ZOOM TECHNOLOGIES INC
Form 10-Q
August 14, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008

or

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

For the transition period from________ to ________

Commission File Number 0-18672

ZOOM TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**51-0448969**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
207 South Street, Boston, Massachusetts	**02111**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(617) 423-1072**

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (do not check if a smaller reporting company)	¨	Smaller Reporting Company	x

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

The number of shares outstanding of the registrant’s Common Stock, $.01 par value, as of August 12, 2008, was 1,869,393 shares.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY
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PART I - FINANCIAL INFORMATION

ZOOM TECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets
(unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,988,041	$ 3,647,654
Accounts receivable, net of allowances of $1,014,194 at June 30, 2008 and $1,400,803 at December 31, 2007	1,737,364	2,128,888
Inventories	3,170,985	4,452,503
Prepaid expenses and other current assets	286,555	336,424
Total current assets	8,182,945	10,565,469
Equipment, net	143,203	172,070
Investments	1,504,205	1,178,709
Total assets	$ 9,830,353	$ 11,916,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 1,723,964	$ 2,079,325
Accrued expenses	519,614	415,468
Deferred gain on sale of real estate	149,061	340,913
Total current liabilities	2,392,639	2,835,706
Total liabilities	2,392,639	2,835,706
Stockholders' equity		
Common stock, $0.01 par value:		
Authorized - 25,000,000 shares; issued – 1,871,073 shares, including shares held in treasury	93,554	93,554
Additional paid-in capital	31,622,853	31,507,393
Accumulated deficit	(24,855,793)	(23,100,390)
Accumulated other comprehensive income (loss)–currency translation adjustment	584,422	587,307
Treasury stock (1,680 shares), at cost	(7,322)	(7,322)
Total stockholders' equity	7,437,714	9,080,542
Total liabilities and stockholders' equity	$ 9,830,353	$ 11,916,248

· The common stock share quantities on the Condensed Consolidated Balance Sheet have been restated to reflect Zoom’s 1:5 reverse stock split that was effective August 7, 2008.

See accompanying notes.

ZOOM TECHNOLOGIES, INC.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net sales	$ 4,061,451	$ 4,342,052	$ 7,642,028	$ 9,096,308
Cost of goods sold	3,143,067	3,871,321	5,999,640	7,505,794
Gross profit	918,384	470,731	1,642,388	1,590,514
Operating expenses:				
Selling	821,733	878,154	1,562,294	1,771,726
General and administrative	589,515	606,624	1,136,990	1,245,541
Research and development	436,285	490,875	903,195	982,214
	1,847,533	1,975,653	3,602,479	3,999,481
Operating profit (loss) before gain on sale of real estate	(929,149)	(1,504,922)	(1,960,091)	(2,408,967)
Gain on sale of real estate	95,926	95,626	191,852	191,552
Operating profit (loss)	(833,223)	(1,409,296)	(1,768,239)	(2,217,415)
Other:				
Interest income	11,780	71,194	38,560	149,240
Other, net	(11,833)	(544)	(25,724)	(20,563)
Total other income(expense), net	(53)	70,650	12,836	128,677
Income (loss) before income taxes	(833,276)	(1,338,646)	(1,755,403)	(2,088,738)
Income taxes (benefit)	—	—	—	—
Net income (loss)	$ (833,276)	$ (1,338,646)	$ (1,755,403)	$ (2,088,738)
Basic and diluted net income (loss) per share	$ (0.45)	$ (0.72)	$ (0.94)	$ (1.12)
Weighted average common and common equivalent shares:				
Basic and diluted	1,869,393	1,869,393	1,869,393	1,869,393

- The common stock share quantities and net income (loss) per share on the Condensed Consolidated Statement of Operations have been restated to reflect Zoom's 1:5 reverse stock split that was effective August 7, 2008.

See accompanying notes.

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ZOOM TECHNOLOGIES, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2007	
Operating activities:				
Net income (loss)	$	(1,755,403)	$	(2,088,738)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Gain on sale of real estate		(191,852)		(191,552)
Stock based compensation		115,460		148,812
Depreciation and amortization		32,606		41,909
Changes in operating assets and liabilities:				
Accounts receivable, net		390,008		903,623
Inventories		1,281,150		295,346
Prepaid expenses and other assets		49,712		7,576
Accounts payable and accrued expenses		(251,569)		(1,149,005)
Net cash provided by (used in) operating activities		(329,888)		(2,032,029)
Investing activities:				
Investment		(325,496)		—
Additions to property, plant and equipment		(3,757)		5,887
Net cash provided by (used in) investing activities		(329,253)		5,887
Effect of exchange rate changes on cash		(472)		1,103
Net change in cash		(659,613)		(2,025,039)
Cash and cash equivalents at beginning of period		3,647,654		7,833,046
Cash and cash equivalents at end of period	$	2,988,041	$	5,808,007
Supplemental disclosures of cash flow information:				
Cash paid during the period for:				
Interest	$	—	$	—
Income taxes	$	—	$	—

See accompanying notes.

ZOOM TECHNOLOGIES, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

The condensed consolidated financial statements of Zoom Technologies, Inc. (the "Company") presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2007 included in the Company's 2007 Annual Report on Form 10-K.

The accompanying financial statements are unaudited. However, the condensed balance sheet as of December 31, 2007 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all adjustments, normal recurring adjustments, necessary for a fair presentation.

The accompanying financial statements include the accounts of the Company and its wholly-owned subsidiary, Zoom Telephonics, Inc. All intercompany accounts and transactions have been eliminated in consolidation.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year.

(a) *Recently Issued or Proposed Accounting Pronouncements*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements”, (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring the fair value of assets and liabilities, and expands disclosure requirements regarding the fair value measurement. SFAS 157 does not expand the use of fair value measurements. This statement, as issued, is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position (FSP) FAS No. 157-2 was issued in February 2008 and deferred the effective date of SFAS 157 for nonfinancial assets and liabilities to fiscal years beginning after November 2008. As such, the Company adopted SFAS 157 as of January 1, 2008 for financial assets and liabilities only. There was no significant effect on the Company’s financial statements. The Company does not believe that the adoption of SFAS 157 to non-financial assets and liabilities will significantly effect its financial statements.

In February 2007, the FASB issued SFAS 159, “The Fair Value Option for Financial Assets and Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 expands the use of fair value accounting but does not affect existing standards which requires assets or liabilities to be carried at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Under SFAS 159, a company may elect to use fair value to measure eligible items at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Eligible items include, but are limited to, accounts receivable, investments in debt and equity securities, accounts payable, and issued debt. If elected, SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not elected to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will apply the provisions of SFAS 141 (R) to any acquisition after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, “Accounting for Non-controlling Interests” (“SFAS 160”). SFAS 160 clarifies the classification of non-controlling interests in consolidated balance sheets and reporting transactions between the reporting entity and holders of non-controlling interests. Under this statement, non-controlling interests are considered equity and reported as an element of consolidated equity. Further, net income encompasses all consolidated subsidiaries with disclosure of the attribution of net income between controlling and non-controlling interests. SFAS No. 160 is effective prospectively for fiscal years beginning after December 15, 2008. Currently, there are no non-controlling interests in any of the Company’s subsidiaries.

In March 2008, the Financial Accounting Standards Board ("FASB") issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). It requires enhanced disclosures about (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company beginning January 1, 2009.

(2) Liquidity

On June 30, 2008 the Company had working capital of $5.8 million, including $3.0 million in cash and cash equivalents.

