

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

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

For the transition period from _____ to _____.

CHINA VOIP & DIGITAL TELECOM INC.
(Exact name of registrant as specified in the Charter)

Nevada

(State or other jurisdiction of incorporation or organization)

333-131017

(Commission File No.)

91-2132336

(IRS Employee Identification No.)

**11th Floor Tower B1, Yike Industrial Base, Shunhua Rd,
High-tech Industrial Development Zone, Jinan, China 250101**

(Address of Principal Executive Offices)
(Address of Principal Executive Offices)

86-53187027114

(Issuer Telephone number)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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 filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 15, 2009:
53,008,000 shares of common stock.

CHINA VOIP & DIGITAL TELECOM INC.

FORM 10-Q

March 31, 2009

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PART 1 - FINANCIAL INFORMATION

- Item 1. Financial Statements**

CHINA VOIP & DIGITAL TELECOM INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2009

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CHINA VOIP & DIGITAL TELECOM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2009 AND DECEMBER 31, 2008
(UNAUDITED)

	MARCH	DECEMBER
	<u>31, 2009</u>	<u>31, 2008</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 112,534	\$ 341,331
Accounts receivable	171,831	157,580
Advance to suppliers	1,456,750	934,419
Inventories - net	744,628	631,897
Due from related parties	87,851	49,795
Loans receivable	1,642,213	1,636,497
Other current assets, net	138,518	147,155
Total Current Assets	4,354,325	3,898,674
Long-term prepaid expenses, net	299,842	339,188
Property & Equipment, net	2,522,098	2,621,197
Intangible Assets, net	1,655,347	1,729,254
Total Assets	<u>\$ 8,831,612</u>	<u>\$ 8,588,313</u>
Liabilities & Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 91,176	\$ 3,361
Short-term loans	1,416,969	977,503
Warrant Liability	6,572,534	1,164,299
Accrued expenses and other current liabilities	892,218	703,532
Due to related party	20,000	20,000
Total Current Liabilities	8,992,897	2,868,695
Long term Liabilities-Convertible debt	2,129,630	1,712,963
Stockholders' Equity		
Common Stock, part value \$.001 per share, 75,000,000 shares authorized; 53,008,000 shares issued and outstanding as of March 31,2009 and December 31,2008	53,008	53,008
Additional paid-in-capital	3,408,515	3,408,515
Shares to be cancelled	(1,212,000)	(1,212,000)
Other comprehensive income	750,156	702,466
Statutory reserves	228,633	228,633
Retained Earnings (accumulated deficit)	(5,519,227)	826,033
Total Stockholders' Equity	<u>(2,290,915)</u>	<u>4,006,655</u>
Total Liabilities and Stockholders' equity	<u>\$ 8,831,612</u>	<u>\$ 8,588,313</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

CHINA VOIP & DIGITAL TELECOM INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

	March 31,	
	2009	2008
Net revenues	\$ 1,593,004	\$ 1,999,741
Cost of revenue	1,435,727	1,007,556
Gross profit	157,277	992,185
Operating Expenses :		
Selling, general and administrative	333,500	282,745
Depreciation and amortization	207,734	43,006
Total operating expenses	541,234	325,751
Income (loss) from operations	-383,957	666,434
Other income (expenses)		
Interest income	5,932	620
Interest expenses	(214,239)	(187,500)
Subsidy income	44,144	10,322
Amortization of convertible debt	(416,667)	(416,667)
Change in derivative liability	(5,408,235)	(4,671,258)
Other income(expense)	27,761	14,023
Total other income (expense)	(5,961,304)	(5,250,460)
Net loss before income tax	(6,345,261)	(4,584,026)
Income tax	-	(14,319)
Net loss	<u>(6,345,261)</u>	<u>(4,598,345)</u>
Other comprehensive gain		
Foreign currency translation gain	47,690	360,112
Net comprehensive loss	<u>\$ (6,297,571)</u>	<u>\$ (4,238,233)</u>
NET EARNINGS (LOSS) PER COMMON SHARE - BASIC & DILUTED		
Basic	<u>\$ (0.12)</u>	<u>\$ (0.08)</u>
Diluted	<u>\$ (0.12)</u>	<u>\$ (0.08)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC & DILUTED		
Basic	<u>53,008,000</u>	<u>53,008,000</u>
Diluted	<u>53,008,000</u>	<u>55,300,370</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

CHINA VOIP & DIGITAL TELECOM, INC AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2009 AND 2008
(UNAUDITED)

	March 31,	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income (loss)	\$(6,345,261)	\$(4,598,345)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of beneficial conversion feature	416,667	-
Change in derivative liability	5,408,235	4,671,258
Depreciation and amortization	207,734	43,006
Reserve for bad debts	-	116,255
Amortization of debt discount and fund raising fee	35,497	453,664
Increase/(decrease) in operating assets:		
Accounts receivable	(14,050)	35,415
Inventories	(111,973)	(11,053)
Advances to suppliers	(521,082)	(812,304)
Prepaid expenses and other assets	10,291	(836,951)
Increase/(decrease) in operating liabilities:		
Accounts payable	87,798	(17,497)
Deferred revenue	(20,750)	-
Accrued expenses and other current liabilities	208,720	155,237
Total Adjustments	<u>5,707,087</u>	<u>3,797,030</u>
Net cash used in operating activities	<u>(638,174)</u>	<u>(801,315)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(26,872)	(316,285)
Payment for interest bearing loan	(3,660)	-
Purchase of intangible assets	(66)	-
Receivable from related party	-	(5,070)
Net cash used in investing activities	(30,598)	(321,355)
Cash flows from financing activities:		
Proceeds on short-term loan	438,174	-
Net cash provided by financing activities	438,174	-
Foreign currency translation effect	1,801	126,700
Net decrease in cash and cash equivalents	<u>(228,797)</u>	<u>(995,970)</u>
Cash and cash equivalents, beginning balance	341,331	5,346,165
Cash and cash equivalents, ending balance	<u>\$ 112,534</u>	<u>\$ 4,350,195</u>
SUPPLEMENTARY DISCLOSURE:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Income tax paid	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements

