

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q/A1

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

For the quarterly period ended September 30, 2013

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

(State or other jurisdiction of incorporation or organization)

87-0609860

(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 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 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

Non-accelerated filer

Accelerated filer

Smaller reporting company

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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 November 4, 2013, there were 20,805,860 shares of common stock, par value \$0.001, of the registrant issued and outstanding.

Explanatory Note

This Amendment No. 1 (this “Amendment”) on Form 10-Q/A, which amends and restates items identified below with respect to the Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2013 filed by FAB Universal Corp. Limited (the “Company”) with the Securities and Exchange Commission (the “SEC”) on November 14, 2013 (the “Original Form 10-Q”), is being filed to reflect revisions to Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, each item of the Original Form 10-Q that was affected by the restatement has been amended and restated in its entirety. No material changes have been made in this Form 10-Q/A to update other disclosures presented in the Original Form 10-Q, except as required to reflect the effects of the restatement. This Form 10-Q/A does not reflect events occurring after the filing of the Original Form 10-Q or modify or update those disclosures, including the exhibits to the Original Form 10-Q affected by subsequent events. The following sections of this Form 10-Q/A have been amended to reflect the restatement:

- Part I—Item 1—Consolidated Financial Statements, and
- Part I—Item 2—Management's Discussion and Analysis or Plan of Operation
- Part I—Item 4—Controls and Procedures

This Form 10-Q/A is dated as of a current date and includes as exhibits 31.1, 31.2, and 32 new certifications by the Company's Chief Executive Officer and Chief Financial Officer as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the Original Form 10-Q.

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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.

FAB UNIVERSAL CORP AND SUBSIDIARIES
FINANCIAL STATEMENTS

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FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ASSETS	September 30, 2013		December 31, 2012
	Restated		
CURRENT ASSETS:			
Cash	\$ 59,444,652		\$ 19,671,937
Accounts receivable, net	10,264,310	[1]	6,927,045
Advances to suppliers, net	81,500		154,770
Inventory	6,552,797		5,207,008
Deferred tax assets, current	2,537,494		1,771,799
Other current assets	713,113		979,021
Total current assets	<u>79,593,866</u>		<u>34,711,580</u>
Property, and equipment, net	16,482,771		16,720,637
Goodwill	61,538,155		60,652,957
Intangible assets, net	24,730,658		27,875,748
Deferred tax assets, non-current	5,237,776		3,346,166
Long-term deposits	39,476,943		24,488,131
Total assets	<u>\$ 227,060,169</u>		<u>\$ 167,795,219</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans	\$ 1,797,849		\$ 2,072,619
Accounts payable	7,451,436		6,471,270
Accrued expenses	3,710,012		3,077,785
Deferred revenue, current	13,094,805		8,250,402
Taxes payable	2,804,354		1,603,821
Due to related parties	122,184		41,341
Other payable	1,956,728		1,910,378
Total current liabilities	<u>30,937,368</u>		<u>23,427,616</u>
Long-term deposits from customers	2,359,053		2,474,604
Deferred revenue, non-current	24,978,957		7,923,450
Long-term bond payable	16,336,933		-
Long-term payables	-		39,204
Total liabilities	<u>74,612,311</u>		<u>33,864,874</u>
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY			
Preferred Stock	-	[2]	-
Common stock	20,806	[3]	20,469
Additional paid-in capital	207,716,509		206,786,139
Accumulated other comprehensive income	3,766,299		1,384,365
Accumulated deficit	(59,055,756)		(74,260,628)
Total stockholders' equity	<u>152,447,858</u>		<u>133,930,345</u>
Total liabilities and stockholders' equity	<u>\$ 227,060,169</u>		<u>\$ 167,795,219</u>

[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

[4] \$.001 par value, 200,000,000 shares authorized, 20,468,860 shares issued and outstanding

FAB UNIVERSAL CORP AND SUBSIDIARIES
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The accompanying notes are an integral part to the unaudited condensed consolidated financial statements.

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	Restated		Restated	
Revenue	\$ 29,751,523	\$ 1,745,015	\$ 78,245,155	\$ 3,462,498
Cost of Revenue	15,661,462	784,226	44,285,593	1,446,422
Gross Profit	<u>14,090,061</u>	<u>960,789</u>	<u>33,959,562</u>	<u>2,016,076</u>
OPERATING EXPENSES				
Selling expenses	1,392,280	84,507	3,368,451	181,106
General and administrative	3,032,927	4,095,442	8,150,717	5,582,699
Consulting fees	378,578	1,491,591	1,309,170	2,452,027
Research and development	83,388	73,337	223,927	209,086
Total Expenses	<u>4,887,173</u>	<u>5,744,877</u>	<u>13,052,265</u>	<u>8,424,918</u>
Income (loss) from continuing operations	<u>9,202,888</u>	<u>(4,784,088)</u>	<u>20,907,297</u>	<u>(6,408,842)</u>
OTHER INCOME (EXPENSE):				
Gain on disposal of assets	-	-	-	6,000
Interest income	40,941	132	77,961	217
Interest (expense)	(515,291)	(160)	(881,556)	(160)
Other income (expense)	(48,255)	(876)	(132,599)	(1,779)
Total Other Income (Expense)	<u>(522,605)</u>	<u>(904)</u>	<u>(936,194)</u>	<u>4,278</u>
Income (loss) from continuing operations before income taxes	8,680,283	(4,784,992)	19,971,103	(6,404,564)
Income tax expense	1,864,547	52,352	4,766,231	52,352
Net income (loss) from continuing operations	<u>6,815,736</u>	<u>(4,837,344)</u>	<u>15,204,872</u>	<u>(6,456,916)</u>
Net income from discontinued operations, net of tax	-	(113,929)	-	178,276
Net Income (loss)	<u>6,815,736</u>	<u>(4,951,273)</u>	<u>15,204,872</u>	<u>(6,278,640)</u>
Other comprehensive income				
Foreign currency translation gain	348,923	337,560	2,381,934	337,560
COMPREHENSIVE INCOME (LOSS)	<u>\$ 7,164,659</u>	<u>\$ (4,613,713)</u>	<u>\$ 17,586,806</u>	<u>\$ (5,941,080)</u>
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS				
	<u>\$ 0.33</u>	<u>\$ (0.50)</u>	<u>\$ 0.73</u>	<u>\$ (0.73)</u>

FAB UNIVERSAL CORP AND SUBSIDIARIES
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BASIC AND DILUTED INCOME PER COMMON SHARE FROM DISCONTINUED OPERATIONS	0.00	(0.01)	0.00	0.02
BASIC AND DILUTED INCOME (LOSS) PER COMMON SHARE	\$ 0.33	\$ (0.51)	\$ 0.73	\$ (0.71)
BASIC AND DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	20,805,860	9,724,735	20,741,007	8,861,498