To conserve cash and manage liquidity, the Company has implemented cost cutting initiatives including the reduction of employee headcount and overhead costs. The employee headcount was 68 at June 30, 2007 and 63 at June 30, 2008. The Company plans to continue to assess its cost structure as it relates to revenues and cash position, and the Company may make further reductions if the actions are deemed necessary.

The Company's total current assets at June 30, 2008 were $8.2 million and current liabilities were $2.4 million. The Company did not have any long-term debt at June 30, 2008. Management believes it has sufficient resources to fund its planned operations through at least June 30, 2009. However, if the Company is unable to increase its revenues, reduce its expense, or raise capital the Company's longer-term ability to continue as a going concern and achieve its intended business objectives could be adversely affected.

(3) Inventories

	June 30, 2008	December 31, 2007
Inventories consist of :		
Raw materials	$ 1,938,048	$ 2,913,556
Work in process	128,781	189,295
Finished goods	1,104,156	1,349,652
Total Inventories	$ 3,170,985	$ 4,452,503

(4) Comprehensive Income (Loss)

Comprehensive income (loss) follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income (loss)	$ (833,276)	$ (1,338,646)	$ (1,755,403)	$ (2,088,738)
Foreign currency translation adjustment	870	20,692	(2,885)	24,557
Comprehensive income (loss)	$ (832,406)	$ (1,317,954)	$ (1,758,288)	$ (2,064,181)

(5) Contingencies

The Company is party to various lawsuits and administrative proceedings arising in the ordinary course of business. The Company evaluates such lawsuits and proceedings on a case-by-case basis, and its policy is to vigorously contest any such claims that it believes are without merit. The Company's management believes that the ultimate resolution of such pending matters will not materially and adversely affect the Company's business, financial position, results of operations or cash flows.

(6) Segment and Geographic Information

The Company's operations are classified as one reportable segment. The Company's net sales follow:

	Three Months Ended June 30, 2008	% of Total	Three Months Ended June 30, 2007	% of Total	Six Months Ended June 30, 2008	% of Total	Six Months Ended June 30, 2007	% of Total
North America	$ 2,716,488	67%	$ 2,629,708	61%	$ 5,125,886	67%	$ 6,115,371	67%
UK	1,002,285	25%	1,067,779	25%	1,681,277	22%	1,730,734	19%
All Other	342.678	8%	644,565	14%	834,865	11%	1,250,203	14%
Total	$ 4,061,451	100%	$ 4,342,052	100%	$ 7,642,028	100%	$ 9,096,308	100%

(7) Customer Concentrations

Relatively few customers account for a substantial portion of the Company's net sales. In the second quarter of 2008 the Company's net sales to its top three customers accounted for 39% of its total net sales. In the second quarter of 2007 the Company's net sales to its top three customers accounted for 45% of its total net sales. The Company's customers generally do not enter into long-term agreements obligating them to purchase the Company's products. The Company may not continue to receive significant revenues from any of these or from other large customers. A reduction or delay in orders from any of the Company's significant customers, or a delay or default in payment by any significant customer could materially harm the Company's business and prospects. Because of the Company's significant customer concentration, its net sales and operating income could fluctuate significantly due to changes in political or economic conditions, or the loss, reduction of business, or less favorable terms with any of its significant customers.

(8) Investments

As of June 30, 2008 and December 31, 2007 the Company owned all the Series A Preferred Shares of Unity Business Networks, LLC.

On January 22, 2008, the Company and RedMoon, Inc., a provider of wireless networks headquartered in Plano, Texas ("RedMoon"), entered into a Convertible Note Purchase Agreement pursuant to which the Company made an initial investment of $300,000 in 6% convertible notes (the "Notes") and agreed to purchase an additional $50,000 per month of 6% convertible notes beginning on May 1, 2008 and continuing until the earlier of (i) the Company's election to exercise the option to purchase all outstanding stock of RedMoon contained in the Option Agreement described below or (ii) the Company's election to terminate such Option Agreement, up to a maximum total investment of $500,000. On April 30, 2008 the Company notified RedMoon of the Company's decision not to invest $50,000 on May 1, 2008 due to the lack of required information. The Company expects that the option will not be exercised and will terminate in accordance with its terms on August 31, 2008.

As of June 30, 2008 the Company's investment in RedMoon's Notes is stated at cost of $325,496, which includes legal and other investment related costs.

As of January 22, 2008, the Company and RedMoon entered into a Security Agreement granting the Company a security interest in certain equipment of RedMoon, and the Company, RedMoon, and certain of RedMoon's stockholders entered into a Voting Agreement whereby the Company and certain stockholders of RedMoon agreed to elect Frank Manning, Chief Executive Officer of the Company, and Bryan Thompson, Chief Executive Officer of RedMoon, to the Board of Directors of RedMoon.

(9) Other Events

On June 26, 2008, the stockholders of the Company approved a reverse stock split within the range of one-for-two and one-for-nine. On July 29, 2008, the Board of Directors approved a one-for-five reverse stock split which became effective on August 7, 2008. All common stock information presented herein has been retroactively restated to reflect the reverse stock split

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the safe harbor statement and the risk factors contained in Item IA of Part II of this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2007, and in our other filings with the SEC. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Overview

We derive our net sales primarily from sales of Internet-related communication products, principally broadband and dial-up modems and other communication products, to retailers, distributors, Internet Service Providers and Original Equipment Manufacturers. We sell our products through a direct sales force and through independent sales agents. Our employees are primarily located at our headquarters in Boston, Massachusetts and our sales office in the United Kingdom. We are experienced in electronics hardware, firmware, and software design and test, regulatory approvals, product documentation, and packaging; and we use that experience in developing each product in-house or in partnership with suppliers who are typically based in Asia. Electronic assembly and testing of the Company’s products in accordance with our specifications is typically done in China.

For many years we performed most of the final assembly, test, packaging, warehousing and distribution at a production and warehouse facility on Summer Street in Boston, Massachusetts, which has also engaged in firmware programming for some products. On June 30, 2006 we announced our plans to move most of our Summer Street operations to a dedicated facility in Tijuana, Mexico commencing approximately September 1, 2006, and we have since implemented that plan. Our lease for our Summer Street facility expired in August 2006, and we completely vacated the facility on September 30, 2006. Our Mexican manufacturing operation is managed by a maquiladora management company.

Since 1983 our headquarters has been near South Station in downtown Boston. Zoom historically owned two adjacent buildings which connect on most floors, and which house our entire Boston staff. In December 2006 we sold our headquarters buildings to a third party, with a two-year lease-back of approximately 25,000 square feet of the 62,000 square foot facility. Our net sale proceeds were approximately $7.7 million of which approximately $3.6 million was repaid to our mortgage holder, eliminating the mortgage debt from our balance sheet. Our lease expires in December 2008. A renewal of our current lease may require an increase in our monthly rent. We may reduce the space leased in our current location or move our headquarters to a new location based on our needs and rental costs. In the event the lease for our current space is not further extended, we believe we will be able to find alternative space that is suitable and adequate for our headquarters operation.

