against FAB Media for unpaid rent and other payments due the landlord. The court ruled in favor of the plaintiff, and with this ruling the two parties reached a settlement, which included the implementation of the Lease Agreement commencing January 1, 2010. The ruling was that FAB pay rent in arrears, penalty and property fees totaling RMB 2 million ($0.32million USD). The landlord then filed a claim against the Company for rent in arrears.

NOTE 15 – COMMITMENTS AND CONTINGENCIES (Continued)

The Company appealed the decision, and the result was the court overturned the decision and remanded the case. However, after a retrial, the court ruled in favor of the plaintiff, and the company had to vacate the leased space, pay off the rent, property fees and penalty, totaling about RMB 5.9 million ($0.95 million USD).

The case went through second trial, and the retrial procedure did not change the verdict. Payment plus interest on the debt of period, the amount payable rose to RMB 7 million ($1.1 million USD). On May 23, 2014, the court ruled in favor of the plaintiff and the judgment for rent in arrears and penalty is RMB $7.5 million ($1.2 million USD). The judgment has been in force, and has entered into the implementation procedure. The Company has to fulfill the payment in an amount of approximately RMB $7.5 million ($1.2 million USD).

Commitments under leases:

Future minimum annual rental payments due are as follows:

Twelve months ending June 30,	Rental Commitments
2015	$ 1,507,625
2016	1,362,124
2017	818,844
2018	316,524
2019	111,684
Thereafter	-
Total	$ 4,116,801

NOTE 16 - SEGMENT REPORTING

ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organizational structure as well as information about geographical areas, business segments and major customers in financial statements for details on the Company's business segments.

The Company is engaged in distribution of digital entertainment products and services. The Company's chief operating decision maker ("CODM") has been identified as the CEO who reviews the financial information of separate operating segments when making decisions about allocating resources and assessing performance of the group. Based on management's assessment, the Company has determined that it has three operating segments as of June 30, 2014 which are wholesale, retail and Digital Media.

The following table presents summary information by segment for the six months ended June 30, 2014 and 2013, respectively (in thousands):

	2014				2013			
	Wholesale	Retail	Digital	Total	Wholesale	Retail	Digital Restated	Total Restated
Revenue	$ 10,306	$ 1,725	$ 16,571	$ 28,602	$ 27,750	$ 4,298	$ 16,446	$ 48,494
Cost of revenue	$ 8,438	$ 1,229	$ 2,408	$ 12,075	$ 21,999	$ 3,146	$ 3,479	$ 28,624
Gross Profit	$ 1,868	$ 496	$ 14,163	$ 16,527	$ 5,751	$ 1,152	$ 12,967	$ 19,870
Total assets	$ 69,115	$ 46,457	$ 110,440	$ 226,012	$ 51,754	$ 33,451	$ 125,684	$ 210,889
Depreciation and amortization	$ 395	$ 265	$ 2,989	$ 3,649	$ 128	$ 440	$ 2,786	$ 3,354

NOTE 16 - SEGMENT REPORTING – Continued

The following table presents summary information by segment for the three months ended June 30, 2014 and 2013, respectively (in thousands):

	2014				2013			
	Wholesale	Retail	Digital	Total	Wholesale	Retail	Digital	Total
Revenue	$ 4,420	$ 991	$ 8,446	$ 13,857	$ 13,991	$ 2,272	$ 9,594	$ 25,857
Cost of revenue	$ 3,620	$ 682	$ 1,421	$ 5,723	$ 10,810	$ 1,669	$ 1,884	$ 14,363
Gross Profit	$ 800	$ 309	$ 7,025	$ 8,134	$ 3,181	$ 603	$ 7,710	$ 11,494
Depreciation and amortization	$ 211	$ 142	$ 1,492	$ 1,845	$ 68	$ 222	$ 1,415	$ 1,705

NOTE 17 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 14, 2014, the date which the consolidated financial statements were available to be issued. All subsequent events requiring recognition as of June 30, 2014 have been incorporated into these consolidated financial statements, and besides the disclosures herein, there are no additional subsequent events that require disclosure in accordance with FASB ASC Topic 855, “Subsequent Events”.

Item 2.   Management's Discussion and Analysis.

Safe Harbor Statement.

Statements made in this Form 10-Q which are not purely historical are forward-looking statements with respect to the goals, plan objectives, intentions, expectations, financial condition, results of operations, future performance and business of FAB, including, without limitation, (i) our ability to gain a larger share of the distribution of Chinese copyright protected media content and podcast hosting and distribution industries, our ability to continue to develop products acceptable to that industry, our ability to retain our business relationships, and our ability to raise capital and the growth of the FAB brand, and (ii) statements preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond FAB's control) that could cause actual results to differ materially from those set forth in the forward-looking statements, including the following, in addition to those contained in our reports on file with the SEC: general economic or industry conditions, nationally and/or in the communities in which FAB conducts business, changes in the interest rate environment, legislation or regulatory requirements, conditions of the securities markets, changes in the industries in which we operate, the development of products that may be superior to the products offered by FAB, demand for financial services, competition, changes in the quality or composition of FAB's products, our ability to develop new products, our ability to raise capital, changes in accounting principles, policies or guidelines, financial or political instability, acts of war or terrorism, other economic, competitive, governmental, regulatory and technical factors affecting FAB's operations, products, services and prices.