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

	For The Nine Months Ended	
	September 30, 2013	September 30, 2012
	Restated	
Cash Flows from Operating Activities		
Net income (loss) from continuing operations	\$ 15,204,872	\$ (6,456,916)
Net income from discontinued operations	-	178,276
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock issued to employees and consultants	329,600	5,312,783
Non-cash compensation - options vested	236,827	5,086
Gain on disposal of equipment	-	(6,000)
Deferred tax benefit	(2,545,302)	-
Depreciation and amortization expense	5,066,622	83,038
Change in assets and liabilities:		
Accounts receivable	(3,191,914)	242,969
Advances to suppliers	(81,500)	-
Prepaid expenses	285,139	(2,895)
Inventory	(1,242,351)	210,068
Accounts payable	867,169	(605,634)
Accrued expense	960,545	(146,527)
Taxes payable	1,162,586	132,814
Deferred revenue	21,524,261	53,717
Net Cash Provided by (Used in) Continuing Operations	38,576,554	(999,221)
Net Cash Provided by Discontinued Operations	-	100,071
Net Cash Provided by (Used in) Operating Activities	38,576,554	(899,150)
Cash Flows from Investing Activities:		
Cash acquired from Acquisition of DEI	-	13,413,658
Purchases of property and equipment	(423,974)	(10,483)
Purchases of copyrights	(492,787)	-
Cash of discontinued operations	-	(405,700)
Proceeds from sale of equipment	-	6,000
Payment of long-term deposits	(14,279,029)	-
Net Cash (Used in) Provided by Investing Activities	(15,195,790)	13,003,475
Cash Flows from Financing Activities:		
Issuance of common Stock	-	1,108,923
Proceeds from notes payable	1,621,044	-
Proceeds from long-term bond offering	16,336,933	-
Proceeds from related party	80,137	-
Payments of notes payable	(2,122,915)	-
Net Cash Provided by Financing Activities	15,915,199	1,108,923

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS		
Effect of Exchange Rate Fluctuation on Cash	476,752	40,331
Net Increase in Cash	39,772,715	13,253,579
Cash at Beginning of Period	19,671,937	1,447,465

(Continued)

Supplemental Disclosure of Non- Cash Investing and Financing Activities:

	For the Nine Months Ended	
	September 30, 2013	September 30, 2012
Value of stock issued upon exercise of options for services	-	4,159,800
Cashless exercise of warrants	-	67,086
Expenditures paid with issuance of stock	329,600	953,504

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

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 and business model. It also includes the revenue share for advertising on kiosks, 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.

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-branded kiosks, located in high-traffic areas of office buildings, shopping malls, retail stores and airports, are self-service terminals that provide a range of entertainment and consumer applications.

FAB Media was incorporated as a private enterprise in the PRC and is primarily engaged in operating and providing proprietary multimedia kiosk technology for music downloads, information exchange and advertising.

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. (“BFHTT”) in May 2013.

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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; FAB Media may not enter into any other agreements with any third party to receive consulting service without the prior consent of DGC;

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION (Continued)

- 4) 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;
- 5) The shareholders of FAB Media have irrevocably 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 of the 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation - The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with rules of the Securities and Exchange Commission relating to interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles ("US GAAP") for complete financial statements. In the opinion of the management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. 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, 2012 included in the Company's annual report on Form 10-K filed on March 15, 2013 and DEI's audited consolidated financial statements included in Form 8-K filed on September 28, 2012.

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

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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 the 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 September 30, 2012 have been reclassified to conform to the headings and classifications used in the September 30, 2013 financial statements.

Stock Split - On February 23, 2012, the Company effected a 1 for 12 reverse stock-split. All references to stock issuances and per share data have been retroactively adjusted to reflect this stock-split.

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 September 30, 2013 no reserve for slow-moving or obsolete inventory was 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 Bulletins Nos. 101 and 104.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The Company sells packaged and custom software products and related voice recognition product development consulting. Software product revenues are recognized upon shipment of the software product only if no significant Company obligations remain, the fee is fixed or determinable, and collection is received or the resulting receivable is deemed 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.

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

FAB UNIVERSAL CORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

consolidated balance sheet accounts are translated into U.S. dollars at the period-end exchange rates (6.1211 RMB to \$1 at September 30, 2013) and all revenue and expenses are translated into U.S. dollars at the average exchange rates prevailing during 2013 (6.1689 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.

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:

	<u>Estimated Useful Life</u>
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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 nine months ended September 30, 2013.

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Income Taxes - The Company is subject to the income tax laws of the 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 September 30, 2013 and 2012 (See note 10 – Capital Stock and note 13- Contingencies).

Concentrations - For the three months and nine months ended September 30, 2013 and 2012, no individual customer accounted for more than 10% of the total revenues. No single customer accounted for more than 10% of total outstanding accounts receivable as of September 30, 2012.

For the three months and nine months ended September 30, 2013 and 2012, no individual vendor accounted for more than 10% of the total purchase. No single vendor accounted for more than 10% of total outstanding accounts payable as of September 30, 2013 and 2012.

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill consists of:

	September 30, 2013	December 31, 2012
Digital Entertainment International - DEI	\$ 50,053,904	\$ 49,168,706
Webmayhem Inc.(Libsyn)	11,484,251	11,484,251
Total Goodwill	<u>\$ 61,538,155</u>	<u>\$ 60,652,957</u>

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

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

On July 15, 2013, the Company purchased program broadcast non-exclusive copyright of \$13,874 (RMB 85,000) from Xi'an Jiayunshe Digital Entertainment Distribution Co., LTD. On August 16, 2013, the Company purchased program broadcast non-exclusive copyright for \$26,931 (RMB 165,000) from Beijing Universal Audio and Video Club. On August 28, 2013, the Company purchased program broadcast non-exclusive copyright of \$48,966 (RMB 300,000) from Beijing Langsi Culture Development Co., LTD. On September 1, 2013, the Company purchased program broadcast non-exclusive copyright of \$ 407,896 (RMB 2,500,000) from H.G.C Entertainment Limited. These assets are being amortized on a straight-line basis over their estimated useful lives.

FAB UNIVERSAL CORP AND SUBSIDIARIES
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As of September 30, 2013, identifiable intangible assets consist of following:

	<u>Fair Value</u>	Weighted Average Useful Life (in Years)	Accumulated <u>Amortization</u>	Currency Translation <u>Adjustment</u>	Net Carrying <u>Amount</u>
Customer Relationships	\$ 8,900,000	3	\$ 3,054,384	\$ 231,137	\$ 6,076,753
Intellectual Property	4,300,000	3	1,475,713	111,672	2,935,959
Trade name	13,876,000	(a)	(a)	413,712	14,289,712
Copyrights	493,449	2	25,282	-	468,167
Non-compete agreements	1,885,200	2	970,469	45,336	960,067
Total	<u>\$ 29,454,649</u>		<u>\$ 5,525,848</u>	<u>\$ 801,857</u>	<u>\$ 24,730,658</u>

(a) The FAB trade name has been determined to have an indefinite life and is not amortized.

Amortization expense for the three months ended September 30, 2013 and 2012 was \$ 1,395,533 and \$0, respectively. Amortization expense for the nine months ended September 30, 2013 and 2012 was \$4,108,444 and \$0, respectively.