CHINA VOIP & DIGITAL TELECOM INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL

China VOIP & Digital Telecom Inc. (“the Company” or “We”), formerly, Crawford Lake Mining, Inc. acquired on August 17, 2006, all of the outstanding capital stock of Jinan Yinquan Technology Co. Ltd. (“Jinan Yinquan”) in exchange for the issuance of 40,000,000 shares of our common stock to the Jinan Shareholders and \$200,000. Such shares are restricted in accordance with Rule 144 of the 1933 Securities Act. In addition, as further consideration for the acquisition, Apollo Corporation, the principal shareholder of the Company, agreed to cancel 11,750,000 post-split shares of its outstanding common stock. Based upon same, Jinan Yinquan became our wholly-owned subsidiary.

Jinan Yinquan was established in Jinan in the People’ s Republic of China (“the PRC”) in 2001. The exchange of shares with Jinan Yinquan has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of the Jinan Yinquan obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of Jinan Yinquan, with Jinan Yinquan being treated as the continuing entity. The historical financial statements presented are those of Jinan Yinquan. The continuing company has retained December 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On May 7, 2008 (the “Closing Date”), Yinquan completed the acquisition of Beijing PowerUnique Technologies Co., Ltd. (“BPUT”), a company incorporated under the laws of the People’ s Republic of China, in accordance with the Investment Agreement. On the Closing Date, pursuant to the terms of the Investment Agreement, Yinquan invested RMB4,000,000 to BPUT; and BPUT transferred 80% of the shares and ownership interests of BPUT to Yinquan. On the Closing Date, Yinquan became the controlling shareholder of BPUT. BPUT is a company incorporated under the laws of the People’ s Republic of China. It is a privately held software company in Beijing specializing in enterprise application software research and development. It creates reliable, secure as well as efficient information technology platforms for enterprise clients. It is committed to providing the highest quality solutions to enterprises in both information security and virtual technology.

Jinan Yinquan’ s principal activities are developing and sales of computer software and hardware, digital video pictures system; developing and sales of computer network and network audio devices, parts, low value consumables and etc (exclusive of the business not obtained the license). After completing the acquisition of BPUT, it currently is focused on the Voice over Internet Phone (“VoIP”), information security and virtualization technology related business.

The virtualization business is primarily conducted through BPUT outside Shandong area, while Yinquan is primarily focusing on Shangdong area. Currently, both Yinquan and BPUT are the leaders in applied virtual technology field in China. In May, 2008, BPUT became an official Technology Alliance Partner (TAP) of VMware. VMware is the global leader in virtualization solutions from the desktop to the data center. Customers of all sizes rely on VMware to reduce capital and operating expenses, ensure business continuity, strengthen security and go green. VMware has more than 100,000 customers worldwide and all Fortune 100 enterprises are using the mature virtual technology of VMware. The alliance partnership allows BPUT to leverage VMware’s advanced virtual technology in the information security products marketplace in order to broaden its product offerings and strengthen its competitive advantage.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Financial Information

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods are not necessarily indicative of the results for any future period. These statements should be read in conjunction with the Company’s audited financial statements and notes thereto for the fiscal year ended December 31, 2008. The results of the three month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2009.

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Our functional currency is the Chinese Renminbi; however the accompanying financial statements have been translated and presented in United States Dollars (\$).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. As of March 31, 2009 and December 31, 2008, the allowances for doubtful accounts were \$172,556 and \$172,340, respectively.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Management compares the cost of inventories with the market value and allowance is made for writing down the inventories to their market value, if lower. As of March 31, 2009 and December 31, 2008, the reserves for obsolescence were \$106,571 and \$106,437, respectively.

Property, Plant & Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

Furniture and Fixtures	5-10 years
Equipment	5-10 years
Vehicles	10 years
Computer Hardware and Software	5 years
Building	20 years

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as advances from customers.

The Company recognizes revenue from telecommunications as services are provided. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue.

Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123 (revised 2004), ' 'Share-Based Payment' ' (' 'SFAS 123R' '), which requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the consolidated statements of operations. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC' s interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has adopted SFAS 123R and related FASB Staff Positions ("FSPs") as of January 1, 2006 and will recognize stock-based compensation expense using the modified prospective method.

Advertising

Advertising expenses consist primarily of costs of promotion for corporate image and product marketing and costs of

direct advertising. The Company expenses most of advertising costs as incurred, but amortize the new product image' s designing costs.

Earnings Per Share (EPS)

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128), "Earnings per share" . SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net loss per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted EPS is not presented as the Company has no potential dilutive shares outstanding.

Income Taxes

The Company utilizes SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Statement of Cash Flows

In accordance with SFAS No. 95, "Statement of Cash Flows," cash flows from the Company' s operations is based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure about Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. As per SFAS 131, the company operates in two segments based on nature of products and services: Telecommunications, Sale of equipments and Technical services.

Recently Issued Accounting Standards

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" . This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company' s fiscal year beginning January 1, 2009. Management does not believe this pronouncement will have a material effect on financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" . This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company' s fiscal year beginning January 1, 2009. The Company will be required to expense costs related to any acquisitions after December 31, 2008. Management does not believe this pronouncement will have a material effect on financial statements.

Foreign Currency Translation

The Company uses the United States dollar ("U.S. dollars") for financial reporting purposes. The Company maintains books and records in their functional currency, being the primary currency of the economic environment in which the operations are conducted. In general, the Company translates the assets and liabilities into U.S. dollars using the applicable exchange rates prevailing at the balance sheet date, and the statement of income is translated at average exchange rates during the reporting period. Gain or loss on foreign currency transactions are reflected on the income

statement. Gain or loss on financial statement translation from foreign currency are recorded as a separate component in the equity section of the balance sheet, as component of comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income" as a component of shareholders' equity

For the three months periods ended March 31, 2009 and 2008, the foreign currency translation gain was \$47,690 and \$360,112 respectively. The accumulated comprehensive foreign currency translation gain amounted to \$750,156 as of March 31, 2009.

