

UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

ROBERT SCOTT, Individually and On Behalf of All Others  
Similarly Situated,

Plaintiff,

v.

ZST DIGITAL NETWORKS, INC., et al.,

Defendants.

Case No. 11-CV-03531-GAF (JCx)

**NOTICE OF PROPOSED SETTLEMENT OF CLASS ACTION,  
MOTION FOR ATTORNEYS' FEES AND EXPENSES, AND  
SETTLEMENT FAIRNESS HEARING**

Judge: HON. GARY A. FEESS

**IF YOU PURCHASED OR OTHERWISE ACQUIRED ZST DIGITAL NETWORKS, INC. SECURITIES FROM OCTOBER 20, 2009 THROUGH AND INCLUDING APRIL 21, 2011, YOU COULD RECEIVE A PAYMENT FROM A CLASS ACTION SETTLEMENT.**

*A federal court authorized this Notice. This is not a solicitation from a lawyer.*

Your legal rights are affected whether you act, or don't act.  
Read this Notice carefully.

**Security and Time Period:** ZST Digital Networks, Inc. securities (stock symbol: ZSTN), purchased or acquired from October 20, 2009 through and including April 21, 2011 (the "Settlement Class Period").

**Settlement Fund:** \$1,700,000 in cash. Your recovery will depend on the number of shares of ZSTN securities you, and other Settlement Class Members who file claims, purchased and sold and the prices at which you, and the other Settlement Class Members who file claims, purchased and sold those shares. The estimated average recovery per share will be approximately \$0.40 per share before deduction of Court-approved fees and expenses and costs of notice and claims administration.

**Reasons for Settlement:** The case has been litigated since April 2011. The Lead Plaintiff and Lead Counsel believe that the Settlement provides the Settlement Class with a benefit now, instead of years of further uncertain litigation, including class certification and summary judgment motions, a contested trial, and likely appeals, with the possibility of no recovery at all.

The Lead Plaintiff alleges that ZSTN's stock price was artificially inflated as a result of a series of untrue or materially misleading statements concerning the disparate reporting of ZSTN's financials to Chinese and to American regulators. Lead Plaintiff further contends that Defendants made these statements knowing them to be false or misleading, or recklessly disregarding their false or misleading natures, and that investors suffered injury as a result of the alleged inflation.

The Settling Defendants have denied and continue to deny each and all of the allegations made and claims brought by Lead Plaintiff, maintain that they have meritorious defenses and contend that many of the factual allegations are materially inaccurate. The Settling Defendants also have denied and continue to deny, *inter alia*, the allegations that Lead Plaintiff or the Settlement Class have suffered damages, that the prices of ZSTN securities were artificially inflated by reason of alleged misrepresentations, non-disclosures, or otherwise, or that Lead Plaintiff or the Members of the Settlement Class were harmed by the conduct alleged in the Complaint or otherwise.

Nonetheless, the Settling Defendants have concluded that further conduct of the Litigation would be protracted and expensive, and that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation. The Settling Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this Litigation. The Settlement shall in no event be construed as, or deemed to be evidence of, an admission or concession by any of the Settling Defendants with respect to any claim of any fault or liability or wrongdoing or damage to the Settlement Class Members in this Litigation.

**If the Case Had Not Settled:** The Settlement must be compared to the risk of no recovery after contested dispositive motions, trial and likely appeals. A trial is a risky proposition. The claims in the Litigation involve numerous complex legal and factual issues, many of which would require expert testimony. The Settling Parties disagree on both liability and damages and do not agree on the average amount of damages per share, if any, that would be recoverable if Lead Plaintiff was to have prevailed on each claim alleged. Among the many key issues about which Lead Plaintiff and the Settling Defendants do not agree are: (1) whether the Settling Defendants violated the securities laws or otherwise engaged in any wrongdoing; (2) whether the misrepresentations and omissions alleged by the Lead Plaintiff were material, false, misleading or otherwise actionable under the securities laws; (3) the extent (if any) that the alleged misrepresentations and omissions influenced the trading prices of ZSTN securities during the relevant period; and (4) the method for determining whether, and the extent to which, purchasers of ZSTN securities suffered injury and damages that could be recovered at trial.

