ZOOM TECHNOLOGIES INC
Form 10-K
March 12, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10K

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

For the fiscal year ended December 31, 2008

or

¨ **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	*(I.R.S. Employer*

of incorporation or organization) *Identification No.)*

207 South Street, Boston, Massachusetts 02111

(Address of Principal Executive Office) (Zip Code)

(617) 423-1072

(*Registrant s telephone number, including area code)*

Securities Registered Pursuant to Section 12 (b) of the Act: **None**

Securities Registered Pursuant to Section 12 (g) of the Act:

Common Stock, $0.01 Par Value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ¨ No þ

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 þ No ¨

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer	Smaller reporting company þ

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock, $0.01 par value, of the registrant held by non-affiliates of the registrant as of June 30, 2008 (computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was $2,801,411.20

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of February 15, 2009 was 1,959,378 shares.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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:

- **the potential share exchange transaction;**
- **the sufficiency of our capital resources;**
- **our ability to continue as a going concern;**
- **the availability of debt and equity financing;**
- **market acceptance of our products and services;**
- **the delisting of our common stock on the Nasdaq Capital Market**
- **the anticipated development, timing and success of new product and service introductions;**
- **the anticipated development and expansion of our existing technologies, markets and sales channels;**
- **the decline of the dial-up modem market;**

- **investment in resources for product design in foreign markets;**

- **the development of new competitive technologies, products and services;**

- **approvals, certifications and clearances for our products and services;**

- **production schedules for our products;**

- **business strategies;**

- **general economic conditions; and**

- **trends relating to our 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. Except as otherwise required by law, 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 7 below as well as those discussed elsewhere in this report. We qualify all of our forward-looking statements by these cautionary statements.

PART I

ITEM 1 BUSINESS

Potential Share Exchange

On January 28, 2009, Zoom Technologies, Inc. (Zoom or the Company) entered into a Share Exchange Agreement (the Agreement) with Tianjin Tong Guang Group Digital Communication Co., Ltd (TCB Digital) and TCB Digital s majority shareholder, Gold Lion Holding Limited (Gold Lion). TCB Digital is primarily engaged in electronic and telecommunications product design, development and manufacturing.

Pursuant to the terms of the Agreement, Zoom intends to acquire from Gold Lion 51% of the outstanding stock of TCB Digital in exchange for 4,225,219 shares of Zoom common stock. In addition, Zoom intends to grant the majority shareholder of Gold Lion an option to acquire an additional 2,402,576 Zoom shares in exchange for an additional 29% of the outstanding stock of TCB Digital. If the option is exercised, Zoom would have acquired 80% of the outstanding stock of TCB Digital in exchange for an aggregate of 6,627,795 shares of Zoom common stock.

Zoom will also have options to acquire five other companies that are owned by the majority shareholder of Gold Lion, with the option price of each company to be based on the higher of a minimum price or a multiple of that company s net income.

At the closing of the share exchange pursuant to the Agreement, Zoom intends to spin off its current business and operating subsidiary, Zoom Telephonics, in a transaction that is not anticipated to be a taxable distribution to Zoom s shareholders. Zoom Telephonics would also grant TCB Digital licensing rights to the Zoom and Hayes trademarks for certain products and geographic regions.

The potential transaction is described in Zoom s Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on February 3, 2009. The potential transaction is subject to approval by Zoom s shareholders as well as the satisfaction or waiver of other conditions. If the transaction closes, Zoom s shareholders immediately prior to the closing date would retain their existing shares in Zoom Technologies and would also receive an equal number of new shares in Zoom Telephonics, Inc.

Overview

We design, produce, market, sell, and support broadband and dial-up modems, Voice over Internet Protocol or "VoIP" products and services, Bluetooth® wireless products, and other communication-related products. Our primary objective is to build upon our position as a leading producer of Internet access devices, and to take advantage of a number of trends in communications including enhanced Internet access, higher data rates, and voice calls traveling over the Internet.

Dial-up modems were Zoom's highest revenue category for many years. Generally our sales of dial-up modems have been declining and other product categories have become increasingly important.

Our dial-up modems connect personal computers and other devices to the local telephone line for transmission of data, fax, voice, and images. Our dial-up modems enable personal computers and other devices to connect to other computers and networks, including the Internet and local area networks, at top data speeds up to 56,000 bits per second.

In response to increased demand for faster connection speeds, we have expanded our product line to include DSL modems, cable modems, and related broadband access products. Our Asymmetric Digital Subscriber Line modems, known as ADSL modems or DSL modems, provide a high-bandwidth connection to the Internet through a telephone line that typically connects to compatible DSL equipment in or near the central telephone office. Zoom® is shipping a broad line of DSL modems. Some are fairly basic, designed to connect to the USB port of a Windows computer or the Ethernet port of a computer, router, or other device. Other Zoom DSL modems are more complex, and may include a router, a four-port switch, a firewall, a wireless access point, and other enhanced features. For a given DSL hardware platform, we often provide model variations with a different power supply, filters, firmware, packaging, or other customer-specific items.

Cable modems provide a high-bandwidth connection to the Internet through a cable-TV cable that connects to compatible equipment that is typically at or near the cable service provider. We began shipping cable modems during 2000. Our cable modem customers in the U.S. and other countries are primarily focused on retail.

We are currently shipping VoIP products which enable broadband users to make phone calls through the Internet, potentially lowering the cost of the call and providing other benefits such as the ability to manage and track calls using a Web browser. 2005 shipments included a multi-function DSL gateway with VoIP, and we also shipped a router with VoIP for use with either a DSL modem or cable modem. In February 2006 we began shipping the first products in a line of analog telephone adapters (ATAs), which connect to a router and one or more phones, and provide VoIP capabilities to the connected phones. Some of our VoIP products are targeted for sale to service providers, and some others are targeted for sale through our sales channels to end-users. Some of Zoom's VoIP products benefit from Zoom's Global Village™ VoIP service. Global Village's VoIP service enables an end-user to make free VoIP phone calls to end-users of several VoIP service providers, including Global Village, and also allows a user to pay to call almost any phone in the world. Zoom also has a private-label VoIP service called VoIP ASAP, which enables a service provider to offer VoIP service using that service provider s name and logo.

Zoom s product line includes wireless products, including wireless-G network products and Bluetooth® products. Generally Zoom s revenues for wireless products have been growing.

We are incorporated in Delaware under the name Zoom Technologies, Inc. We conduct our business through our operating subsidiary, Zoom Telephonics, Inc. Zoom Telephonics, Inc., was originally incorporated in New York in 1977 and changed its state of incorporation to Delaware in 1993. Our principal executive offices are located at 207 South Street, Boston, MA 02111 and our telephone number is (617) 423-1072.

Available Information

Our Internet website address is www.zoom.com. Through our website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These SEC reports can be accessed through the investor relations section of our website.

Products

General

The vast majority of our products facilitate communication of data through the Internet. Our dial-up modems can also link computers, point-of-purchase terminals, or other devices to each other through the traditional telephone network without using the Internet. Our cable modems use the cable-TV cable and our DSL modems use the local telephone line to provide a high-speed link to the Internet. Our wireless-G network products typically communicate with a broadband modem for access to the Internet. Some of our Bluetooth wireless products, such as our Bluetooth modem, are designed for Internet access. Our dialers can be used to route voice calls to a VoIP network that may include the Internet. Our modems and dialers typically connect to a single phone line in a home, office, or other location. We do have some products, however, that do not facilitate communication of data through the Internet. The most important of these are some Bluetooth products, including our iHiFi® line of Bluetooth audio products.

Dial-Up Modems

We have a broad line of dial-up modems with top data speeds up to 56,000 bps, available in internal, external, and PC Card models. PC-oriented internal modems are designed primarily for installation in the PCI slot or PCI-E slot of IBM PC-compatibles. Embedded internal modems are designed to be embedded in PCs dedicated to a specific application, such as point-of-purchase terminals, kiosks, and set-top boxes. Many of our external modems are designed to work with almost any terminal or computer, including Windows computers, the Apple Macintosh, Linux computers, and other computers. Our PC Card modems are designed for use with notebook and sub-notebook computers equipped with standard PC Card slots. When sold as packaged retail products, our dial-up modems are typically shipped complete with third-party software that supports the hardware capabilities of the modem.

56K modems allow users connected to standard phone lines to download data at speeds up to 56,000 bps ("56K") when communicating with compatible central sites connected to digital lines such as T1 lines. Those central sites are typically online services, Internet Service Providers, or remote LAN access equipment. Our 56K modems typically support the V.90 standard as well as lower-speed standards, and most of our 56K modems also support the newer V.92 standard.

In March and April of 1999 we acquired substantially all of the modem product and trademark assets of Hayes Mcrocomputer Products, Inc., an early leader in the modem industry. In July 2000 we acquired the trademark and product rights to Global Village products. Global Village was a modem brand for products used with Apple Macintosh computers. We now sell and market dial-up modems under the Zoom® and Hayes® names, and also sell them unbranded or under a private-label brand specific to a particular high-volume account. In addition, we offer a VoIP phone service under the Global Village name.

In 2007 and 2008 our dial-up modems and related products accounted for approximately 40% and 41% of our net sales, respectively.

DSL Modems

Our DSL modems incorporate the ADSL standards that are currently most popular worldwide, including ADSL2/2+, G.dmt, G.Lite, and ANSI T1.413 issue 2. In 2000 we designed and shipped our first DSL modems, an external USB model and an internal PCI model. In 2002 we introduced a new PCI models, and also introduced an Ethernet model and a USB/Ethernet model with router features. In 2003 we introduced a DSL modem with a built-in router, a USB port, and four switched Ethernet ports. In September 2004 Zoom began shipping its first DSL modem with built-in VoIP, which also included a router, a 4-port switch, and a firewall. During the fourth quarter of 2004 Zoom introduced new modem hardware designs for its USB, Ethernet, Ethernet/USB, and 4-port router models, shifting to newer modem chipsets and lowering Zoom's cost of goods. In March 2005 Zoom introduced a DSL modem with wireless networking using the 802.11b and 802.11g standards, a 4-port switching hub, router, and firewall. In 2006 Zoom began shipping a software Install Assistant with most of its DSL modems to simplify end-user installation. In January 2007 Zoom began shipping user-friendly upstream (that is, to the Internet) QOS Quality-of-Service capability with some of its DSL modems, to provide a fast lane for bandwidth-sensitive applications such as VoIP, gaming, and video. In 2009 Zoom expects to expand its user-friendly QOS to include downstream (that is, from the Internet) QOS, to introduce some DSL models with TR.69 and Annex M capability, and to begin volume shipments of a DSL modem with a built-in wireless-G router and VoIP. Zoom may also introduce other DSL products, including one with wireless-N for wireless local area network speeds significantly higher than wireless-G.

In 2007 and 2008 our DSL modems and related products accounted for approximately 50% and 32% of our net sales, respectively.

Bluetooth® Modems and Adapters

In 2003 we began shipping a Bluetooth modem, a Bluetooth USB adapter, and a Bluetooth PC Card adapter. Bluetooth is a wire-elimination technology that is increasingly popular for mobile phone and computer products. In 2006 we introduced our iHiFi™ line of Bluetooth products for transmission of music and other audio from one device to another for instance, from an iPod or other sound source to a stereo or powered speakers. In 2007 we introduced a number of new iHiFi products, including Bluetooth headphones and a transmitter that works for any iPod that has an iPod docking connector. In 2008 we introduced thumbnail-size USB adapters support Bluetooth version 2.1 as well as earlier Bluetooth standards.