Accordingly, results actually achieved may differ materially from expected results in these statements. Forward-looking statements speak only as of the date they are made. FAB does not undertake, and specifically disclaims, any obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Company Overview

Below is an update of our entire business, from the operations of our wholly-owned subsidiary Digital Entertainment International Ltd. ("DEI"), to our media business of podcast services, apps, advertising, and premium subscriptions. We believe our business of selling and distributing copyright protected media and content in China will grow and generate profits due to the brand recognition of FAB in China as well as the continued support of the government for copyright protection in China. We believe our Media business will also continue to grow and generate profits due to the size of our podcast operations, our market leadership position, our substantial presence in iTunes and the potential monetization of the content we distribute through our publishing platform, advertising, sale of Apps and paid subscriptions for content. It is Management's opinion that we are still in the early stages of growth for this industry as we are seeing the flow of quality content coming to the Internet increase and audiences showing increased interest in the medium. FAB Universal believes that our network and relevance in our industry will continue to grow and that we are positioned to be one of the leading companies in the podcast monetization business. Our business is broken into three segments including: Retail, Wholesale and Digital Media. In September 2013, FAB entered into an agreement with Future TV Co. Ltd. to distribute its copyright protected media content through pay TV terminals used in the home by Future TV's subscribers.

With the rising popularity of Internet and rapid development of e-commerce in China, simple offline retail business can't adapt to fierce market competition. Therefore, FAB decided to transform our retail business model from traditional retail stores to Online to Offline (O2O) experience stores, providing e-commerce companies with comprehensive offline services such as product exhibition and demonstration, online and mobile shopping demonstration, offline promotion, and entertainment based sales and marketing activities.

Retail

FAB has conducted the retail business through its flagship stores since 2003. We currently operate a 30,000 sq. ft. store in the prestigious Joy City shopping mall and an entertainment superstore in SoShow. Each store has over 20,000 square feet in size and carries the largest selection of copyright protected audio and video products in China, including CDs, VCDs, DVDs, blu-rays, books, magazines and portable electronic devices. The flagship stores are recognized by many Chinese consumers as the right place to buy copyright protected products.

The 20,000 square foot entertainment superstore is located in the Beijing shopping district of SoShow. The store is designed to satisfy the tastes of a swiftly emerging middle class with maturing entertainment expectations. FAB's SoShow store provides Beijing shoppers with its first audio-video "hypermarket." As a preferred venue for product announcements, publishing parties, studio releases, author readings, movie showings, live promotional performances and concerts, FAB's SoShow outlet is one of China's first ultra-modern entertainment destination for music lovers, film buffs, game enthusiasts, and early electronic adopters.

The SoShow flagship store offers many new electronic digital products and mobile storage devices while serving as a center for the 5C download supermarket of traditional copyright protected audio-video products. Consumers can download movies, songs, games, e-books and applications to mobile storage devices through the intelligent 5C Kiosk. Additionally, the 5C download supermarket also offers coupon printing, self-service payments, membership points checking, map searching and other consumer functions.

The Joy City Flagship store, located in the core area in Xidan, Beijing, has superior geographic advantages. In the fourth quarter of 2013 the Joy City store was remodeled, and reopened in the middle of December, 2013. As a result of the remodel, various digital facilities such as electronic display screens, offer enhanced social network functions and digital promotion tools in the Joy city store.

As the Company gradually transitions the stores to dedicate a larger portion of each store to digital services, as well as a move to selling higher margin products, we anticipate continuing to see a decrease in revenue within our stores for a period of time. This store transformation away from selling mostly traditional audio and video products to individualized items such as covers for mobile devices, and electronics combined with digital experience is anticipated to be a temporary reduction in revenue. We plan to open a third store during the second half of 2014 in Beijing.

To start the transformation, FAB signed cooperation agreement on July 31, 2013 with Jingcaigou (Beijing) Network Information Technology Co., Ltd., an e-commerce company related to FAB. As the first cooperative project, the name of FAB Joy City Flagship Store will change to "FAB Jingcai Gou Joy City Experience Store". We will offer certain display space for Jingcaigou to exhibit and experience products. We will also organize various entertainment marketing and promotional activities in the store. We will charge a promotion service fee and collect sales commission on a monthly basis.

Wholesale

FAB wholesale distribution provides audio-video products such as compact discs, video compact discs and digital video discs as well as books and magazines to audio-video product retailers. FAB distributes these media products to many customers including Sohu, Dangdang and Century Outstanding Information Technology Company, a subsidiary of Amazon.com. FAB's wholesale business caters to three types of customers: large retail stores, FAB license stores and small wholesale/resellers. Customers place orders by telephone, through the internet or in-person and fulfillment is handled by FAB's vehicle fleet or through direct warehouse access.