**Attorneys' Fees and Expenses:** Lead Counsel have not received any payment for their work or expenses incurred in investigating the facts, conducting this Litigation and negotiating the Settlement on behalf of the Lead Plaintiff and the Class. Lead Counsel will ask the Court for attorneys' fees of 30% of the Settlement Fund and expenses not to exceed \$70,000 to be paid from the Settlement Fund.

If the above amounts are requested and approved by the Court, the average cost per share of securities will be approximately \$0.12 per share, making the estimated recovery per share after fees and expenses approximately \$0.28.

**Dismissal and Releases:** If the proposed Settlement is approved, the Court will enter an Order and Final Judgment which will dismiss the Settled Claims with prejudice as to the Released Parties, which include the Settling Defendants and their related parties (including, but not limited to, their parents, subsidiaries and affiliates, and all of their employees, directors and officers). The Order and Final Judgment will provide that all Settlement Class Members shall be deemed to have released and forever discharged all Settled Claims (to the extent Members of the Settlement Class have such claims) against all Released Parties. The terms of the releases, including the meaning of the term "Settled Claims," are set forth in the Proof of Claim and Release form that is enclosed.

| DEADLINES:                                      |                |
|-------------------------------------------------|----------------|
| Submit Claim:                                   | July 22, 2013  |
| File Objection:                                 | July 12, 2013  |
| Request Exclusion:                              | July 5, 2013   |
| <b>Court Hearing on Fairness of Settlement:</b> | August 1, 2013 |

**More Information:** [www.gcginc.com](http://www.gcginc.com)

Claims Administrator:

ZST Digital Networks, Inc. Securities Litigation  
Claims Administrator  
c/o The Garden City Group, Inc.  
PO Box 9349  
Dublin, OH 43017-4249  
1-800-231-1815

Lead Counsel:

Frank & Bianco LLP  
275 Madison Avenue, Suite 801  
New York, New York 10016  
Email: [info@frankandbianco.com](mailto:info@frankandbianco.com)

- Your legal rights are affected whether you act, or don't act. Read this Notice carefully.

| YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT: |                                                                                                                                                                                         |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>SUBMIT A CLAIM</b>                             | The only way to receive a payment.                                                                                                                                                      |
| <b>OBJECT</b>                                     | You may write to the Court if you do not agree with this Settlement.                                                                                                                    |
| <b>EXCLUDE YOURSELF</b>                           | Receive no payment. This is the only option that allows you to participate in another lawsuit against the Settling Defendants relating to the class claims being released in this case. |
| <b>GO TO A HEARING</b>                            | You may ask to speak in Court about the fairness of the Settlement.                                                                                                                     |
| <b>DO NOTHING</b>                                 | Receive no payment.                                                                                                                                                                     |

- Unless you timely request exclusion from the Settlement Class, or unless the Court rejects the proposed Settlement, you are bound by the Stipulation and the releases set forth therein, whether or not you submit a claim.
- These rights and options — **and the deadlines to exercise them** — are explained in this Notice.
- The Court presiding over this case must decide whether to approve the Settlement. Payments will be made only if the Court approves the Settlement and, if there are any appeals, after appeals are resolved. Please be patient.

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## BASIC INFORMATION

### 1. Why Did I Receive This Notice Package?

You or someone in your family may have purchased or otherwise acquired ZSTN securities from October 20, 2009 through and including April 21, 2011. This Notice was sent because you have a right to know about a proposed Settlement of a class action lawsuit, and about all of your options, before the Court decides whether to approve the Settlement. If the Court approves the Settlement and after any objections or appeals are resolved, the Claims Administrator appointed by the Court will make the payments to those persons who timely submit claims in the manner described below.

This package explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them, and how to get them.

The Court in charge of the case is the United States District Court for the Central District of California, and the case is known as *Scott v. ZST Digital Networks, Inc., et al.*, Case No. 11-CV-03531-GAF (JCx). J. Malcolm Gray is called Lead Plaintiff, and the companies and persons they sued, including ZST Digital Networks, Inc., are collectively called the Defendants. The Parties include Lead Plaintiff and the Defendants.

## **2. What Is This Lawsuit About?**

This Litigation alleges violations of the Federal Securities Laws (specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78j(b) and 78(t)(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5)) against Defendants.