The estimated future amortization expenses related to other intangible assets exclusive of the trade name as of September 30, 2013 are as follows:

For twelve months ending September 30,	
2014	\$ 5,592,796
2015	4,634,281
2016	213,869
	<u>\$</u>
Total	<u>10,440,946</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2013 and December 31, 2012 consist of the following:

	September 30, 2013	December 31, 2012
Accounts receivable	\$ 10,278,310	\$ 6,941,045
Allowance for doubtful accounts	(14,000)	(14,000)
Accounts receivable, net	<u>\$ 10,264,310</u>	<u>\$ 6,927,045</u>

Currently, the Company grants credit to customers with a 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:

	September 30, 2013	December 31, 2012
Electronic equipment	<u>\$</u>	<u>\$</u>

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	1,567,644	1,436,466
Office furniture and equipment	61,057	54,077
Vehicles	368,908	57,471
Building	13,983,877	13,997,618
Leasehold improvements	3,672,511	3,607,563
	19,653,997	19,153,195
Less: Accumulated depreciation	(3,171,226)	(2,432,558)
	\$	\$
Total property and equipment, net	16,482,771	16,720,637

Depreciation expense for the three months ended September 30, 2013 and 2012 was \$ 316,975 and \$12,787, respectively. Depreciation expense for the nine months ended September 30, 2013 and 2012 was \$958,179 and \$26,530, respectively.

NOTE 6 – LONG-TERM DEPOSITS

Long term deposits consist of following:

	September 30, 2013	December 31, 2012
Prepayments for setting up flagship stores	\$ 21,238,012	\$ 20,862,420
Anti-piracy sales guarantee deposits	4,901,080	3,370,083
Prepayment for real estate purchase	13,069,546	-
Rent deposits	268,305	255,628
Total Long-Term Deposits	\$ 39,476,943	\$ 24,488,131

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.

NOTE 7 – SHORT-TERM LOANS

Short-term bank loans consist of a \$1,641,862 loan from Bank of Communications and a \$155,987 loan from Prime Rate Premium Finance Corp as of September 30, 2013.

Short-term bank loans are primarily used for working capital needs.

On March 31, 2013, FAB Digital entered into a loan agreement with Bank of Communications (“BCM”) for a one-year term loan due March 28, 2014 in the amount of RMB 10,000,000 (approximately \$1.6 million). The interest rate of the loan is approximately 7.8%, which is a variable interest rate based on the one year benchmark rate of the similar loans plus 30 basis points. The loan is collateralized by copyrights of FAB Digital.

On September 23, 2012, FAB Digital entered into a loan agreement with Bank of Communications (“CM”) for a one-year term loan due October 10, 2013 in the amount of RMB 50,000 (approximately \$0.008 million). The interest rate of the loan is approximately 6.00%, which is a variable interest rate, based on the one year benchmark rates of similar loans published by the People’s Bank of China.

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – SHORT-TERM LOANS (Continued)

On April 25, 2012, FAB Digital entered into a loan agreement with China Merchants Bank (“CMB”) for a short term loan due April 25, 2013 in the amount of RMB 10,000,000 (Approximately \$1.6 million). The loan has a variable interest rate based on the one year benchmark rates of similar loans published by the People’s Bank of China plus 35 basis points, adjustable on a monthly basis. In connection with the loan agreement, the Company’s Chairman, and major shareholder, entered into a pledge agreement with Beijing Lianhekaiyuan Investment and Guarantee Co. LTD (“LIGC”), the loan was guaranteed and collateralized by the software copyrights owned by the chairman and major shareholder. The loan was fully repaid on May 31, 2013.

On October 1, 2012, FAB Universal entered into a financing agreement with Prime Rate Premium Finance Corp for an 18 month loan due January 1, 2014 in the amount of \$573,750. The loan has a 4.25% interest rate and the loan will be repaid over 15 equal monthly installments of \$39,343.

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.

NOTE 9 – 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 and BFHTT are subject to EIT at a statutory rate of 25%. FAB Media was qualified as a High and New Technology Enterprise in the Beijing High-Tech Zone on December 24, 2010, and is entitled to a preferential tax rate of 15% through December 2013. After December 2013, the tax rate will become 25% if FAB Media does not qualify as a High and New Technology Enterprise.

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 recorded deferred tax assets which represent temporary differences arising primarily from deferred revenue and the allowance for doubtful accounts. Deferred tax assets are as follows:

	September 30, 2013	December 31, 2012
Current deferred tax assets		
Deferred revenue	\$ 2,537,494	\$ 1,771,799
Valuation allowance	-	-
Net current deferred tax assets	<u>\$ 2,537,494</u>	<u>\$ 1,771,799</u>

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Non-current deferred assets			
Deferred revenue	\$	5,237,776	\$ 3,346,166
Valuation allowance		-	-
Net non-current deferred tax assets		<u>5,237,776</u>	<u>3,346,166</u>
	\$	<u>7,775,270</u>	\$ <u>5,117,965</u>

NOTE 9 – INCOME TAXES (Continued)

FAB Universal is incorporated in the U.S. and incurred a net operating loss for income tax purposes. As of September 30, 2013, the estimated net operating loss carryforwards for U.S. income tax purposes amounted to \$52,086,000 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 September 30, 2013. The net change in the valuation allowance for the nine months ended September 30, 2013 and 2012 was an increase of approximately \$86,000 and \$2,537,000, respectively. Management reviews this valuation allowance periodically and makes adjustments as necessary.

NOTE 10 - CAPITAL STOCK

Preferred Stock - The Company has authorized 10,000,000 shares of preferred stock, \$.001 par value. As of September 30, 2013, 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 13 – 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 shares issued at the closing of the Share Exchange Agreement on September 26, 2012), 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.

1 for 12 Reverse Stock Split – On February 8, 2012, the Company shareholders approved a 1 for 12 reverse stock-split for shareholders of record on February 23, 2012. All share and per share amounts in the accompanying consolidated financial statements have been restated to reflect the split. The Company issued 2,739 common shares for the fractional shares resulting from the split.

Common Stock - The Company has authorized 200,000,000 shares of common stock, \$.001 par value. As of September 30, 2013, the Company had 20,805,860 common shares issued and outstanding.

On May 24, 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 consultants for services rendered.

FAB UNIVERSAL CORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On February 24, 2012, the Company issued 37,500 common shares upon the exercise of options valued at \$63,000 to consultants and employees for services rendered.

On March 21, 2012, the Company issued 28,334 common shares upon the exercise of options valued at \$47,601 to consultants and employees for services rendered.

On March 21, 2012, the Company issued 429,169 common shares valued at \$721,004 to consultants and employees for services rendered.

On May 29, 2012, the Company issued 70,553 common shares valued at \$118,529 to management for services rendered.

On June 4, 2012, the Company issued 37,254 common shares valued at \$76,371 to management for services rendered.

NOTE 10 - CAPITAL STOCK (Continued)

On August 2, 2012, the Company issued 15,784 common shares upon the cashless exercise of warrants valued at \$67,086.