NOTE 3 PRINCIPLES OF CONSOLIDATION

The accompanying unaudited consolidated financial statements include the accounts of China VOIP & Digital Telecom Inc. (the "Company") and its 100% wholly-owned subsidiary Jinan Yinquan Technology Co. Ltd. ("Jinan Yinquan"). It also includes the Power Unique (Beijing) Technology Co., Ltd. ("Power Unique"), a 100% owned subsidiary of Jinan Yinquan as of March 31, 2009. All significant inter-company accounts and transactions have been eliminated in consolidation.

NOTE 4 CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, by the general status of the PRC's economy. The Company's business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

For the three months period ended March 31, 2009, one supplier provided 95% of the cost of sales. The balance of advanced to the supplier as of March 31, 2009 was \$856,292.

Financial instruments, which potentially subject to concentration of credit risk, consist of cash and cash equivalents as the same is not covered by insurance.

NOTE 5 ADVANCES TO SUPPLIERS

The Company made prepayments to suppliers to purchase inventory, equipment or services. The Company advanced to suppliers amounting of \$1,456,750 and \$934,419 as of March 31, 2009 and December 31, 2008 respectively. The balance included advance to one supplier - Shandong Tietong of March 31, 2009 was \$856,292, which was 59% of the total net advance balance as of March 31, 2009. The balance included advance to one supplier - Shandong Tietong of March 31, 2009 and December 31, 2008 were \$856,292 and \$817,888, which was 59% and 88% of the total net advance balance as of March 31, 2009 and December 31, 2008.

NOTE 6 DUE FROM RELATED PARTY

Due from related party of \$87,851 as of March 31, 2009 represents temporally advance to two Directors of the Company for business development purpose. The amounts are due on demand, interest free and unsecured.

NOTE 7 LOANS RECEIVABLE

As of March 31, 2009, the loan receivables comprise of the following:

Debtors	Principle	Interest (annual)	Maturity date
Loan to unrelated party A	\$ 1,423,094	25.2%	9-17-2009
Loan to unrelated party B	219,119	36%	4-3-2009
	<u>\$ 1,642,213</u>		

The loan in the amount of \$1,423,094 was secured by the personal properties owned by the shareholder of the unrelated party A. The loan to unrelated party B was paid in full in April, 2009.

As of December 31, 2008, the loan receivables comprise of the following:

Debtors	Principle	Interest (annual)	Maturity date
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Loan to unrelated party A	\$	539,815	25.2%	9-17-2009
Loan to unrelated party A		950,786	-	Due on demand
Loan to unrelated party B		145,896	36%	2-3-2009
	\$	<u>1,636,497</u>		

The loan in the amount of \$539,815 was secured by the personal properties owned by the shareholder of the unrelated party A. The loan to unrelated party B was paid back on February 4, 2009 subsequently. The loan in the amount of \$950,786 is short term loan to unrelated party A without interest and security and due on demand.

NOTE 8 OTHER CURRENT ASSETS

As of March 31, 2009 and December 31, 2008, the other current assets comprise of the following:

		3-31-2009	12-31-2008
Security deposit	\$	59,226	\$ 69,431
Advance to attorney		50,000	50,000
Advances to Staff and other		31,114	35,243
Prepayment		172,917	26,837
Total		313,257	181,511
Less: Provision		(34,399)	(34,356)
Total current assets, net		<u>\$ 138,518</u>	<u>\$ 147,155</u>

NOTE 9 LONG TERM PREPAID EXPENSES

The balances of long term prepaid expenses as of March 31, 2009 and December 31, 2008 are summarized as follows:

		3-31-2009	12-31-2008
Fund raising fee	\$	443,967	\$ 443,967
Image design		46,978	46,978
		<u>490,945</u>	<u>490,945</u>
Less: Amortization		(191,103)	(151,757)
Long term prepaid expenses, net		<u>\$ 299,842</u>	<u>\$ 339,188</u>

As of December 31, 2007, the Company has fund raising fee amounting to \$443,967 associated with issuance of 5 million senior convertible notes. The amount is being amortized over the life time of the senior convertible notes. During the three months period ended March 31, 2009, \$35,497 was amortized to General and Administrative expenses accumulatively.

During the year ended December 31, 2008, Power Unique, one of the subsidiaries of the Company, incurred \$43,264 image designing fees for its new product. Such designing cost will be amortized over 5 years.

The amortization expense for the three months period ended March 31, 2009 was \$39,346.

Amortization for the next 4 years is as follows :

December 31, 2009	\$	157,385
December 31, 2010		125,085
December 31, 2011		9,396
December 31, 2012		7,976
Total		<u>\$ 299,842</u>

NOTE 10 PROPERTY AND EQUIPMENT, NET

The balances of the Company property and equipment as of March 31, 2009 and December 31, 2008 are summarized as

follows:

	2009	2008
Electronic Equipment	\$ 1,910,998	\$ 1,990,599
Vehicles	295,597	295,226
Furniture and fixture	171,435	142,965
Office Building	859,882	778,218
	<u>3,237,912</u>	<u>3,207,008</u>
Less: Accumulated depreciation	(715,814)	(585,811)
Property and Equipment, net	<u>\$ 2,522,098</u>	<u>\$ 2,621,197</u>

The depreciation expense for the three months periods ended March 31, 2009 and 2008 was \$129,248 and \$38,121 respectively.