Cable Modems

Each cable service provider has its own approval process, in which the cable service provider may require CableLabs® certification and may also require the service provider s own company test and approval. We have obtained CableLabs® certification for our currently marketed cable modems. They have also received a number of cable service provider company approvals**.** The approval process has been and continues to be a significant barrier to entry, as are the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Motorola and Cisco Systems.

Zoom sells cable modems to electronics retailers and cable service providers. Sales through the retail channel have been handicapped by a number of factors, including the fact that most cable service providers offer cable modems with their service and the fact that some cable service providers do not provide a financial incentive to a customer who purchases his own modem rather than leasing it from the cable service provider. However, Zoom has significant cable modem sales through retailers.

Zoom s cable modems currently support DOCSIS standards 1.0, 1.1, and 2.0, the popular standards in the US and many other countries. The DOCSIS 3.0 standard supports higher speeds and other features, and Comcast began shipping DOCSIS 3.0 cable modems to a limited number of markets in 2008. Zoom does not currently ship DOCSIS 3.0 cable modems, and Zoom continues to monitor the roll-out of DOCSIS 3.0 services.

Voice over Internet Protocol Products and Global Village

In 2004 we introduced a line of products that support VoIP or "Voice over Internet Protocol". Our first VoIP products used the standards-based Session Initiation Protocol, or SIP protocol, and are thus compatible with a wide range of other SIP-compatible VoIP products and services. SIP allows devices to establish and manage voice calls on the Internet. Zoom s VoIP product line includes the X5v, the V3, and a line of Analog Telephone Adapters. The X5v includes a DSL modem, a router, a firewall, a 4-port switching hub, Zoom s TelePort, and other features. The V3 has the same features as the X5v, except instead of having a built-in DSL modem, the V3 has an Ethernet port for connecting to the Ethernet port of an external DSL modem or cable modem. Zoom s Analog Telephone Adapters connect to a router s Ethernet port and to one or more telephones to provide those phones with VoIP capabilities. Zoom began sampling a DSL modem with a built-in wireless-G router and VOIP in 2008, and Zoom expects volume shipments of this product in 2009. Some of Zoom s Analog Telephone Adapters include TelePort.

Zoom's Teleport™ phone port lets an end-user plug in a normal phone to place and receive voice calls over the Internet, or to place and receive calls over the familiar switched telephone network. Because the TelePort typically routes emergency calls over the familiar switched telephone network, those calls are handled correctly without relying on proper handling by a VoIP service provider. In addition, the TelePort can be used to provide a second phone line and to provide other advantages.

Some versions of Zoom s VoIP products are bundled with Global Village phone service, a Zoom-developed SIP-based service that includes a free VoIP phone service and an optional paid service for communicating with phones that can be reached through the switched phone network. Other versions of Zoom s VoIP products do not come with Global Village service, since they are designed to be used by service providers offering some other VoIP service. Global Village has a wide array of features for routing calls, recording voice mail, conference calling, and tracking customer usage and costs. Global Village phone service helps Zoom to address the specific needs of its end-user, retailer, and service provider customers. For instance, Zoom makes Global Village available in a number of different languages and with a number of payment options to address specific market needs. Global Village can be offered to end-users, but it can also be offered to service providers either under the Global Village brand or as a private-label VoIP service. In late 2008 Zoom extended Global Village services to include call-back services that do not require VoIP hardware. The caller uses a text message or Web browser to specify the number being dialed, and then Global Village calls back the caller s phone and connects him or her to the number being called. It is too early to say whether Zoom can successfully market these call-back services.

Some of our Analog Telephone Adapters for end-users include a Web-based Chooser that allows the end-user to shop for a suitable VoIP service, select it, and then automatically configure the ATA for that service. This is consistent with Zoom s goal of providing freedom of choice to its VoIP customers.

Zoom devoted significant resources to the VoIP product area in 2004 through 2008, and we continue to devote considerable resources to VoIP hardware and to Zoom's Global Village phone service.

While SIP has been the most successful approach to VoIP for enterprise use and for VoIP offerings by telephone companies, Skype has been most successful for end-users using personal computers. In 2007 Zoom introduced two Skype products. One is an adapter that plugs into the USB port of a PC and allows the use of a normal corded or cordless phone, and one is a wireless PC headset that lets a user switch easily between phone calls and music.

Wireless Local Area Networking

In 2005 Zoom began shipping DSL modems with Wireless-G local area network capability and Zoom s Wireless-G product line now also includes USB and PC Card clients and a wireless router. As noted above, Zoom has begun sampling of an ADSL modem with wireless-G router and VoIP. Zoom also plans to ship products that incorporate the extended range and higher data rate associated with the multiple-input multiple-output wireless standard, 802.11n. There have been delays in ratifying the 802.11n standard, but other manufacturers already ship pre-standard products in high volume.

Dialers and Related Telephony Products

Zoom manufactures dialers that simplify the placing of a phone call by dialing digits automatically. We shipped our first telephone dialer, the Demon Dialer®, in 1981, and in 1983 began shipping the Hotshot™ dialer. As the dialer market diminished due to equal access, we focused on modems and other peripherals for the personal computer market. In 1996 we began shipping a new generation of dialers incorporating proprietary technology that

---

is now covered by four issued U.S. patents. Some of these dialers are well-suited for routing appropriate calls through money-saving long-distance service providers, including prepaid phone card service providers.

Products for Markets outside North America

Products for countries outside the US often differ from a similar product for the US due to different regulatory requirements, country-specific phone jacks and AC power adapters, and language-related specifics. As a result, the introduction of new products into markets outside North America markets can be costly and time-consuming. In 1993 we introduced our first dial-up modem approved for selected Western European countries. Since then we have continued to expand our product offerings into markets outside North America, including DSL modems and VoIP products and services. We have received regulatory approvals for, and are currently selling our products in a number of countries, including many European Union, Caribbean, and South American countries, Canada, Mexico, Poland, Saudi Arabia, Switzerland, Turkey, the USA, Hong Kong, and Vietnam. We intend to continue to expand and enhance our product line for our existing markets and to seek approvals for the sale of our products in new countries throughout the world. For instance, Zoom recently began shipment of PCI and USB modems with regulatory approvals for 70 countries and regulatory testing completed for many other countries.

ROHS Restriction on Hazardous Substances

The European Union s Directive 2002/95/EC, Restriction on Use of Hazardous Substances (RoHS), has strict rules regarding products put on the European market after July 1, 2006. Those products have defined limits on their content of lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyls, and polybrominated diphenyl ethers. Most electronics manufacturers including Zoom consequently needed to change their manufacturing processes and component choices to conform to RoHS. Zoom has completed the work required to affect this change for products where it is practical to make this change, including almost all of Zoom s high-volume products.

CEC Appliance Efficiency Regulations

The California Energy Commission (CEC) has rules affecting many of our products manufactured on or after July 1, 2007. These rules apply to our products with power cubes, which typically plug into an AC outlet and provide low-voltage AC or DC to a modem or other device. CEC rules require that the power cubes used in our products be highly efficient, so that most of the input energy is used by our device and not dissipated as heat. This typically requires a more expensive power cube, resulting in a smaller, lower-weight power cube that will reduce the customer s energy usage. Because California is the most populous state in the US and because many of our customers have sales outlets in California, Zoom now meets the CEC rules for all our significant US products.

Sales Channels

General

We sell our products primarily through high-volume distributors and retailers, Internet service providers, telephone service providers, value-added resellers, PC system integrators, and original equipment manufacturers ("OEMs"). We support our major accounts in their efforts to discern strategic directions in the market, to maintain appropriate inventory levels, and to offer a balanced selection of attractive products.

During 2008 two customers each accounted for 10% or more of our total net sales. Together these two customers accounted for 33% of our total net sales. The top three customers accounted for approximately 43% of our total net sales.

Distributors and Retailers outside North America

In markets outside North America we sell and ship our products primarily to independent distributors and retailers. Our European high-volume retailers include Dixons Store Group, a major customer, and many others. Our revenues from sales outside North America were $6.7 million in 2007 and $4.4 million in 2008. Approximately 61% and 70% of our net sales outside North America in 2007 and 2008, respectively, were to customers in the United Kingdom. We believe sales growth outside North America will continue to require substantial additional investments of resources for product design and testing, regulatory approvals, native-language instruction manuals and software, packaging, sales support, and technical support. We have made this investment in the past for many countries, and we expect to make this investment for many countries and products in the future. Areas of focus include Latin America, Europe, and the Middle East.

North American High-volume Retailers and Distributors

In North America we reach the retail market primarily through high-volume retailers. Our North American retailers include Best Buy, Fry s, Micro Center, Staples, Wal-Mart, and many others. Our revenues from sales in North America were $11.8 million in 2007 and $10.1 million in 2008. Retailers typically carry an assortment of our dial-up modems, cable modems, and DSL modems; and some also carry an assortment of our wireless products.

We sell significant quantities of our products through distributors, who often sell to corporate accounts, retailers, service providers, value-added resellers, equipment manufacturers, and other customers. Our North American distributors include our major customers Tech Data, Ingram Micro, D&H Distributing, Border States Electric, and others.

Internet and Telephone Service Providers

In recent years an important part growing portion of our business has been the sale of DSL modems to DSL service providers in the U.S. and in some other countries. We plan to continue to devote significant efforts toward selling and supporting these customers. In addition, we will continue to offer some of our VoIP products and services to telephone service providers.

System Integrators and Original Equipment Manufacturers

Our system integrator and OEM customers sell our products under their own name or incorporate our products as a component of their systems. We seek to be responsive to the needs of these customers by providing on-time delivery of high-quality, reliable, cost-effective products with strong engineering and sales support. We believe that some of these customers also appreciate the improvement in their products' image due to use of a Zoom or Hayes brand modem.

Sales, Marketing and Support

Our sales, marketing, and support are primarily managed from our headquarters in Boston, Massachusetts. In North America we sell our Zoom, Hayes, Global Village, and private-label dial-up modem products through Zoom's sales force and through commissioned independent sales representatives managed and supported by our own staff. Most service providers are serviced by Zoom's sales force. North American technical support is primarily handled from our Boston headquarters. We also maintain a sales and logistics office in the United Kingdom for the UK and a number of other European countries.

We believe that Zoom, Hayes, and Global Village are widely recognized brand names. We build upon our brand equity in a variety of ways, including cooperative advertising, product packaging, Web advertising, trade shows, and public relations.

We attempt to develop quality products that are user-friendly and require minimal support. We typically support our claims of quality with product warranties of one to seven years, depending upon the product. To address the needs of end-users and resellers who require assistance, we have our own staff of technical support specialists. They currently provide telephone support five days per week in English and, in some cases, Spanish. Our technical support specialists also maintain a significant Internet support facility that includes email, firmware and software downloads, and the SmartFacts™ Q&A search engine.

Research and Development

Our research and development efforts are focused on developing new communications products and VoIP services, further enhancing the capabilities of existing products, and reducing production costs. We have developed close collaborative relationships with certain of our ODM suppliers and component suppliers. We work with these partners and other sources to identify and respond to emerging technologies and market trends by developing products that address these trends. In addition, we purchase modems and other chipsets that incorporate sophisticated technology from third parties, thereby eliminating the need for us to develop this technology in-house. As of December 31, 2008 we had 13 employees engaged primarily in research and development. Our research and development team performs electronics hardware design and layout, mechanical design, prototype construction and testing, component specification, firmware and software development, VoIP service development, product testing, foreign and domestic regulatory approval efforts, end-user and internal documentation, and third-party software selection and testing.

During 2007 and 2008 we expended $1.8 million and $1.7 million respectively on research and development activities.