ZST Digital Networks, Inc. is a publicly-traded Delaware corporation with its principal place of business located in Henan Province, China. ZSTN supplies digital and optical networking equipment to cable system operators and provides GPS location and tracking services in China's Henan Province. During the Settlement Class Period, ZSTN securities traded on the NASDAQ national market under the symbol "ZSTN." Lead Plaintiff alleges that, during the Settlement Class Period, ZSTN's stock price was artificially inflated as a result of a series of untrue or materially misleading statements concerning the disparate reporting of ZSTN's financials to Chinese and to American regulators. Lead Plaintiff further contends that Defendants made these statements knowing them to be false or misleading, or recklessly disregarding their false or misleading natures, and that investors suffered injury as a result of the alleged inflation.

## **3. Why Is This a Class Action?**

Class actions are generally used in lawsuits that affect a large number of individuals; in effect, the class action operates to consolidate into a single action all of the claims of individuals allegedly harmed by the same conduct or course of conduct, thus alleviating the need for members of the class to file their own individual lawsuits to recover for the harm alleged. Once the class is certified, the Court is empowered to resolve all issues on behalf of members of the class, except for those members of the class, if any, who specifically choose to exclude themselves from the Settlement Class.

As part of the preliminary approval process, Lead Plaintiff will ask the court to certify a class for settlement purposes only. The proposed class will consist of all those who purchased or otherwise acquired ZSTN's securities from October 20, 2009 through and including April 21, 2011, and were damaged thereby. All Settlement Class Period purchasers of ZSTN securities are members of the Settlement Class, except those persons who timely file a request for exclusion by July 5, 2013. All persons who do not timely exclude themselves from the Settlement Class will be bound by the proposed Settlement and its accompanying releases.

## **4. Why Is There a Settlement?**

The Court did not decide in favor of the Lead Plaintiff or the Settling Defendants. Instead, both sides agreed to a Settlement. This permits them to avoid the cost and uncertainty of a trial, and permits eligible Settlement Class Members who submit valid claims to receive compensation. The Lead Plaintiff and his attorneys believe the Settlement is best for all Settlement Class Members. The Settling Defendants have concluded that further defense of the Litigation would be protracted and expensive, and that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation. The Settling Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases such as this Litigation.

### **WHO IS IN THE SETTLEMENT**

To see if you will receive money from this Settlement, you first have to determine if you are a Settlement Class Member.

## **5. How Do I Know if I Am Part of the Settlement?**

The Settlement Class includes **all those who purchased or otherwise acquired ZSTN securities from October 20, 2009 through and including April 21, 2011, and were damaged thereby.**

## **6. What Are the Exceptions to Being Included?**

You are not a Settlement Class Member if you are a Settling Defendant, an officer or director of ZSTN, members of the immediate families of any excluded person, the legal representatives, the heirs, successors or assigns of any excluded person or entity, and any entity in which any Defendant has or had a controlling interest.

## **7. I'm Still Not Sure if I Am Included.**

If you are still not sure whether you are included, you can ask for free help. You can call the Claims Administrator at 1-800-231-1815 or contact Frank & Bianco LLP at [info@frankandbianco.com](mailto:info@frankandbianco.com) for more information. Or you can fill out and return the claim form described in question 10, to see if you qualify.

### **THE SETTLEMENT BENEFITS – WHAT YOU GET**

## **8. What Does the Settlement Provide?**

The Settlement will result in a fund of \$1.7 million in cash. The balance of this fund after payment of Court-approved attorneys' fees and expenses, and the costs of claims administration, including the costs of printing and mailing this Notice and the cost of publishing the newspaper notice (the "Net Settlement Fund") will be divided among all eligible Settlement Class Members who send in valid claim forms.

## **9. How Much Will My Payment Be?**

Your share of the Net Settlement Fund will depend on the number of valid claim forms that Settlement Class Members send in, the number of ZSTN securities you purchased or acquired during the relevant period, and the timing of your purchases and sales. You will not receive a payment, however, if your proportionate share of the Net Settlement Fund is less than \$10.00.

You can calculate your Recognized Claim in accordance with the formula shown below in the Plan of Allocation discussed in the UNDERSTANDING YOUR PAYMENT section below. After all Settlement Class Members have sent in their Proof of Claim and Release forms, the payment you receive will reflect your Recognized Claim in relation to the Recognized Claims of all persons submitting Proof of Claim and Release forms. The Recognized Claim is not the amount of the payment that you can expect, but is used to determine how the Net Settlement Fund is allocated among all persons submitting claims.