The ecommerce business is growing much faster than originally anticipated in China. With this change, many of our retailers are transitioning their retail stores similar to the changes we have made with our retail stores. With our customers move away from the traditional hard goods of audio and video, the outlook for 2014 would be that revenue generated by our Wholesale business will experience a decrease throughout 2014.

Digital Media

Licensing and Media

The twin components of our strategy are to increase our portfolio of content and expand the number of distribution channels. We have signed several copyright licensing agreements with several well-known distributors for additional content. Many of these distributors have long-term cooperation agreements with over 80 independent film producers in the United States. The terms of these agreements range from one to ten years and some are revenue sharing based agreements. This content is expected to be distributed across multiple distribution channels, primarily through digital platforms, thereby leveraging our cost of acquisition.

Through the agreements signed, we have obtained the right to distribute nearly 6000 hours of copyrighted content, including 1500 movies, 3451 TV series, and 100 hours of documentaries. High definition content accounts for 35% of the total, and exclusive content with sub-licensing rights accounts for more than 20%. The acquired copyrighted movies cover various genres including motion, romantic, horror, war, and comedy, of which, movies from Europe and American make up over 60%, and 20% movies were debuted in China for the first time. There are also 176 award winning or nominated movies at leading film festivals, such as Oscar, Cannes, Golden Globe, and Berlin. We have nearly 100 movies with exclusive as well as sub-licensing rights, including “The Company You Keep”, which was officially released to the public on July 8, 2014 in Mainland China, and “Her”, which won the 2014 Oscar for best original screenplay. Furthermore, FAB music teaching courses include more than 1000 hours of exclusive curricula and 72 hours of FAB originally produced curricula, including “music instruments grading test”, “instruments performance”, and “instruments skills instruction”. The “music instruments grading test” are delivered by director and deputy director from the National Grading Test Committee, and by well-known teachers from the Central Conservatory of Music (CCOM) as well as the China Conservatory of Music.
With our established media, new distribution opportunities and entertainment distribution platform and the power of the FAB brand, we believe that we have the fundamentals in place to drive growth as we increase our content offerings across an expanding number of distributions channels. In order to distribute content over mobile phones and the internet, the Chinese Government requires an internet publishing license which is granted by the General Administration of Press and Publication, the National Agency of Radio, Film and Television. FAB was granted a license by China’s Ministry of Commerce to license its business model.

FAB has sold 17,944 brand licenses, which allows the licensees to use FAB’s brand on the kiosks. FAB does not directly sell or own the media kiosks. FAB primarily generates revenue from the sale of FAB Brand licenses, advertising and FAB membership cards.

Prior to 2010, the Company’s business model consisted of brand licensing and agreements that allowed for the purchase and operation of kiosks under the FAB brand. After 2010, the Company only sold license agreements which were outside of Beijing. Collectively, these agreements from 2008-2013 are referred to generally as “licenses” and the parties who entered into the agreements are referred to as “licensees”. Not all kiosks possess the capability of performing all functions noted below.

The Kiosks provide a variety of functions, and some provide multiple functions. The great majority of the kiosks generate revenue from the sale of advertising. Some kiosks are ATM style terminals where consumers can download content directly to their cell phones, memory sticks or other mobile storage devices. Others provide directions or other services or offer coupons or other goods for sale.

FAB, to date, has sold 40 Regional Agent licenses. The Regional Agent pays an upfront fee of RMB 1,200,000, and a deposit of RMB 100,000. The license fee is non-refundable after 7 days and the contract period is five years. The Regional Agent is responsible for selling the individual licenses in each of their locations and for the development of the business with each licensee. Due to the changing market, the Regional Agents sold no additional licenses during the second quarter of 2014.

For each kiosk licensed outside of Beijing, the Licensee pays an upfront RMB 30,000 license fee upon signing the contract. The license fee is non-refundable after three days. The total contract period is five years. FAB pays 20% of each single license fee received (20% of RMB 30,000 = RMB 6,000) to the Regional Agent. The Licensee looks to the Regional Agent for assistance with acquisition of the kiosk, maintenance and operation of the kiosk, and development of the business.

FAB obtained an Internet Publishing License by China's General Administration of Press and Publication, the national agency of radio, film and television. This license grants FAB Universal the right to distribute both its exclusive and acquired copyright protected audio and video digital content over the Internet and mobile phone networks.

FAB Membership – Beijing Only

In order to retain customers and increase cross-sales, FAB launched its client retention program, the FAB membership program, in 2008. This program entitles customers to download digital content from FAB. The membership provides bonus points for member's purchasing products in any of the flagship stores. The bonus points can be exchanged for non-cash gifts.

As the Company is in the transitioning stage of its business model from traditional distribution channels to more diversified digital channels, including digital TV, IPTV, mobile and the internet, we are anticipating a dramatic decline of revenue in wholesale, retail, advertising and membership card going forward.