Manufacturing and Suppliers

Our products are currently designed for high-volume automated assembly to help assure reduced costs, rapid market entry, short lead times, and reliability. High-volume assembly typically occurs in China, Taiwan, or Korea. Our contract manufacturers and original design manufacturers typically obtain some or all of the material required to assemble the products based upon a Zoom Technologies Approved Vendor List and Parts List. Our manufacturers typically insert parts onto the printed circuit board, with most parts automatically inserted by machine, solder the circuit board, and in-circuit test the completed assemblies. Functional test and packaging are sometimes performed by the contract manufacturer. For the United States and many other markets, functional test and packaging are more commonly performed at our manufacturing facilities in North America, allowing us to tailor the packaging and its contents for our customers immediately before shipping. We also perform circuit design, circuit board layout, and strategic component sourcing at our North American facility. Wherever the product is built, our quality systems are used to help assure that the product meets our specifications.

In late 2006 we moved our North American manufacturing facility from Boston, Massachusetts to Tijuana, Mexico. This was a highly challenging move, since it dramatically changed our personnel, facilities, infrastructure, and logistics. The reason we made the move was to reduce our personnel cost, facilities cost, and the costs associated with shipping from Asia to North America. While we continue to experience certain challenges associated with the Tijuana facility, including challenges relating to bringing products across the border between the U.S. and Mexico, the Tijuana facility is running fairly smoothly now. We believe that this facility assists us in cost-effectively providing rapid response to the needs of our U.S. customers. In March 2009 we expect to move our Tijuana operation to a smaller, lower cost building in Tijuana.

We usually use one primary manufacturer for a given design. We sometimes maintain back-up production tooling at a second manufacturer for our highest-volume products. Our manufacturers are normally adequate to meet reasonable and properly planned production needs; but a fire, natural calamity, strike, financial problem, or other significant event at an assembler's facility could adversely affect our shipments and revenues. Currently a substantial percentage of our manufacturing is performed by Xavi Technologies Corporation (Xavi). The loss of these services or a material adverse change in Xavi s business or in our relationship could materially and adversely harm our business.

Our products include a large number of parts, most of which are available from multiple sources with varying lead times. However, most of our products include a sole-sourced chipset as the most critical component of the product. The vast majority of our dial-up and DSL modem chipsets come exclusively from Conexant. Conexant is one of the leading producers of modem chipsets worldwide; but serious problems at Conexant would probably create a significant reduction in Zoom s shipments.

We have experienced delays in receiving shipments of modem chipsets in the past, and we may experience such delays in the future. Moreover, we cannot assure that a chipset supplier will, in the future, sell chipsets to us in quantities sufficient to meet our needs or that we will purchase the specified dollar amount of products necessary to receive concessions and incentives from a chipset supplier. An interruption in a chipset supplier's ability to deliver chipsets, a failure of our suppliers to produce chipset enhancements or new chipsets on a timely basis and at competitive prices, a material increase in the price of the chipsets, our failure to purchase a specified dollar amount of products or any other adverse change in our relationship with modem component suppliers could have a material adverse effect on our results of operations.

We are also subject to price fluctuations in our cost of goods. Our costs may increase if component shortages develop, lead-times stretch out, or fuel costs continue to rise.

We are also subject to the RoHS and CEC rules discussed above, which affect component sourcing, product manufacturing, sales, and marketing.

Competition

The communications network access industry is intensely competitive and characterized by aggressive pricing practices, continually changing customer demand patterns, and rapid technological advances, and emerging industry standards. These characteristics result in frequent introductions of new products with added capabilities and features, and continuous improvements in the relative functionality and price of modems and other PC communications products. Our operating results and our ability to compete could be adversely affected if we are unable to:

- successfully and accurately anticipate customer demand;
- manage our product transitions, inventory levels, and manufacturing processes efficiently;
- distribute or introduce our products quickly in response to customer demand and technological advances;
- differentiate our products from those of our competitors; or
- otherwise compete successfully in the markets for our products.

Some of our primary competitors by product group include the following:

- **DSL modem competitors:** 2Wire, 3Com, Actiontec, Airties, Asus, Aztech, Best Data, Cisco Systems (Linksys division), D-Link, Huawei, Netgear, Netopia, Sagem, Siemens (formerly Efficient Networks), Thomson, US Robotics, Westell, Xavi, and ZyXEL Communications.
- **Dial-up modem competitors:** Best Data, Creative Labs, Lite-On, Sitecom, and US Robotics.
- **Cable modem competitors:** Arris Systems, Cisco Systems (Linksys and Scientific Atlanta divisions), D-Link, Hon Hai Network Systems (formerly Ambit Microsystems), Motorola, Netgear, SMC Networks, Terrayon, and Thomson
- **VoIP hardware competitors:** AudioCodes, Cisco Systems (Linksys division), Digium, D-Link, Draytek, Grandstream, Mediatrix, Micro-ATA, MultiTech, Patton, Snom, Zyxel, and 8x8.
-

Bluetooth competitors: Anycom, Belkin, D-Link, IOGear, Jabra, Kensington, Linksys, Logitech, Sitecom, SMC, Targus, Trendnet, and Trust.

Many of our competitors and potential competitors have more extensive financial, engineering, product development, manufacturing, and marketing resources than we do.

The principal competitive factors in our industry include the following:

.

product performance, features, reliability and quality of service;

.

price;

.

brand image;

.

product availability and lead times;

.

size and stability of operations;

.

breadth of product line and shelf space;

.

sales and distribution capability;

.

technical support and service;

.

product documentation and product warranties;

.

relationships with providers of broadband access services; and

.

compliance with industry standards.

We believe we are able to provide a competitive mix of the above factors for our products, particularly when they are sold through retailers, computer product distributors, and small to medium sized Internet service providers, and system integrators. We are less successful in selling directly to large telephone companies and other large providers of broadband access services.

DSL and cable modems transmit data at significantly faster speeds than dial-up modems. DSL and cable, however, typically require a more expensive Internet access service. In addition, the use of DSL and cable modems is currently impeded by a number of technical and infrastructure limitations. We began shipping both cable and DSL modems in the year 2000. We have had some success in selling to smaller phone companies and to Internet service

---

providers, but we have not sold significant quantities to large phone companies or to large cable service providers. We believe a small fraction of new US cable modem and DSL placements in 2008 were sold at retail, and that a low percentage were sold through retailers in most other countries. Some European countries, however, sell significant volumes of DSL modems through retailers. In the U.K., for instance, this has resulted in Zoom placing DSL modem models into retailer Dixons Store Group.

Successfully penetrating the broadband modem market presents a number of challenges, including:

.

The current limited retail market for broadband modems;

.

The relatively small number of cable, telecommunications and Internet service providers that make up the majority of the market for broadband modems;

.

The significant bargaining power of these large volume purchasers;

.

The time-consuming, expensive and uncertain approval processes of the various cable and DSL service providers; and

.

The strong relationships with service providers enjoyed by some incumbent equipment providers, including Motorola and Cisco Systems for cable modems.

The use of the Internet to provide voice communications services is a relatively recent market development. A substantial number of companies have emerged to provide VoIP products and services, and many of these companies have more extensive financial, engineering, product development, and marketing resources than we do. The principal competitive factors in the VoIP market include: price, brand recognition, service and support, features, distribution, and reliability. Competitors for our current VoIP hardware products are listed above. Competitors for our Skype VoIP products include a large number of companies worldwide, including Actiontec, Cisco Systems (Linksys division), D-Link, Motorola, Sennheiser, TeleVoIP, and U.S. Robotics.

Competitors for our VoIP service include AT&T, iConnectHere, Net2Phone, Voicepulse, Vonage and 8x8, as well as incumbent telephone carriers and other providers of traditional telephone service. Many of our competitors have greater name recognition and resources than we have and may be better positioned to more aggressively develop, promote and sell their products, including by offering more attractive pricing policies and bundled service arrangements. In addition, if telecommunications rates continue to decrease, any competitive pricing advantage of our services may be diminished or eliminated. We cannot assure that we will be able to compete effectively.

Intellectual Property Rights

We rely primarily on a combination of copyrights, trademarks, trade secrets and patents to protect our proprietary rights. We have trademarks and copyrights for our firmware (software on a chip), printed circuit board artwork, instructions, packaging, and literature. We also have nine patents. The patents that have been issued expire between 2011 and 2015. We cannot assure that any patent application will be granted or that any patent obtained will provide protection or be of commercial benefit to us, or that the validity of a patent will not be challenged. Moreover, we cannot assure that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop comparable or superior technologies.

We license certain technologies used in our products, typically rights to bundled software, on a non-exclusive basis. In addition we purchase chipsets that incorporate sophisticated technology. We have received, and may receive in the future, infringement claims from third parties relating to our products and technologies. We investigate the validity of these claims and, if we believe the claims have merit, we respond through licensing or other appropriate actions. Certain of these past claims have related to technology included in modem chipsets. We forwarded these claims to the appropriate vendor. If we or our component manufacturers were unable to license necessary technology on a cost-effective basis, we could be prohibited from marketing products containing that technology, incur substantial costs in redesigning products incorporating that technology, or incur substantial costs defending any legal action taken against it. Where possible we attempt to receive patent indemnification from chipset suppliers and other appropriate suppliers, but the extent of this coverage varies and enforcement of this indemnification may be difficult and costly.

Government Regulation

Regulatory Approvals, Certifications and Other Industry Standards

Our modems and related products sold in the U.S are required to meet United States government regulations, including regulations of the United States Federal Communications Commission, known as the FCC, which regulates equipment, such as modems, that connects to the public telephone network. The FCC also regulates the electromagnetic radiation and susceptibility of communications equipment. In addition, in order for our broadband products to be qualified for use with a particular broadband Internet service, we are often required to obtain approvals and certifications from the actual cable, telephone or Internet service provider and from CableLabs® for cable modems. In addition to U.S. regulations, many of our products sold abroad require us to obtain specific regulatory approvals from foreign regulatory agencies for matters such as electrical safety, country-specific telecommunications equipment requirements, and electromagnetic radiation and susceptibility requirements. We submit products to accredited testing laboratories and, when required, to specific foreign regulatory agencies, to receive approvals for our products based on the test standards appropriate to the target markets for a given product. We expect to continue to seek and receive approvals for new products to allow us to reach a large number of countries throughout the world, including countries in the Americas, Europe, Asia, and Africa. The regulatory process can be time-consuming and can require the expenditure of substantial resources. We cannot assure that the FCC or foreign regulatory agencies will grant the requisite approvals for any of our products on a timely basis, if at all.

United States and foreign regulations regarding the manufacture and sale of electronics devices are subject to change. On July 1, 2006 changes were implemented by the European Union to reduce the use of hazardous materials, such as lead, in electronic equipment. As discussed above, the implementation of these requirements caused Zoom and other electronics companies to change or discontinue many of its European products. As discussed above, the California Energy Commission s Appliance Efficiency Regulations will affect the power cube supplied with some of Zoom s US products.

In addition to reliability, quality and content standards, the market acceptance of our products and services is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Our products and services, particularly our VoIP products and services, rely heavily on a variety of communication, network and voice compression standards to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular VoIP application, and about the definition of the standards themselves. There is significant and growing consensus to use SIP for VoIP telephony, but there are important exceptions. One exception is Skype, which uses a proprietary protocol. Another exception is Packet Cable, which is popular with cable service providers. Another complication is that some VoIP services continue to evolve. The failure of our products and services to comply with various existing and evolving standards could delay or interrupt volume production of our VoIP telephony or other new products and services, expose us to fines or other imposed penalties, or adversely affect the perception and adoption rates of our products and services, any of which could harm our business.