#### HOW YOU OBTAIN A PAYMENT – SUBMITTING A CLAIM FORM

##### 10. How Can I Obtain a Payment?

To qualify for payment, you must be an eligible Settlement Class Member, send in a valid Proof of Claim and Release form, and properly document your claim as requested in the Proof of Claim and Release form. A Proof of Claim and Release form is enclosed with this Notice. You may also get a Proof of Claim and Release form on the internet at [www.gcginc.com](http://www.gcginc.com). Read the instructions carefully, fill out the Proof of Claim and Release form, include the documents the form asks for, sign it, and mail it in postmarked no later than July 22, 2013.

##### 11. When Will I Receive My Payment?

The Court will hold a hearing on August 1, 2013, to decide whether to approve the Settlement. If the Court approves the Settlement, there may be appeals. It is always uncertain whether these appeals can be resolved, and resolving them can take time, perhaps more than a year. Even if no appeals are filed, it will take several months for the Claims Administrator to process all of the Proof of Claim and Release forms and determine the ultimate distribution amounts.

##### 12. What Am I Giving Up to Receive a Payment?

As a Class Member, by submitting a Proof of Claim and Release form to receive a payment, you will be exercising any and all rights you may have for a recovery in this case. Unless you timely exclude yourself from the Settlement Class by the July 5, 2013 deadline, you are a Member of the Settlement Class and will be bound by the release of claims against the Released Parties. That means that you cannot sue, continue to sue, or be part of any other lawsuit against the Released Parties about the Settled Claims in this Litigation. It also means that all of the Court's orders will apply to you and legally bind you and you will release your claims in this case against the Settling Defendants. The terms of the release are included in the claim form that is enclosed.

#### EXCLUDING YOURSELF FROM THE CLASS ACTION SETTLEMENT

If you do not want a payment from the class action Settlement, but you want to keep the right to sue or continue to sue the Released Parties on your own for the Settled Claims in the class action then you must take steps to get out of the Settlement Class. This is called excluding yourself or is sometimes referred to as opting out of the class.

##### 13. How Do I Get Out of the Settlement Class?

To exclude yourself from the Settlement Class, you must send a letter by mail stating that you want to be excluded from *Scott v. ZST Digital Networks, Inc., et al.*, Case No. 11-CV-03531-GAF (JCx). You must include your name, address, telephone number, your signature, and the number of shares of ZSTN securities you purchased or otherwise acquired from October 20, 2009 through and including April 21, 2011; the number of shares sold during this time period, if any; and the dates of such purchases and/or sales. You must mail your exclusion request postmarked no later than July 5, 2013 to:

ZST Digital Networks, Inc. Securities Litigation  
EXCLUSION REQUEST  
Claims Administrator  
c/o The Garden City Group, Inc.  
PO Box 9349  
Dublin, OH 43017-4249

You cannot exclude yourself on the phone or by e-mail. If you ask to be excluded, you are not eligible to receive any settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in this Litigation.

##### 14. If I Do Not Exclude Myself, Can I Sue the Settling Defendants for the Same Thing Later?

No. Unless you exclude yourself from the Settlement Class, you give up any right to sue the Settling Defendants or their Released Parties for the Settled Claims in the Settlement. If you have a pending lawsuit against any of the Settling Defendants, speak to your lawyer in that case immediately. Remember, the exclusion deadline is July 5, 2013.

##### 15. If I Exclude Myself, Can I Receive Money from the Settlement?

No. If you exclude yourself, do not send in a Proof of Claim and Release form.

#### THE LAWYERS REPRESENTING YOU

##### 16. Do I Have a Lawyer in This Case?

The Court appointed the law firm of Frank & Bianco LLP to represent you and other Settlement Class Members. These lawyers are called Lead Counsel. You will not be personally liable for the fees and expenses incurred by these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

##### 17. How Will the Lawyers Be Paid?

Lead Counsel will ask the Court for attorneys' fees of 30% of the Settlement Fund and for expenses up to \$70,000, which were advanced in connection with the Litigation. Such sums as may be approved by the Court will be paid from the Settlement Fund. Settlement Class Members are not personally liable for any such fees or expenses.