For many years we derived a majority of our net sales from the retail after-market sale of dial-up modems to customers seeking to add or upgrade a modem for their personal computers. In recent years the size of this market and our sales to this market have declined, as personal computer manufacturers have incorporated a modem as a built-in component in most consumer personal computers and as increasing numbers of consumers world-wide have switched to broadband Internet access. The consensus of communications industry analysts is that after-market sales of dial-up modems will probably continue to decline. There is also consensus among industry analysts that the installed base for broadband Internet connection devices, such as cable modems and DSL modems, will grow rapidly during the decade. In response to increased and forecasted worldwide demand for faster connection speeds and increased modem functionality, we have invested and continue to invest resources to advance our product line of broadband modems, both DSL modems and cable modems.

We continually seek to improve our product designs and manufacturing approach in order to improve product performance and reduce our costs. We pursue a strategy of outsourcing rather than internally developing our modem chipsets, which are application-specific integrated circuits that form the technology base for our modems. By outsourcing the chipset technology, we are able to concentrate our research and development resources on modem system design, leverage the extensive research and development capabilities of our chipset suppliers, and reduce our development time and associated costs and risks. As a result of this approach, we are able to quickly develop new products while maintaining a relatively low level of research and development expense as a percentage of net sales. We also outsource aspects of our manufacturing to contract manufacturers as a means of reducing our costs of production, and to provide us with greater flexibility in our production capacity.

Over the past several years our net sales have declined. In response to declining sales volume, we have cut costs by reducing staffing and some overhead costs. Our total headcount of full-time employees, including temporary workers, went from 68 on June 30, 2007 to 63 on June 30, 2008. Our dedicated manufacturing personnel in Mexico are employees of our Mexican manufacturing service provider and not included in our 2008 or 2007 headcount. Of Zoom’s 63 employees on June 30, 2008, 13 were engaged in research and development, 17 were involved in manufacturing management, purchasing, assembly, packaging, shipping and quality control, 22 were engaged in sales, marketing and technical support, and the remaining 11 performed accounting, administrative, management information systems, and executive functions.

Generally our gross margin for a given product depends on a number of factors including the type of customer to whom we are selling. The gross margin for retailers tends to be higher than for some of our other customers; but the sales, support, returns, and overhead costs associated with retailers also tend to be higher. Zoom's sales to certain countries are currently handled by a single master distributor for each country who handles the support and marketing costs within the country. Gross margin for sales to these master distributors tends to be low, since lower pricing to these distributors helps them to cover the support and marketing costs for their country.

In the second quarter of 2008 our net sales were down 6.5% compared to the second quarter of 2007. The sales decrease resulted from declines in DSL and dial-up modem sales, partially offset by increased sales of our wireless and cable modem products. The majority of the decline in DSL modem sales in the second quarter of 2008 compared to the second quarter of 2007 was due to lower sales at our largest UK retailer. The decline in dial-up modem sales was primarily the result of the continued decline of the dial-up modem after-market. Recently we opened new accounts and made initial shipments to Wal-Mart, Tesco, Costco UK, and Brightstar. Because of our significant customer concentration our net sales and operating results have fluctuated and in the future could continue to fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers.

During the quarter ended September 30, 2007 we purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of $1.2 million, including transaction costs. The Series A Shares are convertible at any time at our option into 15% of Unity's common stock on a fully-diluted basis. The Series A Shares convert automatically if Unity consummates a public offering with gross proceeds in excess of $25 million or 30 days after Unity delivers its 2009 audited financial statements to the Company. In addition, we have an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity's revenues, as defined, for 2008.

On January 22, 2008, Zoom and RedMoon, Inc., a provider of wireless networks headquartered in Plano, Texas ("RedMoon"), entered into a Convertible Note Purchase Agreement pursuant to which we made an initial investment of $300,000 in 6% convertible notes (the "Notes") and agreed to purchase an additional $50,000 per month of 6% convertible notes beginning on May 1, 2008 and continuing until the earlier of (i) the Company's election to exercise the option to purchase all outstanding stock of RedMoon contained in the Option Agreement described in Note 8 to the accompanying financial statements or (ii) the Company's election to terminate such Option Agreement, up to a maximum total investment of $500,000 On April 30, 2008 the Company notified RedMoon of the Company's decision not to invest $50,000 on May 1, 2008 due to the lack of required information. The Company expects that the option will not be exercised and will terminate in accordance with its terms on August 31, 2008.

Our cash and cash equivalents balance at June 30, 2008 was $3.0 million, down from $3.6 million at December 31, 2007. The cash decline over the first six months of 2008 was due primarily to our $1.8 million loss, our $0.3 million reduction in accounts payable and accrued expense, and our $0.3 million investment in RedMoon, partially offset by our $1.3 million reduction of inventory and our $0.4 reduction in accounts receivable.

On June 26, 2008, the stockholders of the Company approved a reverse stock split within the range of one-for-two and one-for-nine. On July 29, 2008, the Board of Directors approved a one-for-five reverse stock split which became effective on August 7, 2008. All common stock information presented herein has been retroactively restated to reflect the reverse stock split.

Critical Accounting Policies and Estimates

Following is a discussion of what we view as our more significant accounting policies and estimates. As described below, management judgments and estimates must be made and used in connection with the preparation of our consolidated financial statements. We have identified areas where material differences could result in the amount and timing of our net sales, costs, and expenses for any period if we had made different judgments or used different estimates.

Revenue (Net Sales) Recognition. We primarily sell hardware products to our customers. The hardware products include dial-up modems, DSL modems, cable modems, voice over IP products, and wireless and wired networking equipment. We earn a small amount of royalty revenue that is included in our net sales, primarily from internet service providers. We generally do not sell software. We began selling services in 2004. We introduced our Global Village VoIP service in late 2004, but sales of those services to date have not been material.

We derive our net sales primarily from the sales of hardware products to four types of customers:

· computer peripherals retailers,

- computer product distributors,
- Internet service providers, and
- original equipment manufacturers (OEMs)

We recognize hardware net sales for our customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes from Zoom to the customer based on the contractual FOB point specified in signed contracts and purchase orders, which are both used extensively. Many of our customer contracts or purchase orders specify FOB destination. We verify the delivery date on all significant FOB destination shipments made during the last 10 business days of each quarter.

Our net sales of hardware include reductions resulting from certain events which are characteristic of the sales of hardware to retailers of computer peripherals. These events are product returns, certain sales and marketing incentives, price protection refunds, and consumer mail-in and in-store rebates. Each of these is accounted for as a reduction of net sales based on detailed management estimates, which are reconciled to actual customer or end-consumer credits on a monthly or quarterly basis.

Our second quarter 2008 VoIP service revenues were recorded as the end-user-customer consumed billable VoIP services. The end-user-customer became a service customer by electing to sign up for the Global Village billable service on the Internet. Zoom recorded revenue either when billable services were consumed or when a monthly flat-fee service was billed.

Product Returns. Products are returned by retail stores and distributors for inventory balancing, contractual stock rotation privileges, and warranty repair or replacements. We estimate the sales and cost value of expected future product returns of previously sold products. Our estimates for product returns are based on recent historical trends plus estimates for returns prompted by, among other things, announced stock rotations and announced customer store closings. Management reviews historical returns, current economic trends, and changes in customer demand and acceptance of our products when estimating sales return allowances. The estimate for future returns is recorded as a reserve against accounts receivable, a reduction in our net sales, and the corresponding change to inventory reserves and cost of sales. The relationship of quarterly physical product returns to quarterly product sales remained relatively stable for many years. Product returns as a percentage of net sales were 10.9% in the second quarter of 2008.