Internet Telephony Services

The use of the Internet and private IP networks to provide VoIP services is a relatively recent development. Although providing such services is currently permitted and largely unregulated within the U.S., several foreign governments have adopted laws and regulations that could restrict or prohibit the providing of VoIP services. More aggressive domestic or international regulation of the Internet in general, and Internet telephony providers and services specifically, may adversely affect our ability to introduce and market our VoIP services and products successfully.

Our ability to provide VoIP communications services on the terms we currently provide arise in large part from the fact VoIP services are not currently subject to the same regulation as traditional telephony. Because these services are not currently regulated to the same extent as traditional telephony, VoIP providers can currently avoid paying charges that traditional telephone companies must pay. Local exchange carriers are lobbying the FCC and the states to regulate VoIP on the same basis as traditional telephone services. The FCC and several states are examining this issue. If the FCC or any state determines to regulate VoIP, they may impose surcharges, taxes or additional regulations upon providers of Internet telephony. These surcharges could include access charges payable to local exchange carriers to carry and terminate traffic, contributions to the Universal Service Fund (USF) or other charges. 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 also place a significant financial burden on us depending on the technical changes required to accommodate the requirements. The imposition of any such additional fees, charges, taxes and regulations on IP communications services could materially increase our costs, require us to modify our service, delay our products, or impair our ability to offer competitive pricing.

In many countries outside the U.S. in which we operate or our services are sold, the status of the laws that may relate to our VoIP services is unclear. 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 have a material adverse affect on our ability to continue to offer our VoIP service in these jurisdictions.

Regulation of the Internet

In addition to regulations addressing our modems and related products and our Internet telephony services, other regulatory issues relating to the Internet in general could affect our ability to provide our services. Congress has adopted legislation that regulates certain aspects of the Internet, including online content, user privacy, taxation, liability for third-party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise harm our business.

Backlog

Our backlog on February 4, 2009 was $0.5 million, and on February 6, 2008 was $0.7 million. Many orders included in backlog may be canceled or rescheduled by customers without significant penalty. Backlog as of any particular date should not be relied upon as indicative of our net sales for any future period.

Employees

On December 31, 2008 we had 56 full-time employees compared to 64 as of December 31, 2007. As of February 28, 2009 we had 40 full-time employees and 10 part-time employees. Of the 50 Zoom employees on February 28, 2009 12 were engaged in research and development, 12 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 17 were engaged in sales, marketing and technical support, and the remaining 9 performed accounting, administrative, management information systems, and executive functions. Zoom has implemented cost cutting measures including reducing our headcount and reducing certain employees work week from 40 hours to 32 hours per week. As a result, Zoom currently has 40 full time employees and 10 part time employees (those working less than 40 hours per week). None of our employees is represented by a labor union.

ITEM 1A.   RISK FACTORS

The disclosure under the heading Risk Factors contained in Item 7 of this Annual Report on Form 10-K is incorporated by reference in this Item 1A.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

Our corporate headquarters are located at 201 and 207 South Street, Boston, Massachusetts. 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 on our balance sheet ended December 31, 2006. Our lease expiration date was December 2008. We renewed the lease at the same address for reduced space and a higher rate per square foot in December 2008.

In August 1996 we entered into a five-year lease for a 77,428 square foot manufacturing and warehousing facility at 645 Summer Street, Boston, MA. On February 28, 2001 we exercised our option to extend this lease for an additional five years. The term of this lease expired in August 2006 and we began the planned move of our manufacturing and warehousing facility to Tijuana, Mexico. In August 2006 we signed a lease for a 35,575 square foot manufacturing and warehousing facility in Tijuana, Mexico with an initial lease term from October 2006 to May 2007, with five two-year options thereafter. In February, 2007 we renegotiated the first renewal term and signed a one-year extension starting in May 2007, with five two-year options thereafter. We received verbal approval from the landlord and we signed another one-year extension starting in May 2008. In March 2009 we expect to move our Tijuana operation to a smaller, lower cost building in Tijuana.

In September 2005 we entered into a two year office lease consisting of 2,400 square feet at 2 Kings Road, Fleet, Hants, U.K for our U.K. sales office. In September 2007 the lease was continued on a month-to-month basis with a 3 month cancellation notice required by Zoom or the landlord. In September 2008 the lease was replaced by a lower cost Managed Office Service Agreement at Centaur House Ancells Road, Fleet, Hants, UK.

In September 2002 we entered into a five-year lease, as a tenant, for approximately 3,500 square feet at 950 Broken Sound Parkway NW, Boca Raton, Florida. We primarily used this facility as a technical support facility. In September 2007 the term of the lease expired and we moved our Florida-based customer service organization to our headquarters location in Boston, Massachusetts.

ITEM 3 LEGAL PROCEEDINGS

In February 2009 Zoom Technologies, Inc. was named as one of 15 defendants in a patent infringement lawsuit filed in the United States District Court for the Eastern District of Texas by Finoc Design Consulting Oy of Oulu, Finland. The complaint claims that Zoom has been and is now infringing on U.S. patent 6,850,560, dated February 1, 2005, by offering for sale, selling, and providing service and support to customers of its wireless xDSL products. The Company believes that the basis for the infringement charge relates to certain chipsets in the Company's wireless xDSL products that were obtained from Conexant Systems, Inc (Conexant). All of Zoom s wireless xDSL products use Conexant ADSL chipsets. Zoom and Conexant are examining the patent to determine whether they believe infringement has occurred, and to determine whether Conexant should and will indemnify and defend Zoom. The likelihood of an unfavorable outcome in the matter is uncertain, and the amount or range of potential loss is also uncertain.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered in this report.

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Nasdaq Capital Market under the symbol "ZOOM". The following table sets forth, for the periods indicated, the high and low sale prices per share of common stock, as reported by the Nasdaq Capital Market. All common stock information prior to August 7, 2008 and presented herein has been restated to reflect the reverse stock split.

Fiscal Year Ended December 31, 2008		High		Low
First Quarter	$	4.25	$	1.75
Second Quarter	$	2.85	$	1.60
Third Quarter	$	3.62	$	1.09
Fourth Quarter	$	1.52	$	.30

Fiscal Year Ended December 31, 2007		High		Low
First Quarter	$	9.00	$	5.40
Second Quarter	$	9.45	$	5.75
Third Quarter	$	6.50	$	3.60
Fourth Quarter	$	6.50	$	2.65

As of February 15, 2009, there were 1,959,378 shares of our common stock outstanding and 206 holders of record of our common stock.

Recent Sales of Unregistered Securities

We did not sell any unregistered securities during the fourth quarter of 2008.

Dividend Policy

We have never declared or paid cash dividends on our capital stock and do not plan to pay any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance future growth.

Repurchases by the Company

During 2008 we did not repurchase any shares of our common stock on our own behalf or for any affiliated purchaser.

Equity Compensation Plan Information

The information required by this Item 5 regarding securities authorized for issuance under our equity compensation plans is set forth in Part III, Item 12 of this report.

ITEM 6 SELECTED FINANCIAL DATA

Not required.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the "Selected Financial Data" and the consolidated financial statements included elsewhere in this report and the information described under the caption "Risk Factors" below. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Potential Share Exchange

On January 28, 2009, Zoom entered into a Share Exchange Agreement (the Agreement) with Tianjin Tong Guang Group Digital Communication Co., Ltd (TCB Digital) and TCB Digital s majority shareholder, Gold Lion Holding Limited (Gold Lion). TCB Digital is primarily engaged in electronic and telecommunications product design, development and manufacturing.

Pursuant to the terms of the Agreement, Zoom intends to acquire from Gold Lion 51% of the outstanding stock of TCB Digital in exchange for 4,225,219 shares of Zoom common stock. In addition, Zoom intends to grant the majority shareholder of Gold Lion an option to acquire an additional 2,402,576 Zoom shares in exchange for an additional 29% of the outstanding stock of TCB Digital. If the option is exercised, Zoom would have acquired 80% of the outstanding stock of TCB Digital in exchange for an aggregate of 6,627,795 shares of Zoom common stock.

Zoom will also have options to acquire five other companies that are owned by the majority shareholder of Gold Lion, with the option price of each company to be based on the higher of a minimum price or a multiple of that company s net income.

At the closing of the share exchange pursuant to the Agreement, Zoom intends to spin off its current business and operating subsidiary, Zoom Telephonics, in a transaction that is not anticipated to be a taxable distribution to Zoom s shareholders. Zoom Telephonics would also grant TCB Digital licensing rights to the Zoom and Hayes trademarks for certain products and geographic regions.

The potential transaction is described in Zoom s Current Report on Form 8-K filed with the Securities and Exchange Commission (SEC) on February 3, 2009. The potential transaction is subject to approval by Zoom s shareholders as well as the satisfaction or waiver of other conditions. If the transaction closes, Zoom s shareholders immediately prior to the closing date would retain their existing shares in Zoom Technologies and would also receive an equal number of new shares in Zoom Telephonics, Inc.

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 lease expires April 30, 2009, and we hope to reduce our leased space and cost starting May 1, 2009.

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 current lease expired in December 2008, and we recently signed a lease extension that commits us for at least 2 years. On January 1, 2009 we reduced our leased Boston space from 25,000 square feet to 14,400 square feet with an increase in rent per square foot, resulting in a savings in 2009 of $54,000.

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.

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 2008 our net sales were down 21.7% compared to 2007. The sales decline was mainly the result of decreases in DSL dial-up, and cable modem sales which were partially offset by an increase in wireless product sales. 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.

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, was reduced from 65 on September 30, 2007 to 56 on December 31, 2008 As of February 28, 2009 Zoom had 50 full-time and part-time employees. Of the 50 Zoom employees on February 28, 2009 12 were engaged in research and development, 12 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 17 were engaged in sales, marketing and technical support, and the remaining 9 performed accounting, administrative, management information systems, and executive functions. Zoom has implemented cost cutting measures including reducing our headcount and reducing certain employees work week from 40 hours to 32 hours per week. As a result, Zoom currently has 40 full time employees and 10 part time employees (those working less than 40 hours per week). Our dedicated manufacturing personnel in Mexico are employees of our Mexican manufacturing service provider and not included in our 2008 or 2007 headcount.

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 2008 revenues, as defined.

At December 31, 2008 Zoom determined that the fair market value of its investment in Unity was $0.96 million which resulted in a write-down of $0.219 million of the originally capitalized $1.179 million. A transaction for the sale of Unity to a third party has been under evaluation since December 2008 and has a mid-year 2009 target close date. If and when this sale closes, Zoom should recover $0.96 million of the $1.179 million asset value capitalized during the quarter ended September 30, 2007 and carried on the balance sheet at December 31, 2007. If the sale does not take place Zoom believes the $0.96 million value is the appropriate estimate of fair market value at December 31, 2008. As a result, Zoom has written down the $1.179 million asset value to $0.96 million at December 31, 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 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 its option to purchase all outstanding stock of RedMoon or (ii) the Company s election to terminate such option 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. The option to purchase all of RedMoon s outstanding stock was not exercised and terminated in accordance with its terms on August 31, 2008.

At December 31, 2008 Zoom determined that the fair market value of its investment in RedMoon was zero due to RedMoon s working capital position, cash flow, and our analysis of the recovery value of the assets. Accordingly, Zoom wrote-off 100% of the $0.325 million asset value, including transaction costs of $0.025 million.

On December 31, 2008 we had working capital of $3.9 million including $1.2 million in cash and cash equivalents. On December 31, 2007 we had working capital of $7.7 million including $3.6 million in cash and cash equivalents. Our current ratio at December 31, 2008 was 3.4 compared to 3.7 at December 31, 2007. A significant portion in the reduction of the current ratio was due to the cash decline.