The attorneys' fees and expenses requested will be the only payment to Lead Counsel for their efforts in achieving this Settlement and for their risk in undertaking this representation on a wholly contingent basis. Since the case began in 2011, Lead Counsel have conducted all of the investigation, briefing and motions practice necessary to prepare the case for trial, and consulted experts regarding the damages. To date, Lead Counsel has not been paid for their services in conducting this Litigation on behalf of the Lead Plaintiffs and the Class, nor for their expenses. Lead Counsel have expended to date more than 2,100 hours of attorney time in prosecuting the Class's claims and will ask the Court for actual expenses not to exceed \$70,000 in prosecuting the Litigation. The fee requested will compensate Lead Counsel for their work in achieving the Settlement Fund.

Lead Counsel shall file a formal motion with the District Court for approval of the Settlement, the Plan of Allocation, and the request for attorneys' fees and reimbursement of expenses not later than June 28, 2013. That motion will argue that Lead Counsel's requested fees are well within the range of fees awarded to class counsel under similar circumstances in other cases of this type. The Court determines what counsel should receive from the Settlement Fund for fees and expenses, and may award less than this amount.

#### OBJECTING TO THE SETTLEMENT

You can tell the Court that you do not agree with the Settlement or some part of it.

##### 18. How Do I Tell the Court if I Do Not Like the Settlement?

If you are a Settlement Class Member, you can object to the Settlement if you do not like any part of it, including the Plan of Allocation and the request for attorneys' fees. You can state the reasons why you think the Court should not approve it, and the Court will consider your views. To object, you must send a letter saying that you object to the Settlement in *Scott v. ZST Digital Networks, Inc., et al.*, Case No. 11-CV-03531-GAF (JCx). Be sure to include your name, address, telephone number, your signature, number of shares of ZSTN securities you purchased or otherwise acquired from October 20, 2009 through and including April 21, 2011, and the reasons you object. The motions in support of the Settlement and the request for attorneys' fees will be filed no later than June 28, 2013, and they will be available from Lead Counsel, the Claims Administrator or the Court: their contact information is listed in question 23, below. Any objection must be mailed or delivered such that it is received by **each** of the following no later than July 12, 2013:

|                                                                                                                                             |                                                                         |                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <i>Court:</i>                                                                                                                               | <i>Lead Counsel Designee:</i>                                           | <i>Defendants' Counsel Designee:</i>                                                                                  |
| Clerk of the Court<br>Edward R. Roybal Federal Building<br>& U.S. Courthouse<br>255 E. Temple St.<br>Courtroom 740<br>Los Angeles, CA 90012 | Frank & Bianco LLP<br>275 Madison Ave., Suite 801<br>New York, NY 10016 | Stephen D. Hibbard, Esq.<br>Shearman & Sterling LLP<br>Four Embarcadero Center, Suite 3800<br>San Francisco, CA 94111 |

#### THE COURT'S SETTLEMENT HEARING

The Court will hold a hearing to decide whether to approve the Settlement. You may attend and you may ask to speak, but you do not have to.

##### 19. When and Where Will the Court Decide Whether to Approve the Settlement?

The Court will hold a Settlement Hearing at 9:30 a.m., on August 1, 2013, at the Edward R. Roybal Federal Building & U.S. Courthouse, 255 E. Temple St., Courtroom 740, Los Angeles, CA 90012, for the purpose of determining (1) whether the proposed Settlement of the claims in the Litigation for the sum of \$1.7 million in cash should be approved by the Court as fair, reasonable and adequate to Members of the Settlement Class; (2) whether to certify the Settlement Class; (3) whether, thereafter, this Litigation should be dismissed with prejudice pursuant to the terms and conditions set forth in the Stipulation and Agreement of Settlement dated February 1, 2013; (4) whether the proposed plan to distribute the settlement proceeds (the "Plan of Allocation") is fair, reasonable and adequate and therefore should be approved; and (5) whether the application of Lead Counsel for the payment of attorneys' fees and expenses incurred in connection with this Litigation should be approved. The Court may decide these issues at the hearing or take them under consideration for a later decision.

##### 20. Do I Have to Come to the Hearing?

No. Lead Counsel will answer questions the Court may have. But, you are welcome to come at your own expense. If you send an objection, you do not have to come to Court to talk about it. As long as you mailed your written objection on time, the Court will consider it. You may also pay your own lawyer to attend, but it is not necessary.