Cross-Platform Video Operation

The use of digital consumption channels for media in China is growing rapidly.   With this change we will transition our business more quickly than previously thought to provide digital content for consumption across multiple channels. This transition will take place throughout 2014.

The Cross-Platform Video Operation business will generate revenue from the distribution of FAB copyright-protected content across various digital platforms. Users pay a subscription fee for FAB's copyright protected content and the fee is shared between FAB and the digital platform utilized for the delivery of the content. These platforms include digital TV, IPTV, Smart TV, OTT, mobile and the Internet. Initial targets for partners for these platforms will be those with large, existing consumer bases.

Content

FAB has purchased the licenses or has the rights to distribute and broadcast movies, TV shows, and educational programming. FAB will continue to acquire the rights to content throughout 2014.

The distribution of this content will be through the various channels described below and will target large consumer bases through partnerships. To date, FAB has entered into eight agreements with distribution channels, and FAB will continue to pursue agreements with various channels for user paid subscriptions of the purchased content. We will acquire content for which we have the exclusive rights as well as sub-licensing rights for distribution. FAB will also acquire content for which we will have non-exclusive rights for distribution. Some of the agreements for non-exclusive content allow FAB to sub-license the content and others will not.

Digital and Internet TV Subscription Services

One-time view TV Services:

Fees will be generated through paid one-time access to individual content through Pay Per view (PPV) where a viewer must access the programming at a specific broadcast time and True Video on Demand (TVOD) where the programming is available any time. PPV and TVOD fees range from RMB 3 to 9 and FAB would receive a 50% split.

Monthly Subscription

Content is also offered on a monthly subscription basis for both Paid Channels of content (PTV) and Subscription Video on Demand (SVOD). Fees for these subscriptions range from RMB 10 to 30 and FAB would receive a 50 % split.

While these fees are not significant per charge, there is a very large consumer base in China, and we will target channel providers with a large number of consumers, such as Tongzhou Electronics TV Terminals and as we have with Future TV.

In September 2013, FAB entered into an agreement with Future TV Co. Ltd. to distribute its copyright-protected media content through pay TV terminals used in the home by Future TV's subscribers, and the trial operation kicked off in November 2013. Since cooperation with Future TV, FAB has officially launched subscription TV business, and our signed channels are growing. In May 2014, FAB entered into an agreement with Shenzhen Tongzhou Electronic Co. Ltd for DVB (Digital Video Broadcasting) and DVB+OTT cooperation. FAB also signed an agreement with Xinjiang Broadcast Network Co., Ltd for digital TV cooperation.   Shenzhen Tongzhou Electronic is China's leading enterprise in the digital TV industry, delivering more than 50 million set-top boxes for nearly 100 million viewers. Xinjiang Broadcast Network has more than 1.5 million viewers. Our goal is to have our Subscription TV network reach the majority of the households in China in five to ten years. This can be accomplished with our technical and management team, through the integration of digital TV (via cable network operators), IPTV and OTT (via telecom operators, and content aggregation licensing providers).

Mobile Phones and Tablets

With the increasing trend towards mobile device use and a growing consumer base, FAB will also partner with China's top mobile companies to distribute video. FAB copyright-protected content will be distributed to mobile users via mobile phones and tablets. This market segment is large and will continue to grow. For example, China Mobile Video Innovation base reaches an average of 130 million monthly users. Revenues from partnerships with mobile carriers will be based on revenue share for paid content and will be in the range of a 50/50 revenue share. In January 2014, FAB entered into an agreement with People Video Culture Co., Ltd., one of the top three (3) mobile companies with 2 million users and 1 million paid users. On June 20, 2014, FAB entered into an agreement with Beijing Ruoshuitongyun Information Technology Co., Ltd. for mobile video cooperation. Beijing Ruoshuitongyun has been granted a Mobile Audio-Video License by SARFT (State Administration of Radio, Film and Television) in China, and focuses on health care & medical care information distribution and Treatment Guide services based on internet video technology.

Internet

Content will be offered for free via the Internet on destination web sites. The web sites are ad-supported through display advertisements on the site as well as advertising inserted within in the videos themselves. The Advertising revenue split is normally 50/50.

FAB will partner with Baidu a leading destination web site for video. Baidu is the largest Chinese search engine with their video web side having accounted for over 75% of the entire network traffic distribution in China. The APP activated users has accumulate to approximately 100 million, with 20 million daily active users. Baidu also offers paid content packaging through user subscriptions for premium packaged content where FAB content can be included for a revenue share.