In 2008 the Company s operating activities used $2.0 million in cash. Its net loss in 2008 was $4.2 million. After adjusting for non-cash items including the $0.3 million gain on sale of real estate, the $0.5 million write-down of Unity and RedMoon, $0.09 million of depreciation and amortization expense, $0.3 million of stock-based compensation and $0.2 million reversal of allowances, sources of cash from operations included a decrease in inventories of $1.5 million, a decrease in accounts receivable of $1.1 million, and a decrease of $0.01 million of prepaid expense and other current assets. Uses of cash from operations included a decrease in accounts payable and accrued expense of $0.9 million.

In 2008 the Company s net cash used in investing activities was $0.3 million for our investment in RedMoon.

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 prior to August 7, 2008 and 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 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. Product returns as a percentage of total shipments were 11.7% and 11.9%, respectively, for 2007 and 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 $0.09 million in 2007 and $0.04 million in 2008.

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 were reported as reductions in our net sales and were $1.2 million in 2007 and $0.7 million in 2008.

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 $0.3 million in 2007 and $0.04 million in 2008.

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 less than $0.1 million for 2007 and $0.2 million for 2008.

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. In 2007 and 2008 we recorded an additional charge of $0.0 million and $0.2 million, respectively for inventory reserves related to obsolete and slow-moving products.

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 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, 2008 we had federal net operating loss carry forwards of approximately $41,553,000. These federal net operating losses are available to offset future taxable income, and are due to expire in years ranging from 2018 to 2028. We also had state net operating loss carry forwards of approximately $14,696,000. These state net operating losses are available to offset future taxable income, and are primarily due to expire in years ranging from 2009 to 2013.

Valuation of Investments. 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 $1.2 million in cash, 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. A transaction for the sale of Unity to a third party has been under evaluation since December 2008 and has a mid-year 2009 target close date. If and when this sale closes, Zoom should recover $0.96 million of the $1.179 million asset value capitalized during the quarter ended September 30, 2007 and carried on the balance sheet at December 31, 2007. If the sale does not take place Zoom believes the $0.96 million value is the appropriate estimate of fair market value at December 31, 2008. As a result, Zoom has written down the $1.179 million asset value to $0.96 million at December 31, 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. The option to purchase all of RedMoon s outstanding stock was not exercised and terminated in accordance with its terms on August 31, 2008.

At December 31, 2008 Zoom determined that the fair market value of its investment in RedMoon was zero due to Zoom s assessment of the fair market value of the current and fixed assets, liabilities, and our analysis of the recovery value of the asset. Accordingly, Zoom recorded a write-off of the RedMoon investment asset in the amount of $0.325

million, which amount included transaction costs.

Results of Operations

The following table sets forth certain financial data as a percentage of net sales for the periods indicated:

	Years Ended December 31, 2007	2008
Net sales	100.0 %	100.0 %
Cost of goods sold	79.8	79.3
Gross profit	20.2	20.7
Operating expense:		
Selling	19.3	20.3
General and administration	13.1	15.8
Research and development	9.9	11.9
Total operating expenses	42.3	48.0
Operating profit (loss) before sale of real estate	(22.1)	(27.3)
Gain on sale of real estate	2.1	2.4
Operating profit (loss)	(20.0)	(24.9)
Other income (expense):		
Other, net	1.0	(3.8)
Total other income (expense)	1.0	(3.8)
Loss before income taxes	(19.0)	(28.7)
Income taxes (benefit)		0.1
Net income (loss)	(19.0)%	(28.8)%

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The following is a discussion of the major categories of our consolidated statement of operations, comparing the financial results for the year ended December 31, 2008 with the year ended December 31, 2007.

Net Sales. Our total net sales decreased year-over-year by $4.0 million or 21.7%. In 2008 and 2007 we primarily generated our sales by selling dial-up and broadband modems via retailers, distributors, and Internet Service Providers. The dial-up modem market has continued to decline. Zoom sales of dial-up modems declined $1.4 million due primarily to the decline of the dial-up modem market. Our Broadband, Wireless and Other Products sales decreased year-over-year by $2.6 million or 23.1%.

	Year 2007 Sales $000	Year 2008 Sales $000	Change $000	Change %
Dial-up	$ 7,337	$ 5,897	$ (1,440)	(19.5)%
Broadband, Wireless and Other Products	$ 11,141	$ 8,562	$ (2,579)	(23.1)%
Total Net Sales	$ 18,478	$ 14,459	$ (4,019)	(21.7)%

As shown in the table below our net sales in North America decreased $1.7 million or 14.2% from $11.8 million in 2007 to $10.1 million in 2008. Our net sales in the UK were $3.1 million in 2008 compared to $4.1 million in 2007, a 24.7% decrease. The sales declines in North America and the UK primarily reflect decreased sales of broadband modems in our retailer channel as compared to 2007. In 2007 our new and existing large retailer customers purchased inventories of DSL modems to support forecasted sales volumes which were not realized. Additionally there was a more modest decline of dial-up modem sales at retailers in the U.S. and the U.K. Our net sales in all other countries were $1.3 million in 2008 compared to $2.6 million in 2007, a 50.8% decline. The sales decline in all other countries was primarily due to declining sales of DSL modems and dial-up modems.

	Year 2007 Sales $000	Year 2008 Sales $000	Change $000	Change %
North America	$ 11,776	$ 10,101	$ (1,675)	(14.2)%
UK	4,065	3,061	(1,004)	(24.7)%
All Other	2,637	1,297	(1,340)	(50.8)%
Total Net Sales	$ 18,478	$ 14,459	$ (4,019)	(21.7)%

During 2008 two customers each accounted for 10% or more of our total net sales. Together these two customers accounted for 33% of our total net sales. During 2007, three customers accounted for more than 10% of our total net sales. Together these three customers accounted for 44% of our total net sales.

Because of our customer concentration, our 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 for any of our significant customers.

Gross Profit. Our gross profit was $3.0 million in 2008 compared to $3.7 million in 2007. Our gross profit percentage of net sales increased to 20.7% in 2008 from 20.2% in 2007. The primary reason for this increase was lower sales dilution from consumer rebates and other retail channel payments and lower manufacturing expense.

Operating Expense. Total operating expense excluding the gain on sale of real estate decreased by $0.9 million from $7.8 million in 2007 to $6.9 million in 2008. Total operating expense excluding the gain on sale of real estate as a percentage of net sales increased from 42.3% in 2007 to 48.0% in 2008. The table below illustrates the change in operating expense.

Operating Expense	**Year 2007 Sales $000**	**% Net Sales**	**Year 2008 Sales $000**	**% Net Sales**	**Change $000**	**% Change**
Selling Expense	$ 3,558	19.3 %	$ 2,932	20.3%	$ (626)	(17.6)%
General and Administrative Expense	2,424	13.1 %	2,280	15.8%	(144)	(5.9)%
Research and Development Expense	1,825	9.9 %	1,721	11.9%	(104)	(5.7)%
Total Operating Expense excluding the gain on sale of real estate	$ 7,807	42.3 %	$ 6,933	48.0%	$ (874)	(11.2)%

Selling Expense. Selling expense decreased from $3.6 million in 2007 to $2.9 million in 2008. Selling expense as a percentage of net sales was 19.3% in 2007 and 20.3% in 2008. The $0.6 million reduction in selling expense was primarily due to reduced product delivery and warehousing costs, sales commissions, and personnel costs due to lower employee headcount.

General and Administrative Expense. General and administrative expense was $2.4 million in 2007 and $2.3 million in 2008. General and administrative expense as a percentage of net sales was 13.1% in 2007 and 15.8% in 2008. In 2007 compared to 2008, general and administrative expense decreased $0.1 million primarily due to a reduction in personnel costs ($0.14 million)and numerous other cost categories, partially offset by an increase in legal, audit and consulting fees ($0.2 million) in support of efforts to finalize an acquisition transaction.

Research and Development Expense. Research and development expense decreased from $1.8 million in 2007 to $1.7 million in 2008. Research and development expense as a percentage of net sales increased from 9.9% in 2007 to 11.9% in 2008. The $0.1 million decrease in research and development expense was primarily due to reduced personnel costs.

Gain on Sale of Real Estate. In 2006 we sold the real estate housing our corporate headquarters and concurrently entered into a leaseback arrangement for a portion of the property. The leaseback arrangement was for two years. A gain of $5.5 million was realized on the sale. However, a portion of the gain ($0.7 million) was deferred and has been recognized in operations over the term of the lease ($0.38 million in 2007 and $0.341 million in 2008). The deferred gain was the estimated present value of the minimum lease payments under the leaseback arrangement. The final monthly deferred gain was recorded in December 2008.

Other Income (Expense). Other income, net decreased from $0.2 million in 2007 to a loss of $0.5 million in 2008. The primary reasons for the drop of $0.7 million was the $0.5 million write-down of investment assets, reduced interest income, and higher foreign exchange losses.

Income Tax Expense (Benefit). We recorded a $0.01 million net income tax expense in 2008 resulting from our income tax in Mexico. We did not recognize any income tax in 2007.

Liquidity and Capital Resources

On December 31, 2008 we had working capital of $3.9 million including $1.2 million in cash and cash equivalents. On December 31, 2007 we had working capital of $7.7 million including $3.6 million in cash and cash equivalents. Our current ratio at December 31, 2008 was 3.4 compared to 3.7 at December 31, 2007. A significant portion in the reduction of the current ratio was due to the cash decline.

In 2008 the Company s operating activities used $2.0 million in cash. Its net loss in 2008 was $4.2 million. After adjusting for non-cash items including the $0.3 million gain on sale of real estate, the $0.5 million write-down of Unity and RedMoon, $0.09 million of depreciation and amortization expense, $0.3 million of stock-based compensation and the $0.2 million reversal of allowances, sources of cash from operations included a decrease in inventories of $1.5 million, a decrease in accounts receivable of $1.1 million, and a decrease of $0.01 million of prepaid expense and other current assets. Uses of cash from operations included a decrease in accounts payable and accrued expense of $0.9 million.

In 2008 the Company s net cash used in investing activities was $0.3 million, primarily for its investment in RedMoon
.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. As of December 31, 2008 we had 56 full-time employees compared to 64 as of December 31, 2007. As of February 28, 2009 we had 40 full-time employees and 10 part-time employees. We plan to continue to assess our cost structure as it relates to our revenues and cash position, and we may make further reductions if the actions are deemed necessary.

In 2008 the Company incurred a net loss of $4.2 million and used cash in operating activities of $2.0 million. These and other conditions raise substantial doubt about the Company's ability to continue as a going concern. Management does not believe we have sufficient resources to fund our normal operations over the next 12 months unless sales improve significantly or we raise capital. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is substantial doubt as to its ability to continue as a going concern See Risk Factors below, for further information with respect to events and uncertainties that could harm our business, operating results, and financial condition.

Risks Associated with Potential Share Exchange

For additional information with respect to the potential share exchange with TCB Digital, see Item 1. Business.

A significant delay in consummating or a failure to consummate the proposed share exchange with TCB Digital could have a material adverse effect on our stock price and operating results.

If the proposed share exchange with TCB Digital is not completed, it could have a material adverse effect on our stock price. In addition, any significant delay in consummating the transaction could have a material adverse effect on our operating results, adversely affect our customer relationships and would likely lead to significant diversion of management and employee attention and potential attrition of key employees.

Restrictions on the conduct of our business prior to the completion of the proposed share exchange with TCB Digital may have a negative impact on our operating results.

We have agreed to certain restrictions on the conduct of our business in connection with the proposed share exchange with TCB Digital, that require us to conduct our business only in the ordinary course, subject to specific limitations. These restrictions may delay or prevent us from undertaking business opportunities that may arise pending completion of the transaction.