##### 21. May I Speak at the Hearing?

You may ask the Court for permission to speak at the Settlement Hearing. To do so, you must send a letter saying that it is your intention to appear in *Scott v. ZST Digital Networks, Inc., et al.*, Case No. 11-CV-03531-GAF (JCx). Be sure to include your name, address, telephone number, your signature, and the number of shares of ZSTN securities you purchased or otherwise acquired from October 20, 2009 through and including April 21, 2011. Your notice of intention to appear must be received no later than July 12, 2013, by the Clerk of the Court, Lead Counsel Designee and Defendants' Counsel Designee, at the three addresses listed in question 18.

#### IF YOU DO NOTHING

##### 22. What Happens if I Do Nothing at All?

If you do nothing, all of your claims against the Settling Defendants will be released, but you will not receive any money from this Settlement because it is necessary to submit a Proof of Claim and Release form.

## GETTING MORE INFORMATION

### 23. Are There More Details About the Settlement?

This Notice summarizes the proposed Settlement. More details are in the Stipulation and Agreement of Settlement dated February 1, 2013. You can obtain a copy of the Stipulation or more information about the Settlement by contacting Lead Counsel or the Claims Administrator:

Lead Counsel:

Frank & Bianco LLP  
275 Madison Ave., Suite 801  
New York, NY 10016  
info@frankandbianco.com

Claims Administrator:

ZST Digital Networks, Inc. Securities Litigation  
Claims Administrator  
c/o The Garden City Group, Inc.  
PO Box 9349  
Dublin, OH 43017-4249  
1-800-231-1815

or by visiting [www.gcginc.com](http://www.gcginc.com).

You can also obtain a copy from the Clerk's office during regular business hours:

Clerk of the Court  
Edward R. Roybal Federal Building & U.S. Courthouse  
255 E. Temple St.  
Courtroom 740  
Los Angeles, CA 90012

## UNDERSTANDING YOUR PAYMENT

The Net Settlement Fund shall be distributed to Settlement Class Members who submit acceptable Proofs of Claim ("Authorized Claimants") in the following manner:

a. The Claims Administrator shall determine each Authorized Claimant's share of the Net Settlement Fund based upon the recognized loss formula (the "Recognized Loss") described below. The Recognized Loss formula is intended to equitably apportion the Net Settlement Fund among Class Members. The Recognized Loss formula is not an estimate of what a Class Member would have recovered after trial; nor is it the amount that the Authorized Claimant will be paid pursuant to the Settlement.

b. A Class Member's actual share of the Net Settlement Fund will be determined by the ratio of the Class Member's Recognized Loss divided by the aggregate of the Recognized Loss of all Class Members.

c. This Plan of Allocation is based on the following principles applicable to Class Members if the Litigation had gone to trial:

i. Lead Plaintiff asserted claims pursuant to Section 10(b) of the Securities Exchange Act of 1934 ("Section 10(b)"). Damages under Section 10(b) are calculated, among other things, by determining the stock price drop caused by the disclosure of information correcting prior materially false and misleading statements or reflecting materializations of risks which were a foreseeable consequence of the alleged concealment. Lead Plaintiff contended in the Litigation, among other things, that the corrective disclosure or materialization of the risk of materially false and misleading statements complained of occurred on April 21, 2011.

d. For those who purchased or otherwise acquired ZSTN securities from October 20, 2009 through and including April 21, 2011, the Plan of Allocation shall be as follows:

- (1) For shares held at the end of trading on July 19, 2011, the Recognized Loss shall be that number of shares multiplied by the lesser of:
  - (A) the applicable purchase date artificial inflation per share figure, as found in Table A; or
  - (B) the difference between the purchase price per share and \$2.80.<sup>1</sup>
- (2) For shares sold between October 20, 2009 and April 20, 2011, the Recognized Loss shall be that number of shares multiplied by the lesser of:
  - (A) the applicable purchase artificial inflation per share figure less the applicable sales date artificial inflation per share figure, as found in Table A; or
  - (B) the difference between the purchase price per share and the sales price.