Price Protection Refunds. We have a policy of offering price protection to certain of our retailer and distributor customers for some or all their inventory. Under the price protection policies, when we reduce our prices for a product, the customer receives a credit for the difference between the original purchase price and our reduced price for their unsold inventory of that product. Our estimates for price protection refunds are based on a detailed understanding and tracking by customer and by sales program. Estimated price protection refunds are recorded in the same period as the announcement of a pricing change. Information from customer inventory-on-hand reports or from direct communications with the customers is used to estimate the refund, which is recorded as a reduction of net sales and a reserve against accounts receivable. Reductions in our net sales due to price protection were $0.1 million in 2006 and $0.1 million in 2007. In the second quarter of 2008 the reduction in net sales due to price protection was $0.005 million compared to $0.03 million in the second quarter of 2007.

Sales and Marketing Incentives. Many of our retailer customers require sales and marketing support funding, usually set as a percentage of our sales in their stores. The incentives are reported as reductions in our net sales and were $0.8 million in 2006 and $1.2 million in 2007. In the second quarter of 2008, the reduction in our net sales due to sales and marketing incentives was $0.2 million compared to $0.3 million in the second quarter of 2007.

Consumer Mail-In and In-Store Rebates. Our estimates for consumer mail-in and in-store rebates are based on a detailed understanding and tracking by customer and sales program, supported by actual rebate claims processed by the rebate redemption centers plus an accrual for an estimated lag in processing at the redemption centers. The estimate for mail-in and in-store rebates is recorded as a reserve against accounts receivable and a reduction of net sales in the same period that the rebate obligation was triggered. Reductions in our net sales due to the consumer rebates were $0.7 million in 2006 and $0.3 million in 2007. In the second quarter of 2008, the reduction in our net sales due to consumer mail-in rebates and in-store rebates was $0.004 million compared to $0.05 million in the second quarter of 2007.

To ensure that the sales, discounts, and marketing incentives are recorded in the proper period, we perform extensive tracking and documenting by customer, by period, and by type of marketing event. This tracking includes reconciliation to the accounts receivable records for deductions taken by our customers for these discounts and incentives.

Accounts Receivable Valuation. We establish accounts receivable valuation allowances equal to the above-discussed net sales adjustments for estimates of product returns, price protection refunds, consumer rebates, and general bad debt reserves. These allowances are reduced as actual credits are issued to the customer's accounts. Our bad-debt write-offs were approximately $0.1 million for 2007 and approximately $0.0 million for 2006. Our bad-debt write-offs were not significant in the second quarter of 2008 or 2007.

Inventory Valuation and Cost of Goods Sold. Inventory is valued at the lower of cost, determined by the first-in, first-out method, or market. We review inventories for obsolete slow moving products each quarter and make provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. We did not have significant charges to costs and expenses for obsolete or slow-moving products in the second quarter of 2008 or 2007.

Valuation and Impairment of Deferred Tax Assets. As part of the process of preparing our consolidated financial statements we estimate our income tax expense and deferred income tax position. This process involves the estimation of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance. Changes in the valuation allowance are reflected in the statement of operations.

Significant management judgment is required in determining our provision for income taxes and any valuation allowances. We have recorded a 100% valuation allowance against our deferred income tax assets. It is management's estimate that, after considering all of the available objective evidence, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. If we establish a record of continuing profitability, at some point we will be required to reduce the valuation allowance and recognize an equal income tax benefit which will increase net income in that period(s).

As of December 31, 2007 we had federal net operating loss carry forwards of approximately $36,777,000. These federal net operating losses are available to offset future taxable income, and are due to expire in years ranging from 2018 to 2027. We also had state net operating loss carry forwards of approximately $11,447,000. These state net operating losses are available to offset future taxable income, and are primarily due to expire in years ranging from 2008 to 2012.

Valuation of Investment in Affiliates. During the quarter ended September 30, 2007 the Company purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of $1.2 million, including transaction costs. The Series A Shares are convertible at any time at the Company’s option into 15% of Unity’s common stock on a fully-diluted basis. The Series A Shares convert automatically if Unity consummates a public offering with gross proceeds in excess of $25 million or 30 days after Unity delivers its 2009 audited financial statements to the Company. In addition, the Company has an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity’s revenues, as defined, for 2008. The option is exercisable for 30 days following the receipt of Unity’s 2008 audited financial statements. The Company’s CEO is a member of Unity’s five member board of directors. Further, the Company is entitled to vote Series A Shares on an as-converted basis with Unity’s common stock. The Company is unable to exercise significant influence over Unity’s policies or operations.

On January 22, 2008, the Company and RedMoon, Inc., a provider of wireless networks headquartered in Plano, Texas (“RedMoon”), entered into a Convertible Note Purchase Agreement pursuant to which the Company made an initial investment of $300,000 in 6% convertible notes (the “Notes”) and agreed to purchase an additional $50,000 per month of 6% convertible notes beginning on May 1, 2008 and continuing until the earlier of (i) the Company’s election to exercise the option to purchase all outstanding stock of RedMoon contained in the Option Agreement described below or (ii) the Company’s election to terminate such Option Agreement, up to a maximum total investment of $500,000 On April 30, 2008 the Company notified RedMoon of the Company’s decision not to invest $50,000 on May 1, 2008 due to the lack of required information. The Company expects that the option will not be exercised and will terminate in accordance with its terms on August 31, 2008.

As of January 22, 2008, the Company and RedMoon entered into a Security Agreement granting the Company a security interest in certain equipment of RedMoon, and the Company, RedMoon, and certain of RedMoon’s stockholders entered into a Voting Agreement whereby the Company and certain stockholders of RedMoon agreed to elect Frank Manning, Chief Executive Officer.

The Company accounts for its investments in Unity and RedMoon at cost. The investments will be reviewed periodically for potential impairment.

Results of Operations

Summary. Net sales were $4.1 million for our second quarter ended June 30, 2008, down 6.5% from $4.3 million in the second quarter of 2007. We had a net loss of $0.83 million for the second quarter of 2008, compared to a net loss of $1.34 million in the second quarter of 2007. Loss per diluted share was $0.45 in the second quarter of 2008 compared to $0.72 for the second quarter of 2007. Net sales were $7.6 million for the first six month ended June 30, 2008, down 16.0% from $9.1 million in the first six months ended June 30, 2007. We had a net loss of $1.8 million for the first six months ended June 30, 2008 compared to a net loss of $2.1 million for the first six months ended June 30, 2007. Loss per diluted share was $0.94 in the first six months ended June 30, 2008 compared to $1.12 for first six months ended June 30, 2007.

Net Sales. Our total net sales for the second quarter of 2008 decreased $0.3 million or 6.5% from the second quarter of 2007, primarily due to decreases in DSL and dial-up modem sales, partially offset by an increase in wireless product sales. The decline in dial-up modem sales was primarily the result of the continued decline of the dial-up modem after-market. The majority of the decline in DSL modem sales in the second quarter of 2008 compared to the second quarter of 2007 was due to lower sales at our largest UK retailer. Dial-up modem net sales declined from $1.8 million in the second quarter of 2007 to $1.4 million in the second quarter of 2008. Cable modem sales were unchanged at $0.4 million in the second quarter of 2007 and the second quarter of 2008. Wireless product sales, not counting sales of DSL gateways with integrated wireless, increased from $0.1 million in the second quarter of 2007 to $0.8 million in the second quarter of 2008.