Libsyn

Libsyn is the subsidiary for our digital media and entertainment business. Libsyn is currently the industry's largest network of independent and professional digital media publishers utilizing RSS (podcasting) as a distribution method for episodic, audio and video shows. The Libsyn Network received over 1.6 billion download requests for shows in 2012, 1.9 billion in 2013 and 1.2 million in 2014 to approximately 38 million monthly audience members in the second quarter of 2014. Libsyn's publishing platform hosted 19,365 shows in 2014. Management believes that Libsyn offers the best podcast publishing platform in the industry and is one of only a few podcast publishing platforms that are able to charge publishers for use of the service. The majority of podcast publishing platforms offer their service for free, in hopes of making money exclusively from advertising sales. Management believes that our ability to charge for the services we provide is a testament to the quality of service. The total number of episodes on the network totaled 1,893,542 in 2014, all of which are available for immediate distribution. With the continuing success of iPods, iPhones, iPads, Android's mobile phones, we expect the number of content publishers using our service and the number of consumers watching the shows to continue to grow rapidly on an annual basis. LibsynPRO Enterprise service had 136 network publishers in 2014. As Libsyn derives a portion of its revenues through data transfer from PRO customers, our feature rich version of the PRO publishing platform provides management with the tools to grow the number of PRO publishers and thereby revenues associated with our data transfer business. For first six months of 2014, revenue from data transfer totaled $202,218.

LIBSYN – PUBLISHING SERVICES

Hosting, Distribution Network, Content, Platform Development

In the second quarter of 2014, the Libsyn Network received approximately 627 million download requests for podcast episodes vs. annual requests of 1.9 billion and 1.6 billion download requests in 2013 and 2012, respectively, from a wide variety of distribution outlets to which Libsyn syndicates content. The Libsyn network received over 6.9 million requests for shows per day during the second quarter of 2014. Our network reaches over 37 million people monthly around the world, creating what management believes is a strong media asset and a very compelling platform for advertisers as well as smartphone App sales. Download requests are calculated by counting the number of shows requested for download by audience members. Libsyn works to generate profits by inserting advertisements in the shows in partnership with the show's publishers, charging for the use of our publishing platform and through the sale of Apps. As the online digital media industry is in the emerging stages, the majority of these shows are distributed without advertising and the total download requests listed above are provided to give an understanding of the potential size of advertising inventory available for Libsyn's third party advertising partners and its in-house advertising sales team to fill.

Currently, Libsyn distributes digital shows for our producers to a variety of web portals and content aggregators, for both download and streaming. Approximately 70% of the shows Libsyn distribute reach audiences using Apple's iTunes platform which includes iTunes on the computer, iPods, iPads, iPhones and Apple TV. It is management's opinion that the Libsyn Network's substantial presence in the iTunes Podcast Store is one of the Company's valuable assets as consumers using iTunes are early adopters and spend money regularly on digital media. We believe this provides FAB with a unique offering for advertisers seeking that type of consumer and provides FAB with monetization opportunities for its podcast publishers through the sale of individual and network wide Apps.

Technological development in the second quarter was focused primarily on three objectives: Improving system performance, redeveloping the network management interface, and creating a new iOS application.

The first objective is a response to Libsyn's incredible growth over the previous few years. This growth necessitated changes to how Libsyn delivers certain types of content in order to ensure the system can reliably and efficiently handle the massive volume of requests.

During the second quarter, steady progress was made in migrating network management tools from the previous interface (Libsyn 3) to the new Libsyn 4 system. This network management interface permits network administrators to manage users, shows, episode quality control, and advertising campaigns. This migration is scheduled for completion during the third quarter.

A completely new version of the Libsyn iOS app was created. The app was redeveloped from the ground up and utilizes the latest conventions and features for iOS. This app is expected to become available for podcasts in the early part of the third quarter.

LIBSYN - APPS

Apps are small software applications that users can purchase and download to their mobile devices with relative ease. App categories include video games, sports, productivity, entertainment, education and health & fitness. Some of these Apps are free, while others have to be purchased. These Apps range in price from $.99 to $100.00, with the average price under $4.99. Producers who wish to offer their Apps for free to their users can now choose to do so for an initial set-up fee and additional ongoing monthly fee per show.

Sale of Podcast Apps

Libsyn created Apps that work on the iPhone and Android platforms and are currently for sale in the iTunes App Store, Verizon Store, Windows Store and the Amazon App Store. Libsyn currently has approximately 4,700 Apps for sale. Podcasters then market their very own App to their show's audience, many of whom use iPhones, iPods and Android phones.

Libsyn also offers Apps as a free monetizational tool to podcasters on the Libsyn Network as long as they have a qualifying monthly account. Currently, there are approximately 19,365 shows on the Libsyn Network and approximately 38 million audience members who consume podcasts. Libsyn submits each App for approval, which is not guaranteed and is based on the respective terms of service and approval process of the App Store, and manages the collecting of the revenue and distribution of the podcaster's share of the revenues. Libsyn expects to retain approximately 35% of the sale price that ranges from $.99 to $4.99 in most cases. These Apps are currently being sold around the world via Apple's App Store, the Verizon Store, Windows Store and the Amazon App Store. During the first six months of 2014, revenue from App and subscription sales totaled $378,753.