<sup>1</sup> Pursuant to Section 21(D)(e)(1) of the Private Securities Litigation Reform Act of 1995, "in any private action arising under this title in which the plaintiff seeks to establish damages by reference to the market price of a security, the award of damages to the plaintiff shall not exceed the difference between the purchase or sale price paid or received, as appropriate, by the plaintiff for the subject security and the mean trading price of that security during the 90-day period beginning on the date on which the information correcting the misstatement or omission that is the basis for the action is disseminated." \$2.80 was the mean closing price of ZSTN common stock during the 90-day period beginning on April 21, 2011 and ending on July 19, 2011.

(3) For shares sold between April 21, 2011 and July 19, 2011, the Recognized Loss shall be the lesser of:

- (A) the applicable purchase date artificial inflation per share figure, as found in Table A; or
- (B) the difference between the purchase price per share and the average closing price of ZSTN common stock between April 21, 2011 and the date of sale.<sup>2</sup>

**TABLE A**

| Purchase or Sale Date Range | Artificial Inflation Per Share |
|-----------------------------|--------------------------------|
| 10/20/2009 – 04/21/2011     | \$1.73                         |

e. A purchase or sale of ZSTN securities shall be deemed to have occurred on the “contract” or “trade” date as opposed to the “settlement” or “payment” date.

f. The receipt or grant by gift, devise or operation of law of ZSTN securities during the Settlement Class Period shall not be deemed a purchase or sale of ZSTN securities shares for the calculation of an Authorized Claimant's Recognized Loss nor shall it be deemed an assignment of any claim relating to the purchase of such securities. The grantor of the gift or devise, who purchased ZSTN securities during the Settlement Class Period, shall retain the right to file a claim in this Litigation unless that right to file a claim was specifically transferred in the instrument of gift or assignment.

g. The receipt of ZSTN securities during the Settlement Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of ZSTN securities.

h. Any gains on sales of ZSTN securities shall be offset against losses in calculating the Recognized Loss. To the extent a Claimant had an overall gain from transactions in ZSTN securities during the Class Period, the value of the Recognized Loss will be zero.

i. No Authorized Claimant whose proportionate share of the Net Settlement Fund is less than \$10.00 shall receive a distribution from the Net Settlement Fund. Rather, that Claimant's proportionate share of the Net Settlement Fund shall be redistributed among all remaining Authorized Claimants.

j. Class Members who do not submit a timely request for exclusion and do not submit an acceptable Proof of Claim and Release form by the deadline for submitting claims, will not share in the recovery, but nevertheless will be bound by the Settlement and the Order and Final Judgment of the Court dismissing this Litigation.

k. Distributions will be made to Authorized Claimants after all claims have been processed and after the Court has finally approved the Settlement.

***DO NOT TELEPHONE THE COURT REGARDING THIS NOTICE***

**SPECIAL NOTICE TO NOMINEES**

The Court has ordered that if you purchased or otherwise acquired ZSTN from October 20, 2009 through and including April 21, 2011, or as nominee for a beneficial owner, then, within twenty (20) days after you receive this Notice, you must either: (1) send a copy of this Notice by first class mail to all such Persons; or (2) provide a list of the names and addresses of such Persons to the Claims Administrator:

ZST Digital Networks, Inc. Securities Litigation  
Claims Administrator  
c/o The Garden City Group, Inc.  
PO Box 9349  
Dublin, OH 43017-4249

If you choose to mail the Notice and Proof of Claim and Release yourself, you may obtain from the Claims Administrator (without cost to you) as many additional copies of these documents as you will need to complete the mailing.

Regardless of whether you choose to complete the mailing yourself or elect to have the mailing performed for you, you may obtain reimbursement for administrative costs actually incurred in connection with forwarding the Notice and which would not have been incurred but for the obligation to forward the Notice, upon submission of appropriate documentation to the Claims Administrator.

DATED: April 12, 2013

BY ORDER OF THE COURT  
UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

<sup>2</sup> Pursuant to Section 21(D)(e)(2) of the Private Securities Litigation Reform Act of 1995, “in any private action arising under this title in which the plaintiff seeks to establish damages by reference to the market price of a security, if the plaintiff sells or repurchases the subject security prior to the expiration of the 90-day period described in paragraph (1), the plaintiff's damages shall not exceed the difference between the purchase or sale price paid or received, as appropriate, by the plaintiff for the security and the mean trading price of the security during the period beginning immediately after dissemination of information correcting the misstatement or omission and ending on the date on which the plaintiff sells or repurchases the security.”