Our net sales for the first six months of 2008 decreased 16.0% from the first six months of 2007, primarily due to sales declines for DSL and dial-up modem sales. The decline in modem sales was primarily for the reasons cited above and due to production delays in the fourth quarter of 2006 which further resulted in a significant opening order backlog and resulting higher shipments in the first quarter of 2007. The production delays were the result of late 2006 transition difficulties from closing our Boston manufacturing facility and opening our Mexican maquiladora manufacturing operation.

Our net sales in North America increased from $2.6 million in the second quarter of 2007 to $2.7 million in the second quarter of 2008. Our net sales outside North America declined from $1.7 million in the second quarter of 2007 to $1.3 million in the second quarter of 2008. The decline in sales outside North America was primarily in Spain, the U.K., and Turkey.

Our net sales in North America were $5.1 million in the first six months of 2008, a decrease from $6.1 million in the first six months of 2007. Our net sales in the U.K. were $1.7 million in both the first six months of 2008 and 2007. Our net sales in countries outside North America and the U.K. were $0.8 million for the first six months of 2008 and $1.3 million for the first six months of 2007. The decline in sales outside North America was primarily in Vietnam, Israel, and Spain.

In the quarter ended June 30, 2008 three customers accounted for 39% of total net sales. Because of our significant customer concentration, our net sales and operating income has fluctuated and could in the future fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers. For the first six months of 2007 and 2008, our net sales to our top three customer accounted for 38% of our net sales. Because of our significant customer concentration, our net sales and operating income has fluctuated and could in the future fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers.

Gross Profit. Our total gross profit was $0.9 million in the second quarter of 2008, an increase from $0.5 million in the second quarter of 2007. Gross margin as a percent of net sales was 22.6% in the second quarter of 2008 compared to 10.8% in the second quarter of 2007. The gross margin percentage was higher in the second quarter of 2008 compared to the second quarter of 2007 primarily due to reduced retail rebates and discounts, reduced manufacturing expense, and reserve adjustments for future product returns.

Our total gross profit was $1.6 million in both the first six months of 2008 and the first six months of 2007. Gross margin as a percent of net sales increased to 21.5% in the first six months of 2008 from 17.5% in the first six months of 2007. The gross margin percentage was higher in the first six months of 2008 primarily because of reduced retail rebates and discounts, reduced manufacturing expense, and reserve adjustments for future product returns.

Selling Expense. Selling expense was $0.8 million or 20.2% of net sales in the second quarter of 2008 compared to $0.9 million or 20.2% of net sales in the second quarter of 2007. Product delivery cost, marketing and advertising expense, rent, and telephone expense were lower in the second quarter of 2008 compared to the second quarter of

2007. Selling expense was $1.6 million for the first six months of 2008 and $1.8 million for the first six months of 2007. Selling expense as a percentage of net sales was 20.4% in the first six months of 2008 and 19.5% of net sales in the first six months of 2007. Product delivery cost, marketing and advertising expense, rent, telephone expense, and commissions were lower in the first six months of 2008 compared to the first six months of 2007.

General and Administrative Expense. General and administrative expense was $0.6 million or 14.5% of net sales in the second quarter of 2008 and $0.6 million or 14.0% of net sales in the second quarter of 2007. General and administrative expense was $1.1 million or 14.9% of net sales in the first six months of 2008 compared to $1.2 million or 13.7% of net sales in the first six months of 2007. The reduction was primarily the result of reduced personnel, legal, and audit expense.

Research and Development Expense. Research and development expense was $0.4 million or 10.7% of net sales in the second quarter of 2008 and $0.5 million or 11.3% of net sales in the second quarter of 2007. Development and support continues on all of our major product lines. Research and development expense was $0.9 million or 11.8% of net sales in the first six months of 2008 compared to $1.0 million or 10.8% of net sales in the first six months of 2007. Research and development costs decreased primarily as a result of lower personnel costs due to headcount reductions.

Gain on Sale of Real Estate. A gain on sale of real estate of $0.096 million was recorded in the second quarters of 2008 and 2007. In December 2006 Zoom sold its headquarters building in Boston and agreed to lease-back some of the office space. The lease-back arrangement resulted in an accounting deferral of $0.725 million of the gain. This deferred gain is being recorded over the subsequent eight quarters at $0.096 million per quarter for seven quarters and $0.053 million in the eighth quarter, which will be the fourth quarter of 2008.

Other Income. Other income was approximately $0.0 million in the second quarter of 2008 and $0.07 million in the second quarter of 2007. Total other income (expense), net was income, net of $0.01 million in the first six months of 2008 compared to $0.1 million in the first six months of 2007. The income reduction was primarily from reduced interest income due to a decrease in cash on hand and changes in interest rates in both the second quarter and the first six months of 2008 as compared to 2007.

Income Tax Expense (Benefit). We did not record any tax expense in the second quarter of 2008 or the second quarter of 2007. The net deferred tax asset balance at June 30, 2008 was zero.

Liquidity and Capital Resources

On June 30, 2008, we had working capital of $5.8 million, including $3.0 million in cash and cash equivalents. We had a $0.7 million reduction in cash and cash equivalents in the first six months of 2008. Operating activities used $0.3 million in cash, as follows: a net loss of $1.8 million, a decrease of accounts payable and accrued expense of $0.3 million, and an adjustment for a gain on sales of real estate for $0.2 million, partially offset by a decrease of inventory of $1.3 million and a decrease in accounts receivable of $0.4 million. Investing activities used $0.3 million in cash for the RedMoon investment described above.

To conserve cash and manage our liquidity, we continue to implement cost cutting initiatives including the reduction of employee headcount and overhead costs. Our employee headcount was 68 at June 30, 2007 and was reduced to 63 at June 30, 2008. We have 29 dedicated manufacturing personnel in Mexico employed by a manufacturing service provider and they are not counted as Zoom employees. At June 30, 2007 we had 36 dedicated manufacturing personnel in Mexico. We plan to continue to assess our cost structure as it relates to our revenues and cash position in 2008, and we may make further reductions if the actions are deemed necessary.

During the quarter ended September 30, 2007 we purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of $1.2 million, including transaction costs. The Series A Shares are convertible at any time at our option into 15% of Unity’s common stock on a fully-diluted basis. The Series A Shares convert automatically if Unity consummates a public offering with gross proceeds in excess of $25 million or 30 days after Unity delivers its 2009 audited financial statements to the Company. In addition, we have an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity’s revenues, as defined, for 2008.

On January 22, 2008, Zoom and RedMoon, Inc., a provider of wireless networks headquartered in Plano, Texas (“RedMoon”), entered into a Convertible Note Purchase Agreement pursuant to which we made an initial investment of $300,000 in 6% convertible notes (the “Notes”) and agreed to purchase an additional $50,000 per month of 6% convertible notes beginning on May 1, 2008 and continuing until the earlier of (i) the Company’s election to exercise the option to purchase all outstanding stock of RedMoon contained in the Option Agreement or (ii) the Company’s election to terminate such Option Agreement, up to a maximum total investment of $500,000. On the same date, Zoom and RedMoon and the holders of RedMoon’s outstanding capital stock entered into an Option Agreement pursuant to which Zoom has the right to buy the balance of RedMoon any time prior to the close of business on August 31, 2008, unless the we elect to terminate the Option Agreement prior to that date. On April 30, 2008 the Company notified RedMoon of the Company’s decision not to invest $50,000 on May 1, 2008 due to the lack of required information. The Company expects that the option will not be exercised and will terminate in accordance with its terms on August 31, 2008.