NOTE 11 INTANGIBLE ASSET, NET

Intangible asset mainly comprised of a set of software in Jinan Yinquan acquired from third parties and a set of software from PowerUnique. Those sets of software acquired from third parties are used for the core technology of the Company' s VOIP business or software business. They are amortized over a life of 5 years. Intangible assets comprised of following at March 31, 2009 and December 31, 2008:

	3-31-2009	12-31-2008
Software, cost	\$ 2,045,627	\$ 2,042,994
Less: amortization	(390,280)	(313,740)
Intangible asset, net	<u>\$ 1,655,347</u>	<u>\$ 1,729,254</u>

The amortization expense for the three months periods ended March 31, 2009 and 2008 was \$76,135 and \$4,885 respectively.

Amortization for the next 5 years is as follows :

2010	\$	409,125
2011		409,125
2012		409,125
2013		409,125
2014		18,845
Total	\$	1,655,347

NOTE 12 SHORT TERM LOANS

The Company has an approved line of credit up to the amount of \$1,458,768. The line of credit expires on July 29, 2010. The line is un-secured with a flexible interest rate which equals to 1.5 times of the benchmark interest rate of People' s bank of China.

As of March 31, 2009 and December 31, 2008, the Company has a short-term loan balanced at \$1,416,969 and \$977,503 under the line of credit respectively.

NOTE 13 - SENIOR SECURITY NOTE

On December 21, 2007, the Company issued a senior debenture to CASTLERIGG MASTER INVESTMENTS LTD in the amount of \$5,000,000 that accrues interest at 8.75% per annum and is due on December 21, 2010. In addition, the Company also issued to CASTLERIGG MASTER INVESTMENTS LTD three series of warrants, titled Series A Warrant, Series B Warrant, Series C Warrant (collectively the "Warrants") to purchase 21,459,038 shares of the Company' s common stock. The Warrants are exercisable at price per share of \$0.5627 and are subject to economic anti-dilution protection. The Series A Warrant is exercisable for 8,885,730 shares of the Company' s common stock and expires the date eighty four (84) months after the earlier of (A) such time as all of the Registrable Securities (as defined in the Registration Rights Agreement) are available for resale pursuant to an effective Registration Statement and

(B) two (2) years after December 21, 2007. The Series B Warrant is exercisable for 6,220,011 shares of the Company's common stock and expires on the date on which the Notes issued pursuant to the Securities Purchase Agreement are no longer issued and outstanding. The Series C Warrant is exercisable for 6,353,297 shares of the Company's common stock and expires on the date sixty (60) months after the first time the Company elects a Company Optional Redemption.

The Company shall initially reserve out of its authorized and unissued Common Stock a number of shares of Common Stock for each of the Notes equal to 130% of the Conversion Rate with (i) issuable upon conversion of the Notes, (ii) upon exercise of the Warrants, without taking into account any limitations on the Conversion of the Notes or exercise of the Warrants set forth in the Notes and Warrants, respectively) and (iii) as Interest Shares pursuant to the terms of the Notes. As of March 31, 2009, the Company did not have enough authorized and unissued common stock to reserve 130% shares. This amount is due subject to default.

Per EITF 00-19, paragraph 4, these convertible debentures do not meet the definition of a "conventional convertible debt instrument" since the Company does not have sufficient unissued authorized share capital. The Company is required to increase the authorized share capital, which is not within the control of the Company. Therefore, the convertible debenture is considered "non-conventional," which means that the conversion feature must be bifurcated from the debt and shown as a separate derivative liability. This beneficial conversion liability was calculated to be nil on March 31, 2009 and December 31, 2008. In addition, since the Company does not have enough number of unissued authorized shares of common stock, it is assumed that the Company could never have enough authorized and unissued shares to settle the conversion of the warrants into common stock. Therefore, the warrants issued in connection with this transaction have been reported as liability at March 31, 2009 in the accompanying balance sheet with a fair value of \$6,572,534. The value of the warrant was calculated using the Black-Scholes model using the following assumptions:

	Series A	Series B	Series C
Risk-free interest rate	2%	0.875%	1.875%
Expected life of the warrants	6.25 years	1.75 years	5 years
Expected volatility	329.32%	329.32%	329.32%
Expected dividend yield	0%	0%	0%

The fair value of the beneficial conversion feature and the warrant liability will be adjusted to fair value each balance sheet date with the change being shown as a component of net income.

The fair value of the beneficial conversion feature and the warrants at the inception of these convertible debentures were \$331,438 and \$11,244,857, respectively. The first \$5,000,000 of these discounts has been shown as a discount to the convertible debentures which will be amortized over the term of the debentures and the excess of \$6,576,294 has been shown as financing costs in the statement of operations as of December 31, 2007. As of March 31, 2009, we revalued the warrants liability at value of \$6,572,534. Thus, the difference of the warrants liability has been shown as change in warrant liability in the statement of operations as of March 31, 2009.

Warrants outstanding at March 31, 2009 and related weighted average price and intrinsic value are as follows:

	Exercise Prices	Total Warrants Outstanding	Weighted Average Remaining Life (Years)	Total Weighted Average Exercise Price	Warrants Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
Series A	0.5627	8,885,730	2.58	0.23	8,885,730	0.23	-
Series B	0.5627	6,220,011	0.51	0.16	6,220,011	0.16	-
Series C	0.5627	6,353,297	1.48	0.17	6,353,297	0.17	-
Total		21,459,038	4.58	0.56	21,459,038	0.56	

NOTE 14 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of March 31, 2009 and December 31, 2008 are summarized as follows:

		3-31-2009	12-31-2008
Accrued staff welfare	\$	2,196	\$ 3,156
Tax payables		112,950	119,329

Interest payable	-	109,375
Accrued expenses	207,784	51,530
Deposits	519,878	374,115
Others	48,690	46,028
Total	<u>\$ 892,218</u>	<u>\$ 703,532</u>

NOTE 15 DUE TO RELATED PARTY

Due to related party of \$20,000 as of March 31, 2009 and December 31, 2008 represents \$10,000 payable to former beneficial owner of Crawford Lake Mining Inc. and \$10,000 payable to the CEO of the Company. The payables are unsecured, non interest bearing and payable on demand.