On August 14, 2012, the Company entered into a Warrant Amendment Agreement with holders of its Common Stock Purchase Warrants. Under the terms of the Agreement, the parties agreed to reduce the exercise price of the Warrants from \$5.16 per share to \$3.25. The Warrant Holders exercised 341,207 warrants for 341,207 shares of the Company's Common Stock. The Company received proceeds of \$1,108,923, and recorded \$117,659 of non-cash expense for the re-pricing of the warrants.

On August 27, 2012, the Company issued 925,177 common shares upon the exercise of options valued at \$3,201,112 to consultants, employees, management and board members.

On August 29, 2012, the Company issued 50,000 common shares valued at \$118,529 to consultant for services rendered.

On September 26, 2012, the Company completed the acquisition of all of the issued and outstanding shares of capital stock of DEI, a company incorporated under the law of the Hong Kong Special Administrative Region in exchange for the issuance of a total of 10,282,611 "unregistered" and "restricted" shares of the Company's common stock, representing 49% of the Company's issued and outstanding common shares, on a fully-diluted basis, immediately after the closing. (see note 13 – Contingencies)

On September 28, 2012, the Company issued 123,000 common shares upon the exercise of options valued at \$632,220 to consultants for services.

Effective October 1, 2012, FAB Universal Corp spun-off FHA, a wholly owned. Each shareholder of FAB Universal received one share of common stock of FHA for each share of FU held as of the record date of September 5, 2012. FHA is traded on the OTCBB under the ticker symbol "FUTU".

NOTE 11 – STOCK OPTIONS AND WARRANTS

At September 30, 2013, 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 entitled to receive the shares of stock originally represented by the warrant upon subsequent exercise of the warrant and any additional consideration, the "Alternate Consideration".

FAB UNIVERSAL CORP AND SUBSIDIARIES
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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, officers and directors 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 2013 and the options that remain available under each plan.

NOTE 11 – STOCK OPTIONS AND WARRANTS (Continued)

Plan Name	Total Available	Options Exercised During 2013	Remainin g Available
2013 Plan	3,000,000	0	3,000,000
2012 Plan	3,000,000	0	1,788,667
2010 Plan	166,667	0	0
2009 Plan	166,667	0	0
2008 Plan	16,667	0	28
2008 Key Employee Plan	33,334	0	260
2007 Plan	16,667	0	12
2007 Key Employee Plan	16,667	0	0
2006 Key Employee Plan	11,459	0	0
Total	6,428,128	0	4,788,967

There were 250,000 options granted during the first nine months of 2013. The options granted during 2012 were immediately vested and exercised. Therefore, their fair value was the same as the market price of the stock issued when exercised.

The Company had no non-vested options at the beginning of the year. At September 30, 2013 the Company had 250,000 options granted that remain unexercised.

During the three months ended September 30, 2013 and 2012, the Company recorded \$186,969 and \$0 of non-cash compensation expense related to the vested stock options issued to directors and employees. For the three months September 30, 2013 and 2012, the Company recorded non-cash compensation cost of \$0 and \$3,854,299 for vested and exercised options issued to management, board members, employees and consultants.

FAB UNIVERSAL CORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the nine months ended September 30, 2013 and 2012, the Company recorded \$236,827 and \$5,086 of non-cash compensation expense related to the vested stock options issued to directors and employees. For the nine months September 30, 2013 and 2012, the Company recorded non-cash compensation cost of \$0 and \$4,159,800 for vested and exercised options issued to management, board members, employees and consultants.

NOTE 12 - INCOME PER COMMON SHARE

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

	<u>For the Three Months</u> <u>Ended September 30,</u>		<u>For the Nine Months</u> <u>Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	<u>Restated</u>		<u>Restated</u>	
Net income (loss) from continuing operations	\$ 6,815,736	\$ (4,837,344)	\$ 15,204,872	\$ (6,456,916)
Net income (loss) from discontinued operations	-	(113,929)	-	178,276
Net income (loss) available to common shareholders (numerator)	<u>\$ 6,815,736</u>	<u>\$ (4,951,273)</u>	<u>\$ 15,204,872</u>	<u>\$ (6,278,640)</u>
Weighted average number of common shares outstanding during the period used in basic and diluted loss per share (denominator)	<u>20,805,860</u>	<u>9,724,735</u>	<u>20,741,007</u>	<u>8,861,498</u>

At September 30, 2013, the Company had 99,060 warrants outstanding to purchase common stock of the Company at \$5.16 per share and the Company has 250,000 options outstanding to purchase common stock of the Company at \$3.52 per share, which were not included in diluted earnings per share computation as they were anti-dilutive.

At September 30, 2012, 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 loss per share computation because their effect would be anti-dilutive.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Contingent Consideration for the Acquisition of DEI The Company's Board of Directors have 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 of the DEI acquisition (further discussed in Note 1):

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(i) As DEI and the VIE Entity successfully completed all of the Corporate Governance Objectives for two (2) consecutive and complete reporting quarters after the Closing, the Company's Board of Directors released the voting rights to 50% of the Initial Company Shares or 5,139,911 shares held by the designees. The Board of directors maintain the voting rights to the remaining 50% of the Initial Company Shares, or 5,142,700 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

(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.

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.

NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

Contingencies:

As additional consideration for the acquisition, the Company issued 290 share 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 Objective and attaining certain financial results.

The Preferred Stock is 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 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 shares of the Company's common stock. These sales revenue and net income objectives were attained for fiscal year 2011.

(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 shares of the Company's common stock. The sales revenue and net income objectives were attained for fiscal year 2012.

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Pending lawsuit - In April 2010, FAB Media filed suit against Beijing Times Square Development Company in the Beijing Xicheng District People’s Court, alleging breach of contract of an agreement entered into with the defendants in 2008 and seeking damages of \$281,942 (RMB1,800,000). As of the date of this report, the lawsuit remains pending. The management of FAB Media expects they will settle with Beijing Time Square Development Company through the mediation of the court.

Commitments under leases:

Future minimum annual rental payments due are as follows:

Twelve months ending September 30,	Rental Commitments
2014	\$ 1,245,129
2015	1,201,650
2016	897,784
2017	395,944
Total	\$ 3,740,507

NOTE 14 – RESTATEMENT OF PREVIOUSLY ISSUED UNAUDITED QUARTERLY FINANCIAL INFORMATION

Subsequent to the issuance of our interim financial statements for the third quarter 2013, management became aware of several financial statement errors due to an unreported bond offering (see Note 8). The Company has restated certain line items in the unaudited consolidated financial statements. The restatement impact on the unaudited condensed consolidated statements consist of the following items:

Consolidated balance sheet

- reflect the net proceeds on the bond offering in cash totaling \$15.8 million;
- reflect the deferred financing costs as a prepaid expense of \$419,000 as of September 30, 2013. The amount represents the underwriter’s fee which is amortized on a straight-lined basis over the life of the bond (3 Years);
- reflect the accrual of interest expense (\$778,000) on the bond as accrued expense. The amount represents interest due to the holders of the bond through September 30, 2013. Interest on the bond is paid on an annual basis.
- reflect the long-term bond payable of \$16.3 million as of September 30, 2013.