Management believes it has sufficient resources to fund its planned operations through at least June 30, 2009. However, if we are unable to increase our revenues, reduce or otherwise adequately control our expenses, or raise capital, our longer-term ability to continue as a going concern and achieve our intended business objectives could be adversely affected. See the safe harbor statement contained herein and the "Risk Factors" under Item IA of Part II of this Quarterly Report on Form 10-Q below, in Zoom’s Annual Report on Form 10-K for the year ended December 31, 2007 and in Zoom’s other filings with the Securities and Exchange Commission, for further information with respect to events and uncertainties that could harm our business, operating results, and financial condition.

Commitments

During the three and six months ended June 30, 2008 there were no material changes to our capital commitments and contractual obligations from those disclosed in our Form 10-K for the year ended December 31, 2007.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

Some of the statements contained in this report are 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. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to statements regarding: Zoom's plans, expectations and intentions, including statements relating to Zoom's prospects and plans relating to sales of and markets for its products; Zoom's expected benefits and cost savings resulting from the move of its manufacturing facilities to Mexico; and Zoom's financial condition or results of operations.

In some cases, you can identify forward-looking statements by terms such as "may," "will, " "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include those discussed in the risk factors set forth in Item 1A of Part II below as well as those discussed elsewhere in this report and in our filings with the Securities and Exchange Commission. We qualify all of our forward-looking statements by these cautionary statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Required.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports 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 our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2008 we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic filings with the Securities and Exchange Commission within the required time period.

There have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report are applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this report.

To stay in business we may require future additional funding, which we may be unable to obtain on favorable terms, if at all.

Over the next twelve months we may require additional financing for our operations either to fund losses beyond those we anticipate or to fund growth in our inventory and accounts receivable. Our revolving credit facility expired on March 15, 2006 and we currently have no line of credit from which we can borrow. Additional financing may not be available to us on a timely basis if at all, or on terms acceptable to us. If we fail to obtain acceptable additional financing when needed, we may not have sufficient resources to fund our normal operations and we may be required to further reduce planned expenditures or forego business opportunities. These factors could reduce our net sales, increase our losses, and harm our business. Moreover, additional equity financing could dilute the per share value of our common stock held by current shareholders, while additional debt financing could restrict our ability to make capital expenditures or incur additional indebtedness, all of which would impede our ability to succeed.

The market for high-speed communications products and services has many competing technologies and, as a result, the demand for certain of our products and services is declining.

Industry analysts believe that the market for our dial-up modems will continue to decline. If we are unable to increase demand for and sales of our broadband modems, we may be unable to sustain or grow our business. The market for high-speed communications products and services has a number of competing technologies. For instance, Internet access can be achieved by using a standard telephone line and appropriate service for dial-up modems; DSL modems; using a cable modem with a cable TV line and cable modem service; using a router and some type of modem to service the computers connected to a local area network; or other approaches, including wireless links to the Internet.

Although we currently sell products that include these technologies, our most successful products have historically been our dial-up modems. The introduction of new products by competitors, market acceptance of competing products based on new or alternative technologies, or the emergence of new industry standards have in the past rendered and could continue to render our products less competitive or even obsolete. For example, these factors have caused the market for our dial-up modems to shrink dramatically. If we are unable to increase demand for our broadband modems, we may be unable to sustain or grow our business.

We may not be able to maintain our listing on the Nasdaq Capital Market if we are unable to satisfy the minimum bid price requirements.

On November 16, 2007 the Nasdaq Stock Market notified us that we were no longer in compliance with Marketplace Rule 4310(c)(4) because our common stock traded below $1.00 per share for 30 days. We were provided until May 14, 2008 to regain compliance by trading at $1.00 or more for 10 straight trading days. We did not demonstrate compliance with Rule 4310(c)(4) by May 14, 2008, and we received a written delisting notice on May 15, 2008. We appealed the determination to delist our securities to the Listing Qualifications Panel. Our basis for appeal was our plan to effect a reverse split of our common stock, and the Listing Qualifications Panel agreed with this plan. On August 7, 2008 we effected a one-for-five reverse stock split. We expect that the reverse stock split will result in an increase of the trading price of our common stock above the minimum bid price of $1.00 per share, but there can be no assurance that a trading price above $1.00 per share will be sustained. If the trading price of our common stock exceeds Nasdaq's minimum bid price for ten consecutive trading days, we believe that it is likely, but not certain, that Nasdaq will rescind their delisting notice. A delisting of our shares, if it occurs, could have a negative effect on the market price for our shares.

Our reliance on a limited number of customers for a large portion of our revenues could materially harm our business and prospects.

Relatively few customers have accounted for a substantial portion of our net sales. In 2007, our net sales to three companies constituted 44% of our total net sales. In the second quarter of 2008 our net sales to three customers comprised 39% of our net sales. Our customers generally do not enter into long-term agreements obligating them to purchase our products. We may not continue to receive significant revenues from any of these or from other large customers. Because of our significant customer concentration, our net sales and operating income could fluctuate significantly due to changes in political or economic conditions or the loss of, reduction of business with, or less favorable terms for any of our significant customers. A reduction or delay in orders from any of our significant customers, or a delay or default in payment by any significant customer could materially harm our business, results of operation and liquidity.

Our reliance on a single manufacturer for a substantial percentage of our products could have an adverse effect on our business.

We currently rely on a single manufacturer to manufacture a substantial portion of our products. The loss of the services of this manufacturer or an adverse change in the manufacturer’s business or our relationship could have a material adverse effect on our ability to manufacture our products and on our business.

Capacity constraints in our Mexican operations could reduce our sales and revenues and hurt customer relationships.

We now rely on our Mexican operations to finish and ship most of the products we sell. Since moving our manufacturing operations to our Mexican facility we have experienced and may continue to experience constraints on our manufacturing capacity as we address challenges related to operating our new facility, such as hiring and training workers, creating the facility’s infrastructure, developing new supplier relationships, complying with customs and border regulations, and resolving shipping and logistical issues. Our sales and revenues may be reduced and our customer relationships may be impaired if we continue to experience constraints on our manufacturing capacity. We are working to minimize capacity constraints in a cost-effective manner, but there can be no assurance that we will be able to adequately minimize capacity constraints.

Our reliance on a business processing outsourcing partner to conduct our operations in Mexico could materially harm our business and prospects.

In connection with the move of most of our North American manufacturing operations to Mexico, we rely on a business processing outsourcing partner to hire, subject to our oversight, the production team for our manufacturing operation, provide the selected facility described above, and coordinate many of the ongoing manufacturing logistics relating to our operations in Mexico. Our outsourcing partner’s related functions include acquiring the necessary Mexican permits, providing the appropriate Mexican operating entity, assisting in customs clearances, and providing other general assistance and administrative services in connection with the ongoing operation of the Mexican facility. Our outsourcing partner’s performance of these obligations efficiently and effectively is critical to the success of our operations in Mexico. Failure of our outsourcing partner to perform its obligations efficiently and effectively could result in delays, unanticipated costs or interruptions in production, delays in deliveries to our customers or other harm to our business, results of operation, and liquidity. Moreover, if our outsourcing arrangement is not successful, we cannot assure our ability to find an alternative production facility or outsourcing partner to assist in our operations in Mexico or our ability to operate successfully in Mexico without outsourcing or similar assistance.

Our net sales, operating results and liquidity have been and may in the future be adversely affected because of the decline in the retail market for dial-up modems.