NOTE 16 STATUTORY RESERVES

As stipulated by the Company Law of the People's Republic of China (PRC) executed on 2006, net income after taxation can only be distributed as dividends after appropriation has been made for the following:

1. Making up cumulative prior years' losses, if any;
2. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
3. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; (The reserve is no more required for the foreign invested enterprises since 2006).
4. Allocations to the discretionary surplus reserve, if approved in the shareholders' general meeting.

According to the new Company Law of the People's Republic of China (PRC) executed in 2006, the Company is not required to reserve the "Statutory common welfare fund". Accordingly, the Company did not reserve the common welfare fund in 2009 and 2008.

In accordance with the Chinese Company Law, the company has to allocate 10% of its net income after tax to surplus. As Jinan Yinquan and Power Unique had net loss for the three months period ended March 31, 2009, the Company did not allocate any reserve funds.

Balances of Statutory reserves as of March 31, 2009 are as follows:

	<i>March 31,</i>
	<u><i>2009</i></u>
Net income of operation in PRC for year 2008	\$(1,006,714)
Reserve rate of statutory fund	10%
Amount reserved in 2008	<u>\$ 0</u>
Balance of statutory reserve at December 31, 2008	\$ 228,633
Change in 2009	<u>0</u>
Balance of statutory reserve at March 31, 2009	<u><u>\$ 228,633</u></u>

NOTE 17 SHARES TO BE CANCELLED

Pursuant to the term sheet, on July 18, 2007, the Company issued 1.2 million shares to Downshire Capital Inc. and its assigned parties as first installment for financing assistance. While according to the term sheet, \$3 million USD should be received by the company before August 15, 2007, otherwise, Downshire Capital and its designed investors need to return the 1.2 million shares and the Registrant will cancel it accordingly.

As of August 21, 2007, Downshire Capital Inc. was not able to complete the financing before closing deadline according to the termsheet signed with the Registrant on July 17, 2007. After further negotiation, both parties could not reach further agreement to extend the termsheet and the termsheet was terminated accordingly. The stock transfer agent of the Company has put restriction on the stock to trade. The Company requested its stock transfer agent to cancel the shares. However, Downshire Capital Inc. did not return the certificates to stock transfer agent as of March 31, 2009. The shares have been classified as "Shares to be cancelled" in the accompanying financial statements.

NOTE 18 INCOME TAXES

The Company is registered in the State of Nevada and has operations in primarily two tax jurisdictions - the PRC and the United States. For the operation in the U.S., the Company has incurred net accumulated operating losses for income tax purposes. The Company believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future. Therefore, the Company has provided full valuation allowance for the deferred tax assets arising from the losses at these locations as of December 31, 2008. Accordingly, the Company has no net deferred tax assets.

The operation in PRC is approved as hi-tech software company and enjoys 15% income tax rate, Jinan Yinquan is completely exempt of income tax for the first 2 years up to December 2007 and is 50% exempt of income tax for the next 3 years pursuant to State Tax notice No. 2003(82) because being a foreign invested company..

For the three months periods ended March 31, 2009 and 2008, the Company incurred \$0 and \$14,319 income tax expense, respectively.

The following is a reconciliation of the provision for income taxes at the U.S. federal income tax rate to the income taxes reflected in the Statement of Operations:

	3-31-2009	3-31-2008
Tax expense (credit) at statutory rate - federal	34%	34%
State tax expense net of federal tax	6%	6%
Valuation allowance	(40%)	(40%)
Foreign income tax - PRC	15%	15%
Exempt from income tax	(15%)	(7.5%)
Tax expense at actual rate	0%	7.5%

United States of America

As of March 31, 2009, the Company in the United States had \$0 in net operating loss carry forwards available to offset future taxable income.

NOTE 19 OPERATING LEASE

The Power Unique leases its office space in Beijing, China under an operating lease starting from January 25, 2008 and expiring on January 24, 2011. Rent expense under operating leases was approximately \$15,338 and \$6,000 during the three months periods ended March 31, 2009 and 2008, respectively.

The rent expenses for the next three years after March 31, 2009 are as follows:

2010	\$	46,015
2011	\$	61,353
2012	\$	3,958

NOTE 20 SEGMENT REPORTING

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

During the three months periods ended March 31, 2009 and 2008, the Company is organized into three main business segments: (1) Telecommunications minutes, (2) Equipment Sales and (3) Technical services. There were no transactions between segments. The following table presents a summary of operating information and certain year-end balance sheet information for the three months periods ended March 31, 2009 and 2008:

	For The Three months Periods Ended March 31,	
	2009	2008
Revenues from unaffiliated customers:		
Telecommunication	\$ 1,383,339	\$ 1,353,875
Equipment sales	191,408	18,748
Technical services	18,257	627,118
Consolidated	<u>\$ 1,593,004</u>	<u>\$ 1,999,741</u>

Operating income (loss):			
Telecommunication	\$	(409,715)	\$ 189,825
Equipment sales		73,125	5,393
Technical services		15,152	549,519
Corporation (1)		(62,519)	(78,303)
Consolidated	\$	<u>(383,957)</u>	\$ <u>666,434</u>
Net income (loss) before taxes:			
Telecommunication	\$	(365,052)	\$ 206,727
Equipment sales		79,305	5,627
Technical services		15,741	557,348
Corporation (1)		(6,075,255)	(5,353,728)
Consolidated	\$	<u>(6,345,261)</u>	\$ <u>(4,584,026)</u>
Identifiable assets:			
Telecommunication	\$	4,514,119	\$ 9,561,907
Equipment sales		2,559,009	58,430
Technical services		-	89,715
Corporation		1,758,484	406,970
Consolidated	\$	<u>8,831,612</u>	\$ <u>10,117,023</u>
Depreciation and amortization			
Telecommunication	\$	194,671	\$ 43,006
Equipment sales		13,063	-
Consolidated	\$	<u>207,734</u>	\$ <u>43,006</u>
Capital contribution			
Telecommunication	\$	438,174	\$ 316,285
Equipment sales		-	-
Consolidated	\$	<u>438,174</u>	\$ <u>316,285</u>

(1). Unallocated loss from Operating income (loss) and Net income (loss) before taxes are primarily related to general corporate expenses.