Consolidated statement of operations and comprehensive income (loss)

- The net impact of interest expense, deferred financing costs and interest income reflect a \$476,000 and \$820,000 decrease of net income for the three and nine month periods ended September 30, 2013, respectively.

Consolidated statement of cash flows

- As a result of above and restatement, the corresponding line items on the consolidated statements of cash flows have been restated.

The effect of restatement and the impact on the quarterly unaudited condensed consolidated balance sheet as of September 30, 2013, the unaudited consolidated statement of operation and comprehensive income (loss) for the three and nine month periods ended September 30, 2013, and the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2013, are presented below.

FAB UNIVERSAL CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(includes only restated accounts)

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	As of September 30, 2013		
	As restated	As previously reported	Changes Inc(dec)
Cash	\$ 59,444,652	\$ 43,575,330	\$ 15,869,322
Other current assets	713,113	293,724	419,389
Total current assets	79,593,866	63,305,155	16,288,711
 Total assets	 227,060,169	 210,771,458	 16,288,711
Accrued expenses	3,710,012	2,932,105	777,907
Total current liabilities	30,937,368	30,159,461	777,907
Long-term bond payable	16,336,933	-	16,336,933
Total liabilities	74,612,311	57,497,471	17,114,840
Accumulated other comprehensive income	3,766,299	3,772,701	(6,402)
Accumulated deficit	(59,055,756)	(58,236,029)	(819,727)
Total stockholders' equity	152,447,858	153,273,987	(826,129)
Total liabilities and stockholders' equity	\$ 227,060,169	\$ 210,771,458	\$ 16,288,711

NOTE 14 – RESTATEMENT OF PREVIOUSLY ISSUED UNAUDITED QUARTERLY FINANCIAL INFORMATION –
(Continued)

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

	For the Three Months Ended Sept. 30, 2013			For the Nine Months Ended Sept. 30, 2013		
	As restated	As previously reported	Change Inc(dec)	As restated	As previously reported	Change Inc(dec)
Interest income	\$ 40,941	\$ 27,079	\$ 13,862	\$ 77,961	\$ 55,638	\$ 22,323
Interest (expense)	(515,291)	(66,523)	448,768	(881,556)	(109,677)	771,879
Other income (expense)	(48,255)	(7,458)	40,797	(132,599)	(62,428)	70,171
Total Other Income (Expense)	(522,605)	(46,902)	475,703	(936,194)	(116,467)	819,727
Income (loss) from continuing operations before income taxes	8,680,283	9,155,986	(475,703)	19,971,103	20,790,830	(819,727)
Net income (loss) from continuing operations	6,815,736	7,291,439	(475,703)	15,204,872	16,024,599	(819,727)
Net Income (loss)	6,815,736	7,291,439	(475,703)	15,204,872	16,024,599	(819,727)
Foreign currency translation gain	348,923	354,277	(5,354)	2,381,934	2,388,336	(6,402)
COMPREHENSIVE INCOME (LOSS)	\$ 7,164,659	\$ 7,645,716	\$ (481,057)	\$ 17,586,806	\$ 18,412,935	\$ (826,129)

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BASIC AND DILUTED INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS	\$ 0.33	\$ 0.35	\$ (0.02)	\$ 0.73	\$ 0.77	\$ (0.04)
BASIC AND DILUTED INCOME PER COMMON SHARE	\$ 0.33	\$ 0.35	\$ (0.02)	\$ 0.73	\$ 0.77	\$ (0.04)

FAB UNIVERSAL CORP AND SUBSIDIARIES
 NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 NOTE 14 – RESTATEMENT OF PREVIOUSLY ISSUED UNAUDITED QUARTERLY FINANCIAL INFORMATION –
 (Continued)

FAB UNIVERSAL CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (includes only restated accounts)

	For the Nine Months Ended September 30, 2013		
	As restated	As previously reported	Change Inc/ (dec)
Cash Flows from Operating Activities			
Net income (loss) from continuing operations	\$ 15,204,872	\$ 16,024,599	\$ (819,727)
Change in assets and liabilities:			
Prepaid expenses	285,139	704,528	(419,389)
Accrued expense	960,545	182,638	777,907
Net Cash Provided by continuing operations	38,576,554	39,037,763	(461,209)
Net Cash Provided by Operating Activities	38,576,554	39,037,763	(461,209)
Cash Flows from Financing Activities:			
Proceeds from long-term bond offering	16,336,933	-	16,336,933
Net Cash Provided by (Used in) Financing Activities	15,915,199	(421,734)	16,336,933
Effect of Exchange Rate Fluctuation on Cash	476,752	483,154	(6,402)
Net Increase (decrease) in Cash	39,772,715	23,903,393	15,869,322
Cash at Beginning of Period	19,671,937	19,671,937	-
Cash at the end of Period	\$ 59,444,652	\$ 43,575,330	\$ 15,869,322

NOTE
15 –

RELATED PARTIES

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

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

Amounts due to related parties are as follows:

	September 30, <u>2013</u>	December 31, <u>2012</u>
Guangdong Endless Culture co., Ltd	\$ -	\$ 4,814
Zhang Hongcheng	122,184	36,527
Total due to related parties	\$ <u>122,184</u>	\$ <u>41,341</u>

Mr. Zhang Hongcheng paid certain professional fees on behalf of FAB Media for the quarter ended September 30, 2012. Subsequently, DEI received a loan in the amount of \$85,000 from Mr. Zhang Hongcheng.

FAB Media has four 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.

FAB UNIVERSAL CORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Subsequently, FAB Media entered into a sublease agreement with GEC. The average monthly rent expense is \$47,420. FAB Media paid the rental and promotion expense to Xidan Joy City directly. See Note 8 for other related party transaction.

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 September 30, 2013 which are wholesale, retail and FAB kiosks/licensing. The Company has reclassified the segment reporting as of and for the three and nine months ended September 30, 2012 to conform to the headings and classification used for 2013.

The following table presents summary information by segment for the nine months ended September 30, 2013 and 2012, respectively (in thousands):

	2013				2012			
	Wholesale	Retail	Digital	Total	Wholesale	Retail	Digital	Total
Revenue	\$ 41,728	\$ 6,815	\$ 29,702	\$ 78,245	\$ -	\$ -	\$ 3,462	\$ 3,462
Cost of revenue	\$ 33,126	\$ 4,989	\$ 6,170	\$ 44,285	\$ -	\$ -	\$ 1,446	\$ 1,446
Gross Profit	\$ 8,602	\$ 1,826	\$ 23,532	\$ 33,960	\$ -	\$ -	\$ 2,016	\$ 2,016
Total assets	\$ 60,353	\$ 38,744	\$ 127,963	\$ 227,060	\$ -	\$ -	\$ 158,411	\$ 158,411
Depreciation and amortization	\$ 190	\$ 661	\$ 4,215	\$ 5,067	\$ -	\$ -	\$ 83	\$ 83

NOTE 16 - SEGMENT REPORTING (Continued)

The following table presents summary information by segment for the three months ended September 30, 2013 and 2012, respectively (in thousands):

	2013				2012			
	Wholesale	Retail	Digital	Total	Wholesale	Retail	Digital	Total
Revenue	\$ 13,978	\$ 2,517	\$ 13,256	\$ 29,751	\$ -	\$ -	\$ 1,745	\$ 1,745
Cost of revenue	\$ 11,127	\$ 1,843	\$ 2,691	\$ 15,661	\$ -	\$ -	\$ 784	\$ 784
Gross Profit	\$ 2,851	\$ 674	\$ 10,565	\$ 14,090	\$ -	\$ -	\$ 961	\$ 961
Depreciation and amortization	\$ 63	\$ 221	\$ 1,429	\$ 1,713	\$ -	\$ -	\$ 12	\$ 12

NOTE 17 – SUBSEQUENT EVENTS

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On January 7, 2014, the Board of Directors decided not to purchase the Longyuan building, and the Company has started the process for the return of the deposit.