Risks Associated with Our Business

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

Over the next twelve months we will likely require additional financing to fund our operations. We 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 which would have a material adverse effect on our business..

Our auditors have expressed substantial doubt about our ability to continue as a going concern.

The audit report issued by our independent registered public accounting firm on our audited financial statements for the fiscal year ended December 31, 2008 contains a explanatory paragraph regarding our ability to continue as a going concern. This indicates there is substantial doubt on the part of our independent registered public accounting firm as to our ability to continue as a going concern due to the risk that we may not have sufficient cash and liquid assets at December 31, 2008 to cover our operating and capital requirements for the next twelve-month period and if sufficient cash cannot be obtained we would have to substantially alter our operations, or we may be forced to discontinue operations. Such an opinion from our independent registered public accounting firm may limit our ability to access certain types of financing

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.

Our common stock is currently listed for quotation on the Nasdaq Capital Market. We are required to meet certain financial requirements in order to maintain our listing on the Nasdaq Capital Market. One such requirement is that we maintain a minimum closing bid price of at least $1.00 per share for our common stock. The Nasdaq Stock Market has suspended the minimum bid price requirement until April 20, 2009, however, our common stock is currently trading near or below $1.00 per share. If our common stock trades below $1.00 per share for 30 consecutive business days after the expiration of the temporary suspension, we will receive a deficiency notice from Nasdaq advising us that we have 180 days to regain compliance by maintaining a minimum bid price of at least $1.00 for a minimum of ten consecutive business days. If we fail to satisfy the Nasdaq Capital Market s continued listing requirements, our common stock could be delisted from the Nasdaq Capital Market. Any potential delisting of our common stock from the Nasdaq Capital Market would make it more difficult for our stockholders to sell our stock in the public market and would likely result in decreased liquidity and 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 the Company s net sales. During 2008 two customers each accounted for 10% or more of our total net sales. Together these two customers accounted for 33% of our total 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 and a single supplier of a critical component 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. We also currently rely on a sole-sourced chipset as the most critical component of most of our products. The loss of the services of this manufacturer or the components supplied by this supplier or an adverse change in the manufacturer s or supplier s business or our relationship could have a material adverse effect on our ability to manufacture our products and on our business.

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. Fluctuations in the currency exchange rates have, and may continue to, adversely affect our operating results.

The recent financial crisis and current uncertainty in global economic conditions could negatively affect our business, results of operations, and financial condition.

The recent financial crisis and the current uncertainty in global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. There could be a number of follow-on effects from these economic developments on our business, including unavailability of credit, insolvency of key suppliers resulting in product delays; customer insolvencies; rapid changes to the foreign currency exchange rates; decreased customer confidence; and decreased customer demand. Any of these events, or any other events caused by the recent financial crisis, may have a material adverse effect on our business, operating results, and financial condition.

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.

If we fail to meet changing customer requirements and emerging industry standards, there would be an adverse impact on 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. For the year 2008 sales outside North America were 30% 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. In addition, fluctuations in the currency exchange rates have had, and may continue to have, an adverse effect on our operating results. The types of risks faced in connection with international operations and sales include, among others: regulatory and communications requirements and policy changes; 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; 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 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.

If we fail to effectively manage our inventory levels, there could be a material and adverse affect on our liquidity and 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 the vast majority of our dial-up and broadband modem chipsets from Conexant Systems. 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.

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 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ZOOM TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A 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 of 1934 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 recognizes 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 December 31, 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 SEC filings within the required time period.

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Act of 1934. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. In making its assessment of internal control over financial reporting, management used criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our evaluation under such framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2008

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

There have been no changes in our internal control over financial reporting during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information Regarding the Board of Directors

The Board of Directors currently consists of five members. At each meeting of stockholders, Directors are elected for a one-year term. The following table and biographical descriptions set forth information regarding the current members of the Board of Directors.

Name	Age	Principal Occupation	Director Since
Frank B. Manning	60	Chief Executive Officer, President and Chairman of the Board of Zoom Technologies, Inc.	1977
Peter R. Kramer	57	Executive Vice President and Director of Zoom Technologies, Inc.	1977
Bernard Furman (1)	79	Consultant	1991
J. Ronald Woods (1)	73	President of Rowood Capital Corp.	1991
Joseph J. Donovan (1)	59	Director of Education Programs at Suffolk University's Sawyer School of Management	2005

(1)

Current members of the Audit, Nominating and Compensation Committees.

Frank B. Manning is a co-founder of our company. Mr. Manning has been our president, chief executive officer, and a director since May 1977. He has served as our chairman of the board since 1986. He earned his BS, MS and PhD degrees in Electrical Engineering from the Massachusetts Institute of Technology, where he was a National Science Foundation Fellow. From 1998 through late 2006 Mr. Manning was also a director of the Massachusetts Technology Development Corporation, a public purpose venture capital firm that invests in seed and early-stage technology companies in Massachusetts. Mr. Manning is the brother of Terry Manning, our vice president of sales and marketing. From 1999 to 2005 Mr. Manning was a Director of Intermute, a company that Zoom co-founded and that was sold to Trend Micro Inc., a subsidiary of Trend Micro Japan. Mr. Manning has been a Director of Unity Business Networks, a hosted VoIP service provider, since Zoom s investment in July 2007.

Peter R. Kramer is a co-founder of our company. Mr. Kramer has been our executive vice president and a director since May 1977. He earned his BA degree in 1973 from SUNY Stony Brook and his MFA degree from C.W. Post College in 1975. Mr. Kramer worked a reduced schedule for a portion of 2007 and was on a leave of absence for the remainder of 2007 and all of 2008. He continues his service as a member of our Board of Directors.

Bernard Furman has been a Director of Zoom since 1991. Mr. Furman, currently retired, has served as a consultant to various companies, including Timeplex, Inc. (formerly listed on the New York Stock Exchange), a world leader in large capacity multiplexer and network management products. He was a co-founder of Timeplex and served as its

General Counsel and as a member of its Board of Directors from its inception in 1969, and in 1984 also became Vice Chairman, Chief Administrative Officer and a member of the Executive Committee of the Board, holding all such positions until Timeplex was acquired by Unisys Corporation in 1988.

J. Ronald Woods has been a Director of Zoom since 1991. Since November 2000 Mr. Woods has served as President of Rowood Capital Corp., a private investment Company. From June 1996 to November 2000 Mr. Woods served as Vice President-Investments of Jascan, Inc., a private investment holding company. Prior to that, Mr. Woods served as Vice President-Investments of Conwest Exploration Corporation Ltd., a resource holding company based in Toronto from 1987 to June 1996. He also served as a Director, major shareholder and head of research and corporate finance for Merit Investment Corporation, a stock brokerage firm, from 1972 through 1987, and served as the President of Merit Investment Corporation from 1984 through 1987. He is a former Governor of the Toronto Stock Exchange and is currently a Director of Anterra Corporation, Inc., where he serves on the audit committee.

Joseph J. Donovan has been a Director of Zoom since 2005. Since March 2004 Mr. Donovan has served as the Director of Education Programs of Suffolk University's Sawyer School of Management on the Dean College campus, and he is responsible for the administration of undergraduate and graduate course offerings at Dean College. Mr. Donovan also serves as an adjunct faculty member at Suffolk University's Sawyer School of Management. He teaches Money and Capital Markets, Managerial Economics, and Managerial Finance in the Graduate School of Business Administration at Suffolk University. Mr. Donovan served as the Director of Emerging Technology Development for the Commonwealth of Massachusetts' Office of Emerging Technology from January

1993 through October 2004. Mr. Donovan also served as a Director of the Massachusetts Technology Development Corporation, the Massachusetts Emerging Technology Development Fund, and the Massachusetts Community Development Corporation. He received a Bachelor of Arts in Economics and History from St. Anselm College in Manchester, N.H. and a Master's Degree in Economics and Business from the University of Nebraska.

Audit Committee. Messrs. Donovan, Furman and Woods are currently the members of the Audit Committee. The Board of Directors has determined that Mr. Woods qualifies as an "audit committee financial expert" as defined by applicable SEC rules.

Our Other Executive Officers

The names and biographical information of our current executive officers, who are not members of our Board of Directors, are set forth below:

Name	Age	Position with Zoom
Robert A. Crist	65	Vice President of Finance and Chief Financial Officer
Terry J. Manning	57	Vice President of Sales and Marketing
Dean N. Panagopoulos	51	Vice President of Network Products
Deena Randall	55	Vice President of Operations

Robert A. Crist joined us in July 1997 as vice president of finance and chief financial officer. From April 1992 until joining us, Mr. Crist served in various capacities at Wang Laboratories, Inc., (now Getronics), a computer software and services company, including chief financial officer for the software business and director of mergers and acquisitions. Prior to 1992 Mr. Crist served in various capacities at Unisys Corporation, including corporate controller, corporate director of business planning and analysis, corporate manufacturing and engineering controller, and CFO for several business units. Mr. Crist earned his BS degree from Pennsylvania State University and he earned his MBA from the University of Rochester in 1971.

Terry J. Manning joined us in 1984 and served as corporate communications director from 1984 until 1989, when he became the director of our sales and marketing department. Terry Manning is Frank Manning's brother. Terry Manning earned his BA degree from Washington University in St. Louis in 1974 and his MPPA degree from the University of Missouri at St. Louis in 1977.

Dean N. Panagopoulos joined us in February 1995 as director of information systems. In July 2000 Mr. Panagopoulos was promoted to the position of vice president of network products. From 1993 to 1995, Mr. Panagopoulos worked as an independent consultant. From 1991 to 1993, Mr. Panagopoulos served as director of technical services for Ziff Information Services, a major outsourcer of computing services. He attended the Massachusetts Institute of Technology from 1975 to 1978 and earned his BS degree in Information Systems from Northeastern University in 1983.

Deena Randall joined us in 1977 as our first employee. Ms. Randall has served in various senior positions within our organization and has directed our operations since 1989. Ms. Randall earned her BA degree from Eastern Nazarene College in 1975.

Section 16(a) Beneficial Ownership Reporting Compliance

Pursuant to Section 16(a) of the Securities Exchange Act of 1934, Zoom Directors and officers, as well as any person holding more than ten percent (10%) of Zoom's Common Stock, are required to report initial statements of ownership of Zoom's securities and any subsequent changes in such ownership to the Securities and Exchange Commission. Specific filing deadlines of these reports have been established and Zoom is required to disclose in this proxy statement any failure to file by these dates during the year ending December 31, 2008. Based on a review of such reports, and on written representations from reporting persons, Zoom believes that all Section 16(a) filing requirements were complied with during 2008.

Code of Ethics

Zoom has adopted a Code of Ethics for Senior Financial Officers that applies to Zoom's principal executive officer and its principal financial officer, principal accounting officer and controller, and other persons performing similar functions. Zoom's Code of Ethics for Senior Financial Officers is publicly available on its website at www.zoom.com. If Zoom makes any amendments to this Code of Ethics or grants any waiver, including any implicit waiver, from a provision of this Code of Ethics to Zoom's principal executive officer, principal financial officer, principal accounting officer, controller or other persons performing similar functions, Zoom will disclose the nature of such amendment or waiver, the name of the person to whom the waiver was granted and the date of waiver in a current report on Form 8-K.

ITEM 11 EXECUTIVE COMPENSATION

Summary Compensation Table

The following Summary Compensation Table sets forth the total compensation paid or accrued for the fiscal year ended December 31, 2008 for our principal executive officer, principal financial officer and our other three most highly compensated executive officers who were serving as executive officers on December 31, 2008. We refer to these officers as our named executive officers.