NOTE 21 GOING CONCERN

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the company as a going concern. However, the Company has a retained earnings (accumulated deficit) of (\$5,519,227) and \$826,033 as of March 31, 2009 and December 31, 2008, and the Company is in default of the terms of Senior Security Note as of March 31, 2009. In view of the matters described above, recoverability of a major portion of the recorded asset amounts shown in the accompanying consolidated balance sheet is dependent upon continued operations of the company, which in turn is dependent upon the Company's ability to raise additional capital, obtain financing and succeed in its future operations, The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken certain restructuring steps to provide the necessary capital to continue its operations. These steps included: 1) acquire profitable operations through issuance of equity instruments; and 2) to continue actively seeking additional funding and restructure the acquired subsidiaries to increase profits and minimize the liabilities;3)seek governmental funds support

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q. The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to future events or our future performance. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this prospectus. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

BUSINESS OVERVIEW

China VoIP Digital Telecom Inc. ("the Company"), formerly, Crawford Lake Mining, Inc. acquired on August 17, 2006, all of the outstanding capital stock of Jinan YinQuan Technology Co. Ltd. ("Jinan Yinquan") in exchange for the issuance of 40,000,000 shares of our common stock to the Jinan Shareholders and \$200,000. Such shares are restricted in accordance with Rule 144 of the 1933 Securities Act. In addition, as further consideration for the acquisition, Apollo Corporation, the principal shareholder of the Company, agreed to cancel 11,750,000 post-split shares of its outstanding common stock. Based upon same, Jinan became our wholly-owned subsidiary.

Jinan Yinquan is an equity joint venture established in Jinan in 2001, in the People's Republic of China ("the PRC"). The exchange of shares with Jinan Yinquan has been accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of the Jinan Yinquan obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of Jinan Yinquan, with Jinan Yinquan being treated as the continuing entity. The historical financial statements presented are those of Jinan Yinquan. The continuing company has retained December 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On May 7, 2008 (the "Closing Date"), Yinquan completed the acquisition of Beijing PowerUnique Technologies Co., Ltd. ("BPUT"), a company incorporated under the laws of the People's Republic of China, in accordance with the Investment Agreement. On the Closing Date, pursuant to the terms of the Investment Agreement, Yinquan invested \$583,507(RMB4,000,000) to BPUT; and BPUT transferred 80% of the shares and ownership interests of BPUT to Yinquan. On the Closing Date, Yinquan became the controlling shareholder of BPUT. On June 24, 2008, the Company decided to pay another \$583,507 (RMB 4,000,000) to acquire the remaining 20% ownership from the original shareholders of BPUT and became 100% shareholder of BPUT Thereafter. As of July 5, 2008, the acquisition was completed. In July 2008, Jinan YinQuan increased the share capital of BPUT with extra RMB 6 million to RMB 11 million. BPUT is a company incorporated under the laws of the People's Republic of China. It is a privately held software company in Beijing specializing in enterprise application software research and development. It creates reliable, secure as well as efficient information technology platforms for enterprise clients. It is committed to providing the highest quality solutions to enterprises in both information security and virtual technology.

Jinan Yinquan's principal activities are developing and sales of computer software and hardware, digital video pictures system; developing and sales of computer network and network audio devices, parts, low value consumables and etc (exclusive of the business not obtained the license). After completing the acquisition of BPUT, it currently is focused on the Voice over Internet Phone ("VoIP"), information security and virtualization technology related business.

In 2008, Yinquan launched a new communication platform based on its VoIP technology. The new platform, International Business Communication Center (IBCC) is designed to meet all the communication requirements for the operation of a modern enterprise. It includes telephone, fax, email, SMS, conference calling and video conferencing together with OA and CRM software, in a single integrated package. In addition, IBCC also provides its registered users with information on more than 8 million industrial enterprises. These enterprises have been classified into 20 categories in order to expedite users' searches for critical information. The most important function of IBCC is that it allows users to click to call the person or enterprise they want through the webpage.

All of the communications functions of IBCC are structured using the existing VoIP technology of Yinquan, which ensures the lowest possible rate for communications services. Furthermore, IBCC will provide users with a region-free office thanks to its VoIP technology. Users' offices can be anywhere as long as there is broadband service. It's the original reason Yinquan designed IBCC.

IBCC offers five advantages over current competition:

- Multiple and convenient basic communications functions: the IBCC package contains all basic communications requirements like telephone, fax, email and SMS, and all functions can be accessed with one click on the web
- Powerful value-added communications functions, including multi-party conference calls and video conferencing
- Lowest available communications rates: thanks to VoIP technology, users may enjoy both IP telephone and fax on IBCC without the equipment but with the lowest rate
- Region-free offices: users may login to their own office platforms anywhere and anytime
- Free OA and CRM software: IBCC offers these critical applications for free

The virtualization business is primarily conducted through BPUT outside Shandong area, while Yinquan is primarily focusing on Shandong area. Currently, both Yinquan and BPUT are the leaders in applied virtual technology field in China. In May, 2008, BPUT became an official Technology Alliance Partner (TAP) of VMware (NYSE: VMW). VMware is the global leader in virtualization solutions from the desktop to the data center. Customers of all sizes rely on VMware to reduce capital and operating expenses, ensure business continuity, strengthen security and go green. VMware has more than 100,000 customers worldwide and all Fortune 100 enterprises are using the mature virtual technology of VMware. The alliance partnership allows BPUT to leverage VMware's advanced virtual technology in the information security products marketplace in order to broaden its product offerings and strengthen its competitive advantage.