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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 the Company, including, without limitation, (i) our ability to gain a larger share of the digital media, our ability to continue to develop products and services acceptable to those industries, our ability to retain our business relationships, and our ability to raise capital and the growth of the digital media business, and (ii) statements preceded by, followed by or that include the words "may", "would", "could", "should", "expects", "projects", "anticipates", "believes", "estimates", "plans", "intends", "targets", "tend" or similar expressions.

Forward-looking statements involve inherent risks and uncertainties, and important factors (many of which are beyond the Company'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 the Company's reports on file with the Securities and Exchange Commission: general economic or industry conditions, nationally and/or in the communities in which the Company conducts business, changes in the interest rate environment, currency fluctuation, legislation or regulatory requirements, conditions of the securities markets, changes in the digital media and/or speech recognition technology industries, the development of products and/or services that may be superior to the products and services offered by the Company, competition, changes in the quality or composition of the Company's products and services, our ability to develop new products and services, 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 the Company'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. The Company 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 continue to 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. The network growth of our media operation has occurred faster than initially expected and 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 at a rapid pace 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 (Kiosk/Licensing/Podcasting). In order to expand our business of media entertainment and copyright transaction, in June 2013 we

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made approximately a \$13 million dollar refundable deposit to purchase real estate in Miyun, Beijing, which purchase was subject to the approval of the Company's board of directors, pursuant to a Memorandum of Understanding entered into by BFHTT with the relevant sellers. On January 7, 2014, the Board of Directors decided not to purchase the Longyuan building, and the Company has started the process for the return of the deposit.

Retail

DEI 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 in Beijing, China and an entertainment superstore in SoShow in Beijing, China, opened in October 2012. Each store is 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. FAB markets products to individual consumers. The flagship stores are recognized by many Chinese consumers as the right place to buy copyright protected products.

Celebrity signing events are a major driver to FAB's retail stores which have been used as a popular venue for Chinese music and movie stars to meet their fans. Additionally, many stars outside mainland China, mostly from Hong Kong, Taiwan, Korea and Japan, wishing to enter the Chinese market choose FAB as their launching platform. FAB flagship stores regularly host such events. Those events not only promote sales of audio-video products but also increase our FAB brand recognition.

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

FAB's 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 the latest 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, digital printing and other consumer functions. The FAB-branded intelligent 5C Kiosk is the leading multimedia digital network terminal providing services in China.

FAB's SoShow mall location is traditionally famed as a bustling shopping area near Chongwenmen, a sprawling Beijing shopping district just off the East Second Ring Road. Hundreds of thousands of daily shoppers visit the district and frequent popular and ultra-modern shops that benefit from high foot traffic.

Wholesale

FAB wholesale distribution provides audio- visual products such as compact discs, video compact discs and digital video discs as well as books and magazines to audio- visual products retailers. FAB distributes these media products to over 80 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.

With over 100 suppliers and 80 wholesale customers, including the Chinese Government, the wholesale business segment is growing with DEI and strongly positioned to be the leader in copyright protected material as the media entertainment industry continues to expand in China.

Digital Media

Kiosks

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The Intelligent Media Kiosks, based on 61 proprietary national intellectual property rights, are ATM style terminals where consumers can download copyrighted music, video games, ringtones, digital books and movies directly to their cell phones, memory sticks or other mobile storage devices. The Media Kiosks can also run video ads on the high-tech LCD screens and accept payments for utility bills, metro cards, and credit card bills.

FAB was granted a license by China’s Ministry of Commerce to license its business model that has been well received by entrepreneurs throughout the country. FAB has quickly grown its nationwide business network through its license and regional agent programs and to date has expanded to over 40 cities and now has sold kiosks and/or brand licenses to operate 16,820 Kiosks and the rights to run FAB’s proprietary software on the kiosk terminals.

The FAB kiosk technology platform is an innovative self-service vending model designed and launched by DEI in 2008. The kiosks target the millions of mobile and portable device users combing interactive touch screen and LED display with a large selection of copyrighted content such as music, movies and games. The content is contained on internal hard drives within each terminal thereby eliminating bandwidth download problems associated with the internet and providing content owners with a secure closed system for digital file protection and accurate transparent accounting. The terminals are updated and monitored via web-linked electronic communications. There is licensed digital entertainment content files in each kiosk, such as music, movie and TV episodes, which allows the customer to play or download to their portable device or memory card with payment by cash, FAB membership card or ATM card. Kiosks are located in high-traffic areas, such as, office buildings, shopping malls, and retail stores. Revenue is generated by selling pre-paid membership cards, charging licensing fees and providing advertising.

FAB does not directly sell or own the Media Kiosk. FAB generates revenues from its Kiosk business through the sale of licenses, media membership card sales, kiosk-based advertising and to a lesser extent, media content download.

The FAB Intelligent Media Kiosks have greatly enhanced consumer ease-of-purchase while reducing the appeal of pirated content, positively transforming market dynamics in China for legitimate content and facilitating licensing opportunities with traditional media publishers who desire safe access to the world’s largest, fastest-growing consumer market. In addition to media content terminals, FAB’s kiosk technology also addresses the specific needs of banks, supermarkets, shopping malls, office buildings, government offices, tourist resorts, university campuses and libraries and provides a foundation for the building of intelligent digital cities of the future.

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 Chinese copyright protected audio and video digital content over the Internet and mobile phone networks.

FAB Membership

In order to retain customers and increase cross-sales, DEI launched its client retention program, the FAB membership program in 2008. This program entitles customers to download digital content from FAB kiosks at lower costs than non-member customers. During the third quarter, sale of membership card reached more than 143,000. The membership provides bonus points for member’s purchasing products in any of the flagship stores. The bonus points can be exchanged later for non-cash gifts. FAB offers the following membership levels:

	Price	Duration	Number of Downloads	
Libsyn Media Libsyn is the our digital entertainment	RMB 100	3-month	Points are used when downloading different content. The range is 1-3 points per song, film, coupon, etc. 1 point=RMB 1 yuan So the download number for a card depends on what content the member accesses.	subsidiary for media and business.
	RMB 200	12-month		
	RMB 300	12-month		
	RMB 400	12-month		
	RMB 500	12-month		

Libsyn is currently the industry’s largest network of independent and professional digital media publishers utilizing RSS

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(podcasting) as a distribution method for episodic, audio and video shows. The Libsyn Network received over 450 million download requests for shows in 2006, 1 billion download requests in 2007, 1.2 billion download requests in 2008, 1.4 billion download requests in 2009, 1.6 billion in 2010, 1.3 billion in 2011 and 1.6 billion in 2012 to approximately 50 million total audience members throughout the year. Libsyn's publishing platform hosts 15,368 shows in the third quarter of 2013. 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 1,607,196 during the third quarter of 2013, all of which are available for immediate distribution. With the continuing success of iPods, iPhones, iPads, Android's mobile phones, Blackberry's smartphones, 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 has 104 network publishers. 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 generates revenue associated with our data transfer business. During the first nine months of 2013, revenue from data transfer totaled \$401,672.