Libsyn developed a “Network App” which allows for hundreds of podcast Apps inside one fully functional App. This is very similar to Amazon’s Kindle App that includes tens of thousands of books inside one App. This Network App allows us to: 1) continue our business plan to offer App monetization tools to all producers in a streamlined, efficient process; 2) comply with the continually evolving and sometimes inconsistent App approval standards and their desire not to have ‘cookie-cutter’ Apps for all podcasts in iTunes in the App Store causing approval delays and rejections; 3) have more control over the actual marketing of the podcast Apps through expanded distribution of the Network App and cross promotional opportunities; 4) focus more time and attention on podcast shows with larger audiences that sell more apps than the smaller podcast shows.

Sale of Podcast Subscriptions and Episodes Via Custom Podcast Apps

Once a podcaster has successfully marketed an App to its audience and has created a significant install base, the podcaster offers new content on a subscription basis or release a special episode, in addition to its normal podcast episodes, and charge a nominal fee ($1 - $3) for that episode or episodes to its audience. By having a successful, extremely easy to use micropayment platform in iTunes/iPhone/iPod Touch, Android and Amazon, the podcast audiences are willing to pay a nominal fee ($1.99), from time to time, for special episodes of their favorite podcast and even sign up for inexpensive subscriptions ($.99 a month; $8.99 for 12 months) for new content. Libsyn earns a portion of the subscription and episode revenue for administering the App account and delivering the content to the consumer. This offering has been expanded for LibsynPro customers to include private podcast options. The podcasts are available to audiences via a login on the App and the subscriptions fees are paid by the companies or organizations based on the number of active monthly users.

LIBSYN - ADVERTISING

Libsyn executes multiple national brand advertising campaigns for companies including Audible, Hover and Ting. These campaigns run across multiple shows, with different advertisers, and resulted in $536,966 in advertising revenue during the first six months of 2014.

In order to increase the percentage of filled advertising inventory we must continue to execute on our advertising sales strategy, integrate third party ad networks and portals and create relationships with more advertising agencies and their clients. Management believes that most advertisers prefer to deal with a few companies with large reach rather than many companies with smaller reach as it makes their advertising ‘buys’ and tracking easier to monitor.

Results of Operations

Three Months Ended June 30, 2014 and 2013.

During the second quarter ended June 30, 2014, FAB recorded revenue of $13.9 million, a decrease of $12.0 million, from our revenue of $25.9 million in the same period of 2013.

This decrease was driven by a decrease in Wholesale from $14.0 million to $4.4 million, Retail from $2.3 million to $1.0 million, and Digital decreasing from $9.6 million to $8.4 million. The decrease in Wholesale is being driven by customers making changes in their business with a move away from traditional goods and a focus on delivery of digital content. For our retail stores, with the change to a digital experience and personalized products versus our traditional goods, we have seen a decrease in sales during the second quarter of 2014. Within the Digital segment, advertising delivered $2.5 million, FAB Memberships delivered $2.0 million, Cross Platform Video delivered $0.1 million and FAB Brand Licensing delivered $2.5 million with no brand license sales, and the Libsyn business generated $1.4 million.

During the second quarter of 2014, our cost of revenue was $5.7 million, a decrease of $8.7 million over the 2013 figure of $14.4 million. This decrease was due to the down-turn in sales experienced in the second quarter within our Wholesale and Retail segments, as well as a decrease of costs within our Digital segment. FAB generated a gross profit of $8.1 million in the second quarter of 2014, versus a gross profit of $11.5 million in the same period of 2013. Gross margin increased from 44% for the second quarter of 2013 to 59% in the second quarter of 2014 primarily because the digital segment represented 61% of the revenue in the second quarter of 2014 versus 37% of revenue during the second quarter of 2013.

In the second quarter of 2014, FAB had operating expenses of $5.3 million, as compared to $4.0 million in the second quarter of 2013. Our operating expenses consisted of:

- Selling expenses increased to $1.2 million in the second quarter 2014, from $1.0 million in the second quarter of 2013. The increase was driven by the addition of the development of the digital content subscription service, as well as personnel, marketing, travel expenditures and promotional activities associate with these services.
- General and administrative expenses increased to $3.9 million in the second quarter of 2014, from $2.5 million in the same period of the prior year. The increase was driven by the recording of non-cash expense for the vesting of stock options, and the increase in audit and legal fees.
- Consulting fees decreased to $0.1 million in the second quarter of 2014 from $0.4 million in the same quarter of 2013. These decreases in fees were driven by the reduction of investor relation services in the second quarter of 2014.
- Research and development costs for the quarter ended June 30, 2014 were $79,061 versus $73,189 for the same period in 2013.

Other expense increased to $0.5 million for the quarter ended June 30, 2014, versus $0.4 million for the same period in 2013. The increase is due primarily to the interest on the long-term bond.

Net income available to common stockholders decreased to $1.4 million for the quarter ended June 30, 2014, as compared to a net income available to common stockholders of $5.4 million for the same period in 2013. Basic and diluted earnings per common share were $0.07 in the second quarter of 2014, compared to $0.26 earnings per share for the second quarter of 2013.