After Yinquan launched both the virtualization application technology and IBCC service platform in 2008, its virtualization technology and its IBCC service platform have been endorsed as the designated virtualization application technology product and the designated communications service platform for the 11th National Games of China, respectively. Yinquan will implement the virtualization technology in the National Games dedicated data center. The virtualization technology should significantly reduce system purchases and operating costs. It should also improve the reliability and manageability of the system and safeguard the information used during the Games. In addition, the IBCC service platform will be run as the sub-website of the National Games' official website for athletes, coaches, staff, volunteers and sponsors so they may enjoy unified communication services including an online office system, telephone, SMS, email, fax, conference call and video conference.

RESULTS OF OPERATIONS

Results of Operations for the three months ended March 31, 2009 and 2008

During the three months ended March 31, 2009, we recorded revenue of \$1,593,004 as compared to \$1,999,741 of 2008, a decrease of \$406,737 or 20%. The decrease of revenue is mainly attributable to fewer software development projects in the first quarter 2009 resulted from our focus on enhancing the new IBCC platform and virtualization solutions.

Cost of sales increased to \$1,435,727 during the three months ended March 31, 2009 from \$1,007,556 during 2008, an increase of \$428,171 or 42%. The sharp increase of the cost is mainly driven by costs associated with new products including IBCC and virtualization solutions. In order to promote the new IBCC platform, we presented new customers the tested telephone charge for their tests on the platform which incurred a large amount of cost.

The gross profit was \$157,277 in the three months ended March 31, 2009 compared to \$992,185 in the same period of 2008. The decrease of 84% or \$834,908 is due to the decrease of revenue and higher cost of sales. As a result of global economic slowdown, we lowered the price to maintain our existing customer base as well as market share. The pricing policy reduces our gross profit margin. Meanwhile, the increase of our settlement price with the telecom cooperator - China Tietong and the presented test telephone charge activity for IBCC promotion resulted the increase of the cost, so the gross profit was lower in 2009.

Selling, general and administrative expenses were \$333,500 during three months ended March 31, 2009 as compared to \$282,745 during 2008, an increase of \$50,755 or 18%. The increase was mainly contributed to the marketing expenses in order to promote our new products and services including IBCC and virtualization solutions. In addition, we incurred market promotion cost for our virtual technology and new developed IBCC platform. Especially, we sponsored the 11th National Games of PRC which will be held in October 2009 by expense of \$1.5 million.

Depreciation and amortization expenses increased by 383% or \$164,728 to \$207,734 during the three months ended March 31, 2009 as compared to 2008. The increase is mainly attributed to the increase of equipments used for current business and future expansion purposes. In addition, the increased depreciation and amortization costs were associated with our move to the new office building as well as the amortization of intangible assets acquired.

We recorded operation loss of \$383,957 during the three months ended March 31, 2009 as compared to the income of \$666,434 during three months 2008. The loss is mainly incurred by the increase of various expenses with lower revenue in the period.

Other income/(expenses) is comprised of interest expenses of \$214,239, subsidy income of \$44,144, interest income of \$5,932, amortization expense of convertible debt of \$416,667, other expense of change in derivative liability of \$5,408,235 and other income of \$27,761 during the three months ended March 31, 2009. Among such expenses, interest

expenses of \$187,500, and other expense of change in derivative liability of \$5,408,235 were resulted from convertible notes issued in December of 2008. The expense of change in derivative liability of \$5,408,235 was varied in accordance with our stock market price.

Net loss was recorded \$6,345,261 during the three months ended March 31, 2009 as compared to net loss of \$4,598,345 of 2008. The higher net loss was mainly driven by operating loss and higher expense associated with the change in derivative liability.

LIQUIDITY AND CAPITAL RESOURCES

Cash used in operating activities were \$638,174 during the three months in 2009 as compared to cash used by operating activities of \$801,315 for 2008. Although net loss of 2009 was \$6,345,261, after adding non-cash expense of change in derivative liabilities of \$5,408,235, non-cash expense of change in conversion feature of \$416,667, and other non-cash expenses of \$243,231 in total, the Company actually incurred net loss of \$277,128. Furthermore, change of working capital and minority interest resulted in additional cash outflow of \$361,046. Thus, \$638,174 was cash used in operating activities of 2009. Cash used by operating activities during of 2008 mainly resulted from net loss of \$4,598,345. Adding non-cash expenses of \$5,284,183 and subtracting cash outflow of \$1,487,153 resulted in the change of working capital, the 2008 cash used in operating activities were \$801,315.

Cash flows used in investing activities were \$30,598 during 2009, as compared to \$321,355 during 2008. Cash used in investing activities during 2009 mainly consisted of purchase of property and equipment of \$26,872.

Cash flows provided by financing activities were \$438,174 in 2009, as compared to \$0 in 2008. Cash provided by financing activities in 2009 represents the cash proceeds from short term loan.

Foreign currency translation effect in cash flows were \$1,801 during 2009 as compared to \$126,699 during 2008.

CRITICAL ACCOUNTING POLICIES

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our net revenue, operating income or loss and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Senior management has discussed the development and selection of these critical accounting policies and their disclosure in this Report with the Audit Committee of our Board of Directors. We believe the following critical accounting policies involve the most complex, difficult and subjective estimates and judgments: revenue recognition; allowance for doubtful accounts; income taxes; stock-based compensation; asset impairment.

A summary of significant accounting policies is included in Note 2 to the unaudited consolidated financial statements included in this quarter report. Management believes that the application of these policies on a consistent basis enables us to provide useful and reliable financial information about our Company's operating results and financial condition.