Libsyn – Publishing Service

In 2012 the Libsyn Network received approximately 1.6 billion download requests for podcast episodes vs. 1.3 billion download requests in 2011, from a wide variety of distribution outlets to which Libsyn syndicates content. The Libsyn network received over 5.2 million requests for shows per day throughout 2013. Our network reaches over 32 million people 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 distributes' 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.

The third quarter was a strong quarter for development of Libsyn products as significant improvements were made to the publishing platform, premium subscription service, and mobile app offerings. The first of these improvements resulted in a beta preview of the next generation Libsyn publishing platform (Libsyn 4). The Libsyn 4 platform allows podcasters to manage their podcasts from a greater variety of devices and web browsers including tablets. The user interface was reorganized to make Libsyn's functionality more transparent and easy to use.

The MyLibsyn premium subscription service was also significantly upgraded to provide the subscriber user interface with greatly improved aesthetics, easier use, and it's tailored for both desktop and mobile devices.

The embeddable HTML5 player was also modified to better integrate with MyLibsyn. The embedded player can now be placed on any web page. This Player that now contains premium content will direct prospective audience members to log in to MyLibsyn or purchase subscriptions to access premium content. In larger players, subscriptions can be purchased from directly within the player, thus lowering the technical barriers to making purchases.

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Producers also gained a new tool for their premium offerings. They may now send emails to their subscribers from within the Libsyn 4 publishing platform. This tool allows for increased engagement with their audiences and provides more value to their premium subscription offerings.

The reach of Libsyn into app stores expanded in the third quarter of 2013 as new apps debuted in two markets: The Windows Store and the Windows Phone Store. Windows Store apps may be installed on computers and tablets running the Microsoft Windows 8 operating system while Windows Phone Store apps can be installed on Microsoft Windows 8 Phone devices. With these two app markets, Libsyn published over 1,300 new apps.

Libsyn Android apps received an upgrade treatment by gaining functionality closer to the capabilities of their respective iOS versions.

Libsyn - Apps

Apps are small software applications that users can purchase and download to their iPhone and iPod Touch mobile devices with relative ease. During 2012, there were over 500,000 Apps in the App Store that have been downloaded by consumers over 25 billion times. 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. FAB continues to push the Apps market using its podcast network and active podcasters to promote the Apps to consumers. **Apple, Amazon and Verizon retain 30% of all App sales to cover the cost of running the App Store and App owners/developers receive 70% of the sales proceeds. FAB believes it can continue to generate revenue through the iTunes Store, Verizon Store and Amazon App Store, and are briefly outlined below.**

Sale of Podcast Apps

FAB created Apps that work on the iPhone and Android platforms and are currently for sale in the iTunes App Store, Windows 8 Market and the Amazon App Store. FAB currently has approximately 4,813 Apps for sale. Podcasters then market their very own App to their show's audience, many of whom use iPhones, iPods and Android phones. Management believes podcasters can be very successful marketing Apps to their audience, as they know their audience better than anyone else and are great influencers of their audience. The reasons Management believes an audience member would want to purchase Apps are: 1) Easier, faster access to the content. 2) Bonus content exclusively for App users. 3) Inexpensive and easy way to support their favorite podcasts. 4) Social communication features.

FAB currently offers this App as a free monetizational tool to podcasters on the Libsyn Network as long as they have a qualifying monthly account. Currently, there are approximately 15,368 shows on the Libsyn Network and approximately 32 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. FAB 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 and the Amazon App Store. In the first nine months of 2013, revenue from App and subscription sales totaled \$343,296.

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. As a result of this change in 'go to market' strategy for iPhone Apps, FAB believes it could enhance revenues going forward due

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to the fact that we will have more control over the marketing of, wider distribution and more opportunities to generate revenues with a Network App. For our Amazon App products, we plan to continue to create individual Apps for podcasts on our network and off network, focusing on podcasts with the largest audiences.

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 charges 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. FAB earns a portion of the subscription and episode revenue for administering the App account and delivering the content to the consumer.

Libsyn - Advertising

In the first nine months of 2013, Libsyn has executed multiple national brand advertising campaigns for companies including Audible, Hover and Ting. These campaigns run across multiple shows, with different advertisers, resulting in \$655,599 in advertising revenue.

Libsyn's Alchemy system is able to handle the insertion of advertisements into audio and video shows with geographical targeting capabilities, which was used for multiple advertising campaigns throughout 2013. 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. Client results of our largest advertising execution to date were excellent in Management's opinion and we expect more buys from the client in the future. We have now had multiple advertisers renew campaigns with Libsyn, demonstrating what Management believes is excellent back-end ad operational customer service on FAB's part and a satisfactory return on investment for our clients. Libsyn currently has 22 distinct ad categories we take to market. As the number of publishers joining Libsyn's Advertising Network grows, so does the available advertising inventory for Libsyn's advertising sales team to sell.

Results of Operations

Three Months Ended September 30, 2013 and 2012.

During the third quarter ended September 30, 2013, FAB recorded revenue of \$29.7 million, an increase of \$28.0 million, from our revenue of \$1.7 million in the same period of 2012. This increase was driven by an increase in revenue from the acquisition of DEI. During the third quarter of 2013, DEI reported \$28.3 million of revenue. During the third quarter of 2013, revenue from the wholesale segment of DEI generated \$14.0M in revenue with the retail segment providing \$2.5M and Kiosks/licensing delivering \$11.8M. The Libsyn business saw revenue of \$1.4 million with significant increases in hosting fees, ad revenue and the addition of subscription revenue. The increase in hosting fees was due to the increase in the number of producers using our services.

During the third quarter of 2013, our cost of revenue was \$15.7 million, an increase of \$14.9 million over the 2012 figure of \$0.8 million. This increase was driven by the addition of the DEI business and cost of revenue for the sale of copyright protected media. The costs driving DEI's cost of revenue are the cost of the media being sold, the cost to deliver the media to the customer, and the license fee to the copyright holders. We also saw an increase in our Advertising Sharing and Subscription sharing costs and credit card fees during the third quarter of 2013 in our Libsyn business, which was driven by the

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increase in sales of our services. FAB generated a gross profit of \$14.1 million in the third quarter of 2013, versus a gross profit of \$1.0 million in the same period of 2012.