Name and Principal Position	Year		Salary		Option Awards (2)		All Other Compensation (3)		Total
Frank B. Manning,	2008	$	129,272	$	39,225	$	1,711	$	170,208
Chief Executive Officer	2007	$	129,272		-0-	$	2,049	$	131,321
Peter R. Kramer,	2008	$	-0-	$	5,917	$	1,846	$	7,763
Executive VP and Director	2007	$	55,189 (1)		-0-	$	1,533	$	56,722
Robert Crist,	2008	$	147,264	$	19,612	$	5,413	$	172,289
Vice President of Finance and Chief Financial Officer	2007	$	147,264		-0-	$	5,300	$	152,564
Deena Randall,	2008	$	128,336	$	24,516	$	575	$	153,427
Vice President of Operations	2007	$	128,366		-0-	$	566	$	128,902
Terry Manning,	2008	$	123,500	$	19,612	$	566	$	143,678
Vice President of Sales and Marketing	2007	$	123,500		-0-	$	729	$	124,229

(1)

Mr. Kramer worked a reduced work schedule during 2007 and was on leave of absence during a portion of 2007 and all of 2008.

(2)

The amounts in the Option Awards column reflect the dollar amount recognized as compensation cost for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with SFAS 123. The calculation in the table above excludes all assumptions with respect to forfeitures. There can be no assurance that the amounts set forth in the Option Awards column will ever be realized. A forfeiture rate was used in the expense calculation in the financial statements.

(3)

For 2008, consists of: (a) life insurance premiums paid by Zoom to the named executive officer: Mr. Frank B. Manning $1,361, Mr. Kramer $1,846, Mr. Crist $258, Mr. Terry Manning $216 and Ms. Randall $225; (b) Zoom s contribution to a 401(k) plan of $350 for each named executive officer except for Peter Kramer who did not contribute and was therefore ineligible for Zoom s contribution; and (c) amounts paid for parking expense to Mr. Crist of $4,805. For 2007, consists of: (a) life insurance premiums paid by Zoom to the named executive officer: Mr. Frank B. Manning $1,699, Mr. Kramer $1,183, Mr. Crist $770, Mr. Terry Manning $379 and Ms. Randall $216; (b) Zoom s contribution to a 401(k) plan of $350 for each named executive officer; and (c) amounts paid for parking expense to Mr. Crist of $4,180.

Outstanding Equity Interests

The following table sets forth information concerning outstanding stock options for each named executive officer as of December 31, 2008.

Outstanding Equity Awards at Fiscal Year-End

	Number ofSecurities Underlying Unexercised Options (1)			Option	Option
	Exercisable	Unexercisable		Exercise	Expiration
Name	**Options**	**Options**		**Price**	**Date**
Frank B. Manning	20,000 (2)	0	$	5.15	12/12/09
	0	24,000 (3)	$	3.60	01/17/11
Peter R. Kramer	16,000 (2)	0	$	5.15	12/12/09
	2,400 (4)	0	$	3.60	01/10/10
	2,400 (5)	0	$	1.80	07/01/10
Robert Crist	8,000 (2)	0	$	5.15	12/12/09
	0	12,000 (3)	$	3.60	01/17/11
Deena Randall	10,000 (2)	0	$	5.15	12/12/09
	0	15,000 (3)	$	3.60	01/17/11
Terry Manning	8,000 (2)	0	$	5.15	12/12/09
	0	12,000 (3)	$	3.60	01/17/11

(1)

With the exception of Peter Kramer, all options set forth in the above table were granted under the 1990 Stock Option Plan, as amended and vest as to 50% on each of the first and second anniversary of the date of grant provided the holder of the option remains employed by Zoom. Options generally may not be exercised later than 36 months after the date of grant. All options set forth in the above table noted as (4) and (5) were granted to Peter Kramer under the 1991 Directors Stock Option Plan, as further detailed in the Director Compensation section below.

(2)

These options were granted on December 12, 2006.

(3)

These options were granted on January 17, 2008.

(4)

These options were granted under the 1991 Directors Stock Option Plan on January 10, 2008. See Note 9 to our consolidated financial statements for a description of this plan..

(5)

These options were granted under the 1991 Directors Stock Option Plan on July 10, 2008. See Note 9 to our consolidated financial statements for a description of this plan

In January 2009, Zoom's Board of Directors approved the issuance of options to purchase a total of 150,000 shares of the Company s common stock which included option grants to the named executive officers.

All outstanding options have been adjusted to reflect the reverse stock split effective August 7, 2008.

Option Exercises

None of our named executive officers exercised any stock options during the fiscal year ended December 31, 2008.

Option Exercises

None of our named executive officers exercised any stock options during the fiscal year ended December 31, 2008.

Employment, Termination and Change of Control Agreements

On December 12, 2006 the Compensation Committee of the Board of Directors of Zoom approved certain compensatory arrangements for each of the named executive officers. The purpose of these arrangements is to encourage the named executive officers to continue as employees and/or assist in the event a change-in-control of Zoom. Zoom has entered into agreements with each of the named executive officers formalizing the compensation arrangement described below.

The arrangements approved by the Board of Directors are as follows:

.

If the named executive officer is terminated by Zoom for any reason other than for cause or within six months after a change-in-control or liquidation of Zoom, then (i) all outstanding stock options issued after December 7, 2006 held by the named executive officer will become immediately vested and will be exercisable for a period of up to 30 days after termination and (ii) Zoom will pay severance to the named executive officer in an amount equal to the greater of three months base salary or a number of weeks of base salary equal to the number of full years employed by Zoom divided by two.

.

Each named executive officer will receive severance pay equal to six months base salary if (i) the named executive officer s employment is terminated without cause within six months after a change-in-control, (ii) the named executive officer s job responsibilities, reporting status or compensation are materially diminished and the named executive officer leaves the employment of the acquiring company within six months after the change-in-control, or (iii) Zoom is liquidated. In addition, in the event of a change-in-control or liquidation of Zoom, outstanding stock options granted on or after December 7, 2006 will become immediately vested.

For purposes of the arrangements described above, change-in-control shall mean: (A) any merger, consolidation, share exchange, business combination or other similar transaction in which the shareholders of Zoom would own less than 50% of the surviving entity following the consummation thereof; and in the event Zoom issues its own stock as consideration in the transaction, a change-in-control shall be deemed to occur only if Zoom issues a number of shares equal to more than 100% of the sum of its outstanding shares of Common Stock plus any outstanding options, with that sum calculated immediately prior to the closing of such transaction, and only if that issuance is direct consideration for a business being acquired as a result of such transaction, and that any other shares issued in connection with any financing or any stock options or other equity awards to new employees, whether or not in connection with or related to such transaction, shall not be included in determining such consideration; or (B) the acquisition by a person or entity, or any group (as such term is defined under Section 13(d) of the Securities Exchange Act of 1934) of the beneficial ownership of 50% or more of the voting stock of Zoom whether by tender offer, exchange offer or otherwise.

These agreements were modified in January 2009 to provide that the acceleration of vesting provisions shall not apply to any options granted during the fiscal year ending December 31, 2009.

Potential Termination and Change-in-Control Payments

In the event a named executive officer had been terminated by Zoom on December 31, 2008 for any reason other than cause or a change-in-control or liquidation of Zoom, then the named executive officer would have received the following cash payments: Mr. Frank Manning $39,776; Mr. Kramer $0; Mr. Crist $36,816; Ms. Randall $39,497 and Mr. Terry Manning $30,875. These amounts represent the greater of three months salary or the number of weeks of base salary equal to the number of years employed by Zoom divided by two. In the event of termination as a result of a change-in-control or liquidation, the named executive officers would receive the following cash payments: Mr. Frank Manning $64,636; Mr. Kramer $0; Mr. Crist $73,632; Ms. Randall $64,183 and Mr. Terry Manning $61,750. These amounts represent six months base salary. For 2008 Mr. Kramer was on an extended leave of absence and his base salary was zero. In the event of either termination of employment, all options held by the named executive officers that were issued after December 7, 2006 by before January 1, 2009 would become immediately vested. The value of the acceleration of vesting would equal the number of shares multiplied by the excess of the then current stock price over the exercise price of the options. As of December 31, 2008, the stock price was lower than the exercise price of such options, therefore the acceleration of vesting provision has no monetary value.

Director Compensation

The following table sets forth information concerning the compensation of our Directors for the fiscal year ended December 31, 2008.

Name	**Fees Earned or Paid in Cash**	**Option Awards (1)(2)(3)**	**All Other Compensation**	**Total**
Bernard Furman	$ 2,500	$ 5,917		$ 8,417
J. Ronald Woods	$ 2,000	$ 5,917		$ 7,917
Joseph J. Donovan	$ 2,500	$ 5,917		$ 8,417
Peter Kramer	$ 2,000	$ 5,917		$ 7,917

(1)

The amounts in the Option Awards column reflect the dollar amount recognized as compensation cost for financial statement reporting purposes for the fiscal year ended December 31, 2008, in accordance with SFAS 123(R) for all stock options granted in 2008. The calculation in the table above excludes all assumptions with respect to forfeitures. There can be no assurance that the amounts set forth in the Option Awards column will ever be realized.

(2)

As of December 31, 2008, each Director holds the following aggregate number of shares under outstanding stock options:

Name	Number of Shares Underlying Outstanding Stock Options
Bernard Furman	7,200
J. Ronald Woods	7,200
Joseph J. Donovan	7,200
Peter Kramer (4)	20,800

(3)

The number of shares underlying stock options granted to each Director in 2008 and the grant date fair market value of such stock options is:

Name	Grant Date	Number of Shares underlying Stock Options Grants in 2008	Grant Date Fair Value of Stock Option Grants in 2008
Bernard Furman	1/10/2008	2,400	$ 3,829
	7/10/2008	2,400	$ 2,088
J. Ronald Woods	1/10/2008	2,400	$ 3,829
	7/10/2008	2,400	$ 2,088
Joseph J. Donovan	1/10/2008	2,400	$ 3,829
	7/10/2008	2,400	$ 2,088
Peter Kramer	1/10/2008	2,400	$ 3,829
	7/10/2008	2,400	$ 2,088

(4)

The number of shares underlying outstanding stock options includes 16,000 outstanding shares in the underlying stock options granted to Peter Kramer in the 1990 Stock Option plan on December 12, 2006 and whose options will expire on December 12, 2009. The remaining 4,800 shares underlying stock options were granted under the 1991 Directors Stock Option Plan.

Each Director of Zoom receives a fee of $500 per quarter plus a fee of $500 for each meeting at which the Director is personally present. Travel and lodging expenses are also reimbursed.

Each Director of Zoom who is not a full-time employee or a full-time officer of the Company is also granted stock options under Zoom's 1991 Directors Stock Option Plan, as amended (the "Directors Plan"). The Directors Plan provides in the aggregate that 90,000 shares of Common Stock (subject to adjustment for capital changes) may be issued upon the exercise of options granted under the Directors Plan. Each Director automatically receives an option to purchase 2,400 shares of Common Stock on January 10 and July 10 of each year. The exercise price for the options granted under the Directors Plan is the fair market value of the Common Stock on the date the option is granted. During 2008 Messrs. Furman, Woods, Donovan and Kramer each received options to purchase 4,800 shares of Common Stock at an average exercise price of $2.70 per share.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We maintain a number of equity compensation plans for employees, officers, directors and others whose efforts contribute to our success. The table below sets forth certain information as of our fiscal year ended December 31, 2008 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our stockholders, and (ii) were not approved by our stockholders.

Equity Compensation Plan Information.