The dial-up modem industry has been characterized by declining average selling prices and a declining retail market. The decline in average selling prices is due to a number of factors, including technological change, lower component costs, and competition. The decline in the size of the retail market for dial-up modems is primarily due to the inclusion of dial-up modems as a standard feature contained in new PCs, and the advent of broadband products. Decreasing average selling prices and reduced demand for our dial-up modems have resulted and are likely to continue to result in decreased net sales for dial-up modems. If we fail to replace declining revenue from the sales of dial-up modems with the sales of our other products, including our broadband modems, our business, results of operation and liquidity will be harmed.

Less advantageous terms of sale of our products could harm our business.

We entered into a consignment arrangement with a significant retailer customer in October 2006. In connection with this arrangement ownership of all unsold products previously purchased from Zoom reverted to us in November 2006. Under the consignment arrangement we do not recognize revenue from the sale of a product until the retailer actually sells such product to its customer. The consignment arrangement also results in a delay in the dating of invoices, the recognition of accounts receivable, and the due dates for payment by the retailer for goods sold. If additional significant customers adopt similar arrangements or otherwise change the terms of sale, our business, results of operation and liquidity will be harmed.

We believe that our future success will depend in large part on our ability to more successfully penetrate the broadband modem markets, which have been challenging markets, with significant barriers to entry.

With the shrinking of the dial-up modem market, we believe that our future success will depend in large part on our ability to more successfully penetrate the broadband modem markets, DSL and cable, and the VoIP market. These markets have significant barriers to entry that have adversely affected our sales to these markets. Although some cable and DSL modems are sold at retail, the high volume purchasers of these modems are concentrated in a relatively few large cable, telecommunications, and Internet service providers which offer broadband modem services to their customers. These customers, particularly cable services providers, also have extensive and varied approval processes for modems to be approved for use on their network. These approvals are expensive, time consuming, and continue to evolve. Successfully penetrating the broadband modem market therefore presents a number of challenges including: the current limited retail market for broadband modems; the relatively small number of cable, telecommunications and Internet service provider customers that make up the bulk of the market for broadband modems in certain countries, including the United States; the significant bargaining power of these large volume purchasers; the time consuming, expensive, uncertain and varied approval process of the various cable service providers; and the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Motorola and Cisco.

Our sales of broadband products have been adversely affected by all of these factors. Sales of our broadband products in European countries have fluctuated and may continue to fluctuate due to approvals and delays in the deployment by service providers of cable and DSL service in these countries. We cannot predict whether we will be able to successfully penetrate these markets.

Our failure to meet changing customer requirements and emerging industry standards would adversely impact our ability to sell our products and services.

The market for PC communications products and high-speed broadband access products and services is characterized by aggressive pricing practices, continually changing customer demand patterns, rapid technological advances, emerging industry standards and short product life cycles. Some of our product and service developments and enhancements have taken longer than planned and have delayed the availability of our products and services, which adversely affected our sales and profitability in the past. Any significant delays in the future may adversely impact our ability to sell our products and services, and our results of operations and financial condition may be adversely affected. Our future success will depend in large part upon our ability to: identify and respond to emerging technological trends and industry standards in the market; develop and maintain competitive products that meet changing customer demands; enhance our products by adding innovative features that differentiate our products from those of our competitors; bring products to market on a timely basis; introduce products that have competitive prices; manage our product transitions, inventory levels and manufacturing processes efficiently; respond effectively to new technological changes or new product announcements by others; and meet changing industry standards.

Our product cycles tend to be short, and we may incur significant non-recoverable expenses or devote significant resources to sales that do not occur when anticipated. Therefore, the resources we devote to product development, sales and marketing may not generate material net sales for us. In addition, short product cycles have resulted in and may in the future result in excess and obsolete inventory, which has had and may in the future have an adverse affect on our results of operations. In an effort to develop innovative products and technology, we have incurred and may in the future incur substantial development, sales, marketing, and inventory costs. If we are unable to recover these costs, our financial condition and operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions and we still have higher cost products in inventory, our business would be harmed and our results of operations and financial condition would be adversely affected.

Our international operations are subject to a number of risks that could harm our business.

Currently our business is significantly dependent on our operations outside the United States, particularly sales of our products and the production of most of our products. All of our manufacturing operations except our rework operations are now located outside of the United States. In the second quarter of 2007, sales outside North America were 39% of our net sales. In the second quarter of 2008, sales outside North America were 33% of our net sales. The inherent risks of international operations could harm our business, results of operation, and liquidity. Specifically, our manufacturing operations in Mexico are subject to the challenges and risks associated with international operations, including those related to integration of operations across different cultures and languages, currency risk, and economic, legal, political and regulatory risks. The types of risks faced in connection with international operations and sales include, among others: regulatory and communications requirements and policy changes; favoritism toward local suppliers; delays in the rollout of broadband services by cable and DSL service providers outside of the United States; local language and technical support requirements; difficulties in inventory management, accounts receivable collection and the management of distributors or representatives; cultural differences; reduced control over staff and other difficulties in staffing and managing foreign operations; reduced protection for intellectual property rights in some countries; political and economic changes and disruptions; governmental currency controls; shipping costs; and currency exchange rate fluctuations, including, as a result of the move of our manufacturing operations to Mexico, changes in value of the Mexican Peso relative to the US dollar; and import, export, and tariff regulations.

We may be subject to product returns resulting from defects, or from overstocking of our products. Product returns could result in the failure to attain market acceptance of our products, which would harm our business.

If our products contain undetected defects, errors, or failures, we could face: delays in the development of our products; numerous product returns; and other losses to us or to our customers or end users.

Any of these occurrences could also result in the loss of or delay in market acceptance of our products, either of which would reduce our sales and harm our business. We are also exposed to the risk of product returns from our customers as a result of contractual stock rotation privileges and our practice of assisting some of our customers in balancing their inventories. Overstocking has in the past led and may in the future lead to higher than normal returns.

Our failure to effectively manage our inventory levels could materially and adversely affect our liquidity and harm our business.

Due to rapid technological change and changing markets we are required to manage our inventory levels carefully to both meet customer expectations regarding delivery times and to limit our excess inventory exposure. In the event we fail to effectively manage our inventory our liquidity may be adversely affected and we may face increased risk of inventory obsolescence, a decline in market value of the inventory, or losses from theft, fire, or other casualty.

We may be unable to produce sufficient quantities of our products because we depend on third party manufacturers. If these third party manufacturers fail to produce quality products in a timely manner, our ability to fulfill our customer orders would be adversely impacted.

We use contract manufacturers and original design manufacturers for electronics manufacturing of most of our products. We use these third party manufacturers to help ensure low costs, rapid market entry, and reliability. Any manufacturing disruption could impair our ability to fulfill orders, and failure to fulfill orders would adversely affect our sales. Although we currently use four electronics manufacturers for the bulk of our purchases, in some cases a given product is only provided by one of these companies. The loss of the services of any of our significant third party manufacturers or a material adverse change in the business of or our relationships with any of these manufacturers could harm our business. Since third parties manufacture our products and we expect this to continue in the future, our success will depend, in part, on the ability of third parties to manufacture our products cost effectively and in sufficient quantities to meet our customer demand.

We are subject to the following risks because of our reliance on third party manufacturers: reduced management and control of component purchases; reduced control over delivery schedules, quality assurance and manufacturing yields; lack of adequate capacity during periods of excess demand; limited warranties on products supplied to us; potential increases in prices; interruption of supplies from assemblers as a result of a fire, natural calamity, strike or other significant event; and misappropriation of our intellectual property.