In the third quarter of 2013, FAB had operating expenses of \$4.9 million, as compared to \$5.7 million in the third quarter of 2012. Our operating expenses consisted of:

- Selling expenses increased to \$1.3 million in the third quarter 2013, from \$0.1 million in the third quarter of 2012. The increase was due to the addition of staff and related salaries and social insurance. Also, the increase is due to the increase in advertising commissions resulting from the increase in ad revenue.
- General and administrative expenses decreased to \$3.0 million in the third quarter of 2013, from \$4.1 million in the same period of the prior year. The decrease was because of the issuance of stock to employees, officers and directors during the third quarter of 2012 offset by the addition of DEI and the administrative costs associate with this business. Consulting fees decreased to \$0.4 million in the third quarter of 2013 from \$1.5 million in the same quarter of 2012. This is due to the payment of consultants with stock in 2012 combined with the reduced spending for consulting services during the third quarter of 2013.
- Research and development costs for the quarter ended September 30, 2013 were \$83,388 versus \$73,337 for the same period in 2012.

Net income available to common stockholders increased to \$6.8 million for the quarter ended September 30, 2013, as compared to a net loss available to common stockholders of \$5.0 million for the same period in 2012. This increase in net income available to common stockholders for 2013 was due to the acquisition of DEI. Basic and diluted earnings per common share were \$0.33 in the third quarter of 2013, compared to \$0.51 loss per share for the third quarter of 2012.

Nine Months Ended September 30, 2013 and 2012

During the first nine months ended September 30, 2013, FAB recorded revenue of \$78.2 million, an increase of \$74.7 million, from our revenue of \$3.5 million in the same period of 2012. This increase was driven by an increase in revenue from the acquisition of DEI. During the first nine months of 2013, DEI reported \$74.5 million of revenue. During the first nine months of 2013, revenue from the wholesale segment of DEI generated \$41.7M in revenue with the retail segment providing \$6.8M and Kiosks/licensing delivering \$26.0M. The Libsyn business added revenue of \$3.7 million with significant increases in Hosting fees, ad revenue and the addition of subscription revenue. The increase in hosting fees was due to the increase in the number of producers using our services.

During the first nine months of 2013, our cost of revenue was \$44.3 million, an increase of \$42.9 million over the 2012 figure of \$1.4 million. This increase was driven by the addition of the DEI business and cost of revenue for the sale of copyright protected media. The costs driving DEI's cost of revenue are the cost of the media being sold, the cost to deliver the media to the customer, and the license fee to the copyright holders. We also saw an increase in our advertising sharing costs, bandwidth cost and credit card fees during the first nine months of 2013 in our Libsyn business, which was driven by the increase in sales of our services. FAB generated a gross profit of \$34.0 million in the first nine months of 2013, versus a gross profit of \$2.0 million in the same period of 2012.

In the first nine months of 2013, FAB had operating expenses of \$13.0 million, as compared to \$8.4 million in the first nine months of 2012. Our operating expenses consisted of:

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- Selling expenses increased to \$3.3 million in the first nine months of 2013, from \$0.2 million in the first nine months of 2012. The increase was due to the addition of DEI, adding \$3.2 million of incremental selling expense driven by advertising commission and salaries and wages.
- General and administrative expenses increased to \$8.2 million in the first nine months of 2013, from \$5.6 million in the same period of the prior year. The increase was driven because of the addition of DEI with a focus on future business development plans, renovation of office space and the addition of salaries and wages to support this new business. Consulting fees remained decrease to \$1.3 million in the first nine months of 2013 versus \$2.5 million in the same period of 2012. The decrease was due to the payment consultants for work performed in 2012 related to the acquisition of DEI
- Research and development costs for the first nine months of 2013 were \$223,927 versus \$209,086 for the same period in 2012.

Net income available to common stockholders increased to \$15.2 million for the first nine months of 2013, as compared to a net loss available to common stockholders of \$6.3 million for the same period in 2012. This increase in net income available to common stockholders for 2013 was due to the acquisition of DEI. Basic and diluted earnings per common share were \$0.73 in the first nine months of 2013, compared to \$0.71 loss per share for the same period of 2012.

The following is a summary of non-cash expenditures:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2013	2012	2013	2012
NON-CASH EXPENDITURES				
Stock option grants	\$ 236,827	\$ 5,086	\$ 186,969	\$ 727
Depreciation and amortization expense	5,066,622	83,038	1,706,762	71,076
Non-cash expense	<u>5,303,449</u>	<u>88,124</u>	<u>1,893,731</u>	<u>71,803</u>
Expenditures paid with issuance of stock	<u>329,600</u>	<u>5,312,783</u>	<u>-</u>	<u>4,286,279</u>
Total non-cash expenditures	<u>\$ 5,633,049</u>	<u>\$ 5,400,907</u>	<u>\$ 1,893,731</u>	<u>\$ 4,358,082</u>

Liquidity and Capital Resources.

Current assets at September 30, 2013 included \$69.7 million in cash and accounts receivable, an increase of \$43.1 million, from our cash and accounts receivable of \$26.6 million at December 31, 2012. The increase is due to cash provided by the operations of DEI, specifically, in net cash provided by operating activities and. The increase in cash is driven by the collection of cash upfront for signing long term license agreements for our 5C Kiosk business, and the proceeds received from the issuance of the bond totaling \$15.8 million.

Net cash used in investing activities during the first nine months of 2013 was \$15,195,790 versus cash provided by investing activities of \$13,003,475 during the first nine months of 2012. The decrease was driven by the payment of a long-term refundable deposit of \$13 million for the purchase of real estate in the first nine months of 2013. On January 7, 2014, the Board of Directors decided not to purchase the Longyuan building, and the Company has started the process for the return of the deposit.

FAB UNIVERSAL CORP AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the nine months ended September 30, 2013, cash provided by financing activities was \$15.9 million which was due primarily to the proceeds received from the bond offering, proceeds borrowed of \$1.6 million off-set by the repayment of notes payable totaling \$2.1 million. In the first nine months of 2012, the Company had \$1.1M of cash provided by financing activities from the issuance of stock in the third quarter of 2012.

Off-balance sheet arrangements

As of September 30, 2013 and December 31, 2012, 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 September 30, 2013, 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 September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Item 1. Legal Proceedings.

FAB Universal is involved in routine legal and administrative proceedings and claims of various types. We have no material pending legal or administrative proceedings, other than 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.

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.

- (b) During the quarterly period ended September 30, 2013, there were no changes to the procedures by which shareholders' may recommend nominees to the Company's board of directors.

Item 6. Exhibits.

(b) Exhibits

Exhibit No. Document Description

- | | |
|------|---|
| 31.1 | Certification of Chief Executive Officer (Principal Executive Officer) pursuant to Rule 13A-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer (Principal Financial Officer) pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act |

FAB UNIVERSAL CORP AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350 (Section 906
of the Sarbanes-Oxley Act

101 Interactive Data File

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 1/21/14

:

By: /s/ Christopher J. Spencer

*Christopher J. Spencer
Chief Executive Officer and
President*

Date 1/21/14

:

/s/ John Busshaus

*John Busshaus
Chief Financial Officer*