Recently Issued Accounting Policies

In September 2006, FASB issued SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

- A brief description of the provisions of this Statement
- The date that adoption is required
- The date the employer plans to adopt the recognition provisions of this Statement, if earlier

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". This Statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 is effective for the Company's fiscal year beginning October 1, 2009. Management is currently evaluating the effect of this pronouncement on financial statements.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Management is currently evaluating the effect of this pronouncement on financial statements.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations". This Statement replaces SFAS No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement also establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) will apply prospectively to business combinations for which the acquisition date is on or after Company's fiscal year beginning October 1, 2009. While the Company has not yet evaluated this statement for the impact, if any, that SFAS No. 141(R) will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions after September 30, 2009.

In May of 2008, FSAB issued SFASB No.162, The Hierarchy of Generally Accepted Accounting Principles. The pronouncement mandates the GAAP hierarchy reside in the accounting literature as opposed to the audit literature. This has the practical impact of elevating FASB Statements of Financial Accounting Concepts in the GAAP hierarchy. This pronouncement will become effective 60 days following SEC approval. The company does not believe this pronouncement will impact its financial statements

In May of 2008, FASB issued SFASB No. 163, Accounting for Financial Guarantee Insurance Contracts-an interpretation of FASB Statement No. 60. The scope of the statement is limited to financial guarantee insurance (and reinsurance) contracts. The pronouncement is effective for fiscal years beginning after December 31, 2008. The company does not believe this pronouncement will impact its financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Not applicable because we are a smaller reporting company.

Item 4T.Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"),of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the

Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting during the latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

Currently we are not aware of any litigation pending or threatened by or against the Company.

Item 1A. Risk Factors

Not applicable because we are a smaller reporting company.

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

None.

Item 3. Defaults Upon Senior Securities.

As previously disclosed in the Company's Form 10-Q filed on August 14, 2008 and the Current Report Form 8-K filed on October 10, 2008, we received event of default redemption notices dated July 25, 2008 (the "July Default Notice") and dated October 6, 2008 (the "October Default Notice" collective, with the July Default Notice, the "Default Notices") respectively from an accredited investor (the "Investor") with respect to the amended and restated terms of the Securities Purchase Agreement and related transaction documents dated December 21, 2007 (the "Financing Transaction"). Both the July Default Notice and the October Default Notice stated that we were in default for failure to: (1) cause the Initial Registration Statement to be declared effective by the SEC on or prior to June 18, 2008 and (2) make the required Registration Delay Payments to the Investor on or prior to the applicable Payment Date. We agreed to enter into the Amended Agreement and all related documents as a direct response to resolve the Default Notices and as an inducement for the Investor to issue us a formal withdrawal of the Default Notices. Upon closing of the above Amended Agreement, the Investor will withdraw the Default Notices and we will no longer be in default under the Financing Transaction and Amended Agreement.

On December 8, 2008, China VoIP & Digital Telecom, Inc. ("we" or the "Company") entered into an Amendment and Exchange Agreement (the "Amended Agreement") with the Investor that Financing Transaction. The Financing Transaction is disclosed in more detail in the Form 8-K filed on December 26, 2007 and all transaction documents attached to that Form 8-k are herein incorporated by reference. In connection with the Amended Agreement, we agreed to exchange the note and warrants issued in the Financing Transaction for (i) an amended and restated senior secured convertible note in the principal amount of \$5,000,000 (the "Exchanged Note"), which is convertible into Common Stock, (ii) an amended and restated Series A Warrant in the form, which is exercisable into 23,062,731 shares of Common Stock (the "Exchanged Series A Warrant"), (iii) an amended and restated Series B Warrant which is exercisable into 16,143,911 shares of Common Stock (the "Exchanged Series B Warrant"), (iv) an amended and restated Series C Warrant, which, subject to certain conditions, shall be exercisable to 16,489,852 shares of Common Stock (the "Exchanged Series C Warrant") and (v) a new Series D Warrant which is exercisable into 7,500,000 shares of Common Stock (the "Series D Warrant").

Pursuant to the Amended Agreement, we agreed to adjust the Conversion Price (as defined in the Exchanged Note) and the exercise prices of the Exchanges Series A Warrant, the Exchanged Series B Warrant and the Exchanged Series C Warrant to \$0.2168. Accordingly, the Exchanged Series A Warrant is exercisable into 23,062,731 shares of Common Stock of the Company, the Exchanged Series B Warrant is exercisable into 16,143,911 shares of Common Stock of the Company, and the Exchanged Series C Warrant, subject to certain conditions, shall be exercisable into 16,489,852 shares of Common Stock of the Company. Further, we amended the Expiration Date of the Series A Warrant and Series B Warrant to June 8, 2014, which is 78 months after the date of Amendment Date (as defined in the Exchanged Series A Warrant and the Exchanged Series B Warrant), and restated the expiration date of the Exchanged Series C Warrant to 78 months after the first time the Company elects a Company Optional Redemption (as defined in the Exchanged Note).

We also issued a new Series D Warrant, which can be exercised into 7,500,000 shares of the Common Stock of the Company with an exercise price of \$0.2168 per share and expires on June 8, 2014. There is also a cashless exercise feature that permits the Investor to exercise the warrant on a cashless basis if a registration statement covering the shares underlying the Series D Warrant is not in effect. The Amended Agreement does not grant the Investor any additional registration rights so there is no requirement for us to register the shares underlying the Series D Warrant.

As disclosed in Form 10-K filed on March 31, 2009, we received an Investor Redemption Notice (the Notice) from the Investor on December 21, 2008, stating that they selected to redeem one third of the principal (\$5,000,000) after one year of the investment since December 21, 2007 according to the Amendment Agreement. The company received the Notice and now is under discussion with the Investor to seek a consummate solution for the company is not available to render the required amount before December 31, 2008, the deadline for the redemption. The issue may incur default for the company, and it's uncertain if we can get a resolution finally.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Rule 13a-14(a)/ 15d-14(a) Certification of Chief Executive Officer and Chief Financial Officer
32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA VOIP & DIGITAL TELECOM INC.

Date: May 15, 2009

By: */s/ Li KunWu*

Li Kunwu
Chief Executive Officer and
Chief Financial Officer