<u>Six Months Ended June 30, 2014 and 2013</u>

During the first six months ended June 30, 2014, FAB recorded revenue of $28.6 million, a decrease of $19.9 million, from our revenue of $48.5 million in the same period of 2013.

This decrease was driven by a decrease in Wholesale from $27.7 million to $10.3 million, Retail from $4.3 million to $1.7 million, offset by Digital increasing from $16.4 million to $16.6 million. The decrease in Wholesale is being driven by customers making changes in their business with a move away from traditional goods and a focus on delivery of digital content. For our retail stores, with the change to a digital experience and personalized products versus our traditional goods, we have seen a decrease in sales during 2014. Within the Digital segment, advertising delivered $3.7 million, FAB Memberships delivered $4.7 million, Cross Platform Video delivered $0.4 million and FAB Brand Licensing delivered $4.9 million with no brand license sales, and the Libsyn business generated $2.7 million.

During the first six months of 2014, our cost of revenue was $12.1 million, a decrease of $16.5 million over the 2013 figure of $28.6 million. This decrease was due to the down-turn in sales experienced in the first six months within our Wholesale and Retail segments, as well as a decrease of costs within our Digital segment. FAB generated a gross profit of $16.5 million in the first six months of 2014, versus a gross profit of $19.9 million in the same period of 2013. Gross margin increased from 41% for the first six months of 2013 to 58% in the first six months of 2014 primarily because the digital segment represented 58% of the revenue in the first six months of 2014 versus 34% of revenue during the first six months of 2013.

In the first six months of 2014, FAB had operating expenses of $10.0 million, as compared to $8.2 million in the first six months of 2013. Our operating expenses consisted of:

- Selling expenses increased to $2.4 million, from $2.0 million in 2013. The increase was driven by the addition of the development of the digital content subscription service, as well as personnel, marketing and promotional activities associate with these services.
- General and administrative expenses increased to $6.7 million in 2014, from $5.1 million in 2013. The increase was driven by the recording of non-cash expense for the vesting of stock options, and the increase in audit and legal fees.
- Consulting fees decreased to $0.7 million in 2014 from $0.9 million in 2013. These fees were driven by the reduction of investor relation services during the first six months of 2014.

- Research and development costs for the six months ended June 30, 2014 were $157,043 versus $140,539 for the same period in 2013.

Other expense increased to $1.0 million for the six months ended June 30, 2014, versus $0.4 million for the same period in 2013. The increase is due to the interest on the long-term bond.

Net income available to common stockholders decreased to $3.4 million for the first six months of 2014, as compared to a net income available to common stockholders of $8.4 million for the same period in 2013. During the six months of 2014, non-cash expenditures totaled $4.0 million, as compared to $3.7 million for the same period of 2013. Basic and diluted earnings per common share were $0.16 in the first six months of 2014, compared to $0.41 per share for the same period of 2013.

The following is a summary of non-cash expenditures:

	For the Six Months Ended June 30, 2014	For the Six Months Ended June 30, 2013	For the Three Months Ended June 30, 2014	For the Three Months Ended June 30, 2013
NON-CASH EXPENDITURES				
Stock option grants	$ 324,079	$ 49,858	$ 137,110	$ 49,858
Depreciation and amortization expense	3,649,110	3,354,115	1,845,262	1,705,564
Non-cash expense	3,976,189	3,403,973	1,982,372	1,755,422
Expenditures paid with issuance of stock	-	329,600	-	164,800
Total non-cash expenditures	$ 3,976,189	$ 3,733,573	$ 1,982,372	$ 1,920,222

Liquidity and Capital Resources.

Current assets at June 30, 2014 included $99.8 million in cash and accounts receivable, an increase of $47.2 million, from our cash and accounts receivable of $52.6 million at June 30, 2013, while cash and accounts receivable were $107.1 million as of December 31, 2013. The decrease in cash position was driven by the purchase of copyright protected content and the repayment of notes payable during the first six months of 2014.

Net cash provided by operations was driven by the collection of account receivable as FAB shifts its business from a traditional wholesale and retail store environment to digital distribution of content.

Net cash used in investing activities during the first six months of 2014 was $663,412. The use was primarily for the purchase of copyright protected content to be used for distribution on multiple platforms.

During the six months ended June 30, 2014, cash used in financing activities was $777,345. This was the result of payment of short term notes payable as they came due during the first half of 2014. Operations are funded through the leverage of financial institutions with short-term bank loans. There was also a capital contribution to the VIE from the shareholders of the VIE. The contribution was done to be in compliance with changes in regulations that required a larger minimum capital contribution for a PRC business.

Off-balance sheet arrangements

As of June 30, 2014 and December 31, 2013, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")), which we refer to as disclosure controls, are controls and procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any control system. A control system, no matter how well conceived and operated, can provide only reasonable assurance that its objectives are met. No evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

In connection with the restatement of the consolidated financial statements in this Quarterly Report on Form 10-Q/A, the Company's management, including the Company's chief executive officer and the chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of June 30, 2014, the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were not effective.