We may be unable to produce sufficient quantities of our products because we obtain key components from, and depend on, sole or limited source suppliers.

We obtain certain key parts, components, and equipment from sole or limited sources of supply. For example, we purchase most of our dial-up and broadband modem chipsets from Conexant Systems, Agere Systems, and Ikanos Communications. Integrated circuit product areas covered by at least one of these companies include dial-up modems, DSL modems, cable modems, networking, routers, and gateways. In the past we have experienced delays in receiving shipments of modem chipsets from our sole source suppliers. We may experience similar delays in the future. In addition, some products may have other components that are available from only one source. If we are unable to obtain a sufficient supply of components from our current sources, we would experience difficulties in obtaining alternative sources or in altering product designs to use alternative components. Resulting delays or reductions in product shipments could damage relationships with our customers, and our customers could decide to purchase products from our competitors. Inability to meet our customers' demand or a decision by one or more of our customers to purchase products from our competitors could harm our operating results.

We face significant competition, which could result in decreased demand for our products or services.

We may be unable to compete successfully. A number of companies have developed, or are expected to develop, products that compete or will compete with our products. Furthermore, many of our current and potential competitors have significantly greater resources than we do. Intense competition, rapid technological change and evolving industry standards could result in less favorable selling terms to our customers, decrease demand for our products or make our products obsolete.

New environmental regulations may increase our manufacturing costs and harm our business.

The State of California and other states have implemented regulations requiring the use of highly efficient power cubes. These new requirements will affect many of our products and will typically result in an increase of $0.20 to $0.70 in our cost to produce those products that use U.S. power cubes. This is expected to reduce our gross margin for those products.

Changes in current or future laws or governmental regulations and industry standards that negatively impact our products, services and technologies could harm our business.

The jurisdiction of the Federal Communications Commission, or the FCC, extends to the entire United States communications industry including our customers and their products and services that incorporate our products. Our products are also required to meet the regulatory requirements of other countries throughout the world where our products and services are sold. Obtaining government regulatory approvals is time-consuming and very costly. In the past, we have encountered delays in the introduction of our products, such as our cable modems, as a result of government certifications. We may face further delays if we are unable to comply with governmental regulations. Delays caused by the time it takes to comply with regulatory requirements may result in cancellations or postponements of product orders or purchases by our customers, which would harm our business.

In addition to reliability and quality standards, the market acceptance of our VoIP products and services is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Standards are continuously being modified and replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. The failure of our products to comply, or delays in compliance, with various existing and evolving industry standards could delay or interrupt volume production of our products, which could harm our business.

Regulation of VoIP services is developing and is therefore uncertain. Future regulation of VoIP services could increase our costs and restrict the growth of our VoIP business.

VoIP services currently have different regulations from traditional telephony in most countries including the US. The US, various states and other countries may impose surcharges, taxes or new regulations upon providers of VoIP services. The imposition of any such surcharges, taxes and regulations on VoIP services could materially increase our costs, may limit or eliminate our competitive pricing and may require us to restructure the VoIP services we currently offer. For example, regulations requiring compliance with the Communications Assistance for Law Enforcement Act (CALEA) or provision of the same type of 911 services as required for traditional telecommunications providers could place a significant financial burden on us depending on the technical changes required to accommodate the requirements.

In many countries outside the US in which we operate or our services are sold, we cannot be certain that we will be able to comply with existing or future requirements, or that we will be able to continue to be in compliance with any such requirements. Our failure to comply with these requirements could materially adversely affect our ability to continue to offer our VoIP services in these jurisdictions.

Fluctuations in the foreign currency exchange rates in relation to the U.S. Dollar could have a material adverse effect on our operating results.

Changes in currency exchange rates that increase the relative value of the U.S. dollar may make it more difficult for us to compete with foreign manufacturers on price, may reduce our foreign currency denominated sales when expressed in dollars, or may otherwise have a material adverse effect on our sales and operating results. A significant increase in our foreign currency denominated sales would increase our risk associated with foreign currency fluctuations. A weakness in the U.S. dollar relative to the Mexican Peso and various Asian currencies including the Chinese renminbi could increase our product costs

Our future success will depend on the continued services of our executive officers and key product development personnel.

The loss of any of our executive officers or key product development personnel, the inability to attract or retain qualified personnel in the future, or delays in hiring skilled personnel could harm our business. Competition for skilled personnel is significant. We may be unable to attract and retain all the personnel necessary for the development of our business. In addition, the loss of Frank B. Manning, our president and chief executive officer, or some other member of the senior management team, a key engineer or salesperson, or other key contributors, could harm our relations with our customers, our ability to respond to technological change, and our business.

We may have difficulty protecting our intellectual property.

Our ability to compete is heavily affected by our ability to protect our intellectual property. We rely primarily on trade secret laws, confidentiality procedures, patents, copyrights, trademarks, and licensing arrangements to protect our intellectual property. The steps we take to protect our technology may be inadequate. Existing trade secret, trademark and copyright laws offer only limited protection. Our patents could be invalidated or circumvented. We have more intellectual property assets in some countries than we do in others. In addition, the laws of some foreign countries in which our products are or may be developed, manufactured or sold may not protect our products or intellectual property rights to the same extent as do the laws of the United States. This may make the possibility of piracy of our technology and products more likely. We cannot ensure that the steps that we have taken to protect our intellectual property will be adequate to prevent misappropriation of our technology.

We could infringe the intellectual property rights of others.

Particular aspects of our technology could be found to infringe on the intellectual property rights or patents of others. Other companies may hold or obtain patents on inventions or may otherwise claim proprietary rights to technology necessary to our business. We cannot predict the extent to which we may be required to seek licenses. We cannot assure that the terms of any licenses we may be required to seek will be reasonable. We are often indemnified by our suppliers relative to certain intellectual property rights; but these indemnifications do not cover all possible suits, and there is no guarantee that a relevant indemnification will be honored by the indemnifying party.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We held our Annual Meeting of Stockholders on June 26, 2008. At the Annual Meeting, the stockholders voted (All share numbers have been adjusted to reflect the 1-for-5 reverse split of our common stock, which was effective on August 7, 2008):

1. To elect five (5) directors to serve for the ensuing year and until their successors are duly elected. The votes cast were as follows:

Nominees	For	Withheld/Abstain
Frank B. Manning	1,619,194	54,295
Peter R. Kramer	1,615,755	57,734
Bernard Furman	1,619,052	54,437
J. Ronald Woods	1,613,912	59,579
Joseph Donovan	1,614,262	59,227

2. To consider and act upon a proposed plan to authorize, but not require, Zoom Technologies to effect a reverse stock split of Zoom Technologies' Common Stock at a ratio within the range of one-for-two and one-for-nine, to be determined by the Board of Directors in their discretion and calculated in their judgment to achieve the minimum bid price requirements of the Nasdaq Capital Market for Zoom Technologies' Common Stock while allowing Zoom Technologies to continue to meet the other listing requirements for the Nasdaq Capital Market. The votes cast were as follows:

For	Against	Abstain	Broker Non-Votes
1,511,299	15,699	5,198	0

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

	ZOOM TECHNOLOGIES, INC. **(Registrant)**
Date: August 13, 2008	By: /s/ Frank B. Manning Frank B. Manning President (Principal Executive Officer)
Date: August 13, 2008	By: /s/ Robert A. Crist Robert A. Crist Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

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