The Company is conducting additional communication and disclosure training such that information required to be included in our filings is reported within the time periods required to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), occurred during the fiscal quarter ended June 30, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

FAB is involved in routine legal and administrative proceedings and claims of various types. We have no material pending legal or administrative proceedings, other than as discussed below or ordinary routine litigation incidental to our business, to which we or any of our subsidiaries are a party or of which any property is the subject. While any proceeding or claim contains an element of uncertainty, management does not expect that any such proceeding or claim will have a material adverse effect on our results of operations or financial position.

In November and December 2013, three putative class action lawsuits were filed in the federal court for the Southern District of New York against FAB Universal Corp., its CEO and its CFO. The actions are: *Simmons v. Spencer et al.* (1:13-cv-08216-RWS. filed 11/18/13), *Stubblefield v. Fab Universal Corp. et al.* (1:13-cv-08499-RWS, filed 11/27/13), and *Cox v. Fab Universal Corp. et al.* (1:13-cv-08716-RWS, filed 12/09/13). According to the complaints, defendants made false and/or misleading statements and failed to disclose material adverse facts about FAB's business, operations, prospects and performance. Plaintiffs allege that defendants overstated the number of kiosks that FAB had deployed. FAB's kiosks are "inundated with pirated digital entertainment content," and the company's Chinese subsidiary issued RMB 100 million ($16.4 million) worth of bonds to Chinese investors that are not reflected in the Company's publicly disclosed financial statements. Based on the foregoing, plaintiffs assert causes of action for violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs seek unspecified compensatory damages, recessionary damages, fees and costs.

In February 2014, two derivative actions were filed in the federal court for the Southern District of New York against its CEO, CFO and board of directors. The suits are *Thorbjonsen v. Spencer et al.* (1:14-cv-00687-UA, filed 02/03/14) and *Rowekamp v. Spencer et al*. (1:14-cv-01114-RWS, filed 02/21/14). Plaintiffs in the derivative action claim, on behalf of FAB Universal that Defendants breached their fiduciary duties of loyalty, due care, good faith, independence, candor and full disclosure to shareholders; misappropriated material, non-public information of FAB Universal, and violated of Section 14(a) of the Securities Exchange Act of 1934 and Rule 14a-9 promulgated there under.

We believe this complaint is without merit and plan to defend ourselves vigorously. Failure by us to obtain a favorable resolution of the claims set forth in the complaint could have a material adverse effect on our business, results of operations and financial condition. Currently, the amount of such material adverse effect cannot be reasonably estimated, and no provision or liability has been recorded for these claims as of June 30, 2014. The costs associated with defending and resolving the complaint and ultimate outcome cannot be predicted. These matters are subject to inherent uncertainties and the actual cost, as well as the distraction from the conduct of our business, will depend upon many unknown factors and management's view of these may change in the future.

In 2009, West Chang'an Avenue Development Co., Ltd ("landlord") filed a lawsuit against FAB Media for unpaid rent and other payments due the landlord. The court ruled in favor of the plaintiff, and with this ruling the two parties reached a settlement, which included the implementation of the Lease Agreement commencing January 1, 2010. The ruling was that FAB pay rent in arrears, penalty and property fees totaling RMB 2 million ($0.32million USD). The landlord then filed a claim against the Company for rent in arrears.

The Company appealed the decision, and the result was the court overturned the decision and remanded the case. However, after a retrial, the court ruled in favor of the plaintiff, and the company had to vacate the leased space, pay off the rent, property fees and penalty, totaling about RMB 5.9 million ($0.95 million USD).

The case went through second trial, and the retrial procedure did not change the verdict. Payment plus interest on the debt of period, the amount payable rose to RMB 7 million ($1.1 million USD). On May 23, 2014, the court ruled in favor of the plaintiff and the judgment for rent in arrears and penalty is RMB $7.5 million ($1.2million USD). The judgment has been in force, and has entered into the implementation procedure. The Company has to fulfill the payment in an amount of approximately RMB $7.5 million ($1.2million USD).

Item 1A. Risk Factors.

Not required for smaller reporting companies.

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

None; not applicable.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

Item 4. Mine Safety Disclosures.

None; not applicable.

Item 5. Other Information.

None; not applicable.

(c) During the quarterly period ended June 30, 2014, there were no changes to the procedures by which shareholders' may recommend nominees to the Company's board of directors.

Item 6. Exhibits .

(ii) Exhibit No.	Description
31.1	302 Certification of Christopher J. Spencer
31.2	302 Certification of John Busshaus
32	906 Certification.

SIGNATURES

Pursuant to the requirements 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.

Date:	*8/14/14*	*By:*	*/s/ Christopher J. Spencer* *Christopher J. Spencer* *Chief Executive Officer and President*
Date:	*8/14/14*		*/s/ John Busshaus* *John Busshaus* *Chief Financial Officer*