Plan Category	Number Of Securities To Be Issued Upon Exercise Of Outstanding Options (a)		Weighted-Average Exercise Price Of Outstanding Options (b)	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)	**171,100**	**$**	**4.31**	**432,829**
Equity compensation plans not approved by security holders(2)	**117,600**		**4.11**	**319,160**
Total:	**288,700**	$	**$4.23**	**751,989**

(1)

Includes the following plans: 1990 Employee Stock Option Plan and 1991 Directors Stock Option Plan, each as amended. Please see note 9 to our consolidated financial statements for a description of these plans.

(2)

Includes the 1998 Employee Equity Incentive Plan, as amended. The purposes of the 1998 Employee Equity Incentive Plan (the "1998 Plan"), adopted by the Board of Directors in 1998, are to attract and retain employees and provide an incentive for them to assist us in achieving our long-range performance goals, and to enable such employees to participate in our long-term growth. In general, under the 1998 Plan, all employees who are not officers or directors are eligible to participate in the 1998 Plan. The 1998 Plan is currently administered by the Compensation Committee of the Board of Directors. Participants in the 1998 Plan are eligible to receive non-qualified stock options at an option price determined by the Stock Option Committee. All stock options granted under the 1998 Plan have been granted for at least the fair market value on the date of grant. A total of 540,000 shares of our common stock have been authorized for issuance under the 1998 Plan.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information regarding beneficial ownership of Zoom's Common Stock as of February 15, 2009 by (i) each person who is known by Zoom to own beneficially more than five percent (5%) of Zoom's outstanding Common Stock, (ii) each of Zoom's Directors and named executive officers, as listed below in the Summary Compensation Table under the heading "Executive Compensation", and (iii) all of Zoom's current Directors and executive officers as a group.

On February 15, 2009 there were 1,959,378 issued and outstanding shares of Zoom's Common Stock. Unless otherwise noted, each person identified below possesses sole voting and investment power with respect to the shares listed. The information contained in this table is based upon information received from or on behalf of the named individuals or from publicly available information and filings by or on behalf of those persons with the SEC.

Name (1)	Number of Shares Beneficially Owned	% of Common Stock
Frank B. Manning(2)(3)	157,249	8.03 %
Peter R. Kramer(4)	137,996	7.04 %
Bernard Furman(5)	12,800	. *
J. Ronald Woods(6)	8,400	. *
Joseph J. Donovan(7)	7,200	. *
Robert A. Crist(8)	14,000	. *
Deena Randall(9)	17,500	. *
Terry Manning(3)(10)	33,342	1.70 %
All current Directors and Executive Officers as a group (9 persons)(11)	397,237	20.27 %

*

Less than one percent of shares outstanding.

(1)

Unless otherwise noted: (i) each person identified possesses sole voting and investment power over the shares listed; and (ii) the address of each person identified is c/o Zoom Technologies, Inc., 207 South Street, Boston, MA 02111.

(2)

Includes 32,000 shares that Mr. Frank B. Manning has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009. Includes 673 shares held by Mr. Frank B. Manning's daughter, as to which he disclaims beneficial ownership.

(3)

Terry Manning and Frank B. Manning are brothers.

(4)

Includes 20,800 shares that Mr. Kramer has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(5)

Includes 7,200 shares the Mr. Furman has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(6)

Includes 7,200 shares that Mr. Woods has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(7)

Includes 7,200 shares the Mr. Donovan has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(8)

Includes 14,000 shares that Mr. Crist has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(9)

Includes 17,500 shares that Ms. Randall has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(10)

Includes 14,000 shares that Mr. Terry Manning has the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

(11)

Includes an aggregate of 119,900 shares that the current Directors and named executive officers listed above have the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009. Also includes an additional 8,750 shares that executive officers not listed above have the right to acquire upon exercise of outstanding stock options exercisable within sixty (60) days after February 15, 2009.

ITEM 13 CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

Item 404(a) of Regulation S-K requires us to disclose in our proxy statement any transaction which exceeds the lesser of (i) $120,000 or (ii) one percent of Zoom s average total assets at year end for the last two completed fiscal years, in which Zoom is a participant and in which any related person has or will have a direct or indirect material interest. A related person is any executive officer, Director, nominee for Director, or holder of 5% or more of our common stock, or an immediate family member of any of those persons.

36

Since January 1, 2008, Zoom has not been a participant in any transaction that is reportable under Item 404(a) of Regulation S-K.

Policies and Procedures Regarding Review, Approval or Ratification of Related Person Transactions

In accordance with our Audit Committee charter, our Audit Committee is responsible for reviewing and approving the terms of any related party transactions. Therefore, any material financial transaction between Zoom and any related person would need to be approved by our Audit Committee prior to us entering into such transaction.

Board Independence.

The Board of Directors has reviewed the qualifications of Messrs. Donovan, Furman and Woods and has determined that each individual is "independent" as such term is defined under the current listing standards of the Nasdaq Stock Market. In addition, each member of the Audit Committee is independent as required under Section 10A (m) (3) of the Securities Exchange Act of 1934, as amended. Messrs. Donovan, Furman and Woods are the sole members of each of the Audit Committee and the Compensation Committee.

ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes the fees for audit services and for other services billed by Zoom s principal accountants and independent registered pubic accounting firm, UHY LLP, for fiscal years 2007 and 2008.

FEE CATEGORY		**2007**		**2008**
Audit fees (1)	$	126,100	$	130,770
Audit-related fees (2)		1,200		2,250
Tax fees (3)		12,000		
All other fees (4)				
Total fees	$	139,300	$	133,020

(1)

Audit Fees. Consists of fees billed for professional services rendered for the audit of Zoom s consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory filings and engagements.

(2)

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Zoom s consolidated financial statements and are not reported under "Audit Fees".

(3)

Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. These services were comprised primarily of services for federal, state and international tax compliance.

(4)

All Other Fees. Consists of fees for products and services other than the services reported above.

PART IV

ITEM 15 EXHIBITS AND FINANCIAL STATEMENT SCHEDULES *

(a) Financial Statements, Schedules and Exhibits:

(1),(2) The consolidated financial statements and required schedules are indexed on page F-1.

(3) Exhibits required by the Exhibit Table of Item 601 of SEC Regulation S-K. (Exhibit numbers refer to numbers in the Exhibit Table of Item 601.)

2.1 Share Exchange Agreement dated January 28, 2009, filed as Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the Commission on February 3, 2009.*

3.1 Certificate of Incorporation, filed as Exhibit 3.1 to Zoom Technologies, Inc. Current Report on Form 8-K dated February 28, 2002, filed with the Commission on March 4, 2002 (the "March 2002 Form 8-K"). *

3.2 Certificate of Amendment to Certificate of Incorporation, filed as Exhibit 3.1 to the Company s Current Report on Form 8-K filed with the Commission on August 12, 2008.*

3.3 By-Laws of Zoom Technologies, Inc., filed as Exhibit 3.2 to the March 2002 Form 8-K. *

**10.1 1990 Stock Option Plan, as amended, filed as Exhibit 10.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Commission on March 28, 2008.*

**10.2 1991 Director Stock Option Plan, as amended, filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (Reg. No. 333-107923), filed with the Commission on August 13, 2003. *

**10.3 1998 Employee Equity Incentive Plan, as amended, filed as Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Commission on March 28, 2008.*

10.4 Form of Indemnification Agreement, filed as Exhibit 10.6 to the June 1996 Form 10-Q. *

**10.5	Form of Non-Qualified Stock Option Agreement for Executive Officers, filed as Exhibit 10.9 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004..*
**10.6	Summary of Directors' Compensation, filed as Exhibit 10.10 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004.*
10.7	Letter agreement dated August 4, 2006, filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.*
10.8	Purchase and Sale Agreement dated August 31, 2006, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on September 20, 2006.*
**10.9	Form of Non-Qualified Stock Option Agreement for Named Executive Officers, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on December 12, 2006.*
10.10	Standard lease by and between 201-207 South Street LLC and Zoom Technologies, Inc. on December 22, 2006 to lease space for 24 months for headquarters offices, filed as Exhibit 10.18 to the Company s Annual Report on Form 10-K on March 30, 2007*
**10.11	Change of Control and Severance Agreement between the Company and Frank B. Manning dated as of 12/28/06, filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.*
**10.12	Change of Control and Severance Agreement between the Company and Peter R. Kramer dated as of 12/28/06, filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.*

**10.13 Change of Control and Severance Agreement between the Company and Robert A. Crist dated as of 4/27/07, filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.*

**10.14 Change of Control and Severance Agreement between the Company and Deena Randall dated as of 4/27/07, filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.*

**10.15 Change of Control and Severance Agreement between the Company and Terry Manning dated as of 4/27/07, filed as Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.*

10.16 Series A Preferred Share Purchase Agreement, dated July 25, 2007, by and between Unity Business Networks, L.L.C. and Zoom Technologies, Inc., filed as Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.*

10.17 Option Agreement, dated July 25, 2007, by and among Unity Business Networks, L.L.C., Zoom Technologies, Inc., and each of the members of Unity listed on the signature page thereto., filed as Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.*

10.18 Investor Rights Agreement, dated July 25, 2007, by and among Unity Business Networks, L.L.C., Zoom Technologies, Inc., and each of the holders of Unity s Common Interests listed on the signature page thereto, filed as Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.*

10.19 Second Amended and Restated Operating Agreement of Unity Business Networks, L.L.C., dated July 25, 2007, filed as Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007.*

10.20 Convertible Note Purchase Agreement, dated as of January 22, 2008, by and between Zoom Technologies, Inc. and RedMoon, Inc., filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on January 29, 2008.*

10.21 Form of 6% Convertible Note, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K on January 29, 2008.*

10.22 Option Agreement, dated as of January 22, 2008, by and among Zoom Technologies, Inc., RedMoon, Inc. and certain stockholders of RedMoon, Inc., filed as Exhibit 10.3 to the Company s Current Report on Form 8-K on January 29, 2008.*

10.23 Security Agreement, dated as of January 22, 2008, by and between Zoom Technologies, Inc. and RedMoon, Inc. , filed as Exhibit 10.4 to the Company s Current Report on Form 8-K on January 29, 2008.*

10.24 Voting Agreement, dated as of January 22, 2008, by and among Zoom Technologies, Inc., RedMoon, Inc. and certain stockholders of RedMoon, Inc. , filed as Exhibit 10.5 to the Company s Current Report on Form 8-K on January 29, 2008.*

**10.25 Form of Modification Agreement for Zoom Employee s Severance Agreement dated

January 27, 2009, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on February 3, 2009.*

**10.26 Form of Non-Qualified Stock Option Agreement granted on January 22, 2009, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K on February 3, 2009.*

10.27 Form of Lock-Up and Voting Agreement entered into between Zoom Technologies, Inc. and each of its executive officers and directors, filed as Exhibit 10.1 to the Company s Current Report on Form 8-K on February 3, 2009.*

10.28 Form of License Agreement to be entered into between Zoom Technologies, Inc. and TCB Digital, filed as Exhibit 10.2 to the Company s Current Report on Form 8-K on February 3, 2009.*

10.29	First Amendment to Lease, Surrender and Extension Agreement dated November 11, 2008 between 201-207 South Street LLC and Zoom Telephonics, Inc.
21.	Subsidiaries, filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. *
23.1	Consent of Independent Registered Public Accounting Firm.
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.

* In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

** Compensation Plan or Arrangement.

(b) Exhibits - See Item 15 (a) (3) above for a list of Exhibits incorporated herein by reference or filed with this Report.

(c) Schedules - Schedule II: Valuation and Qualifying Accounts. Schedules other than those listed above have been omitted since they are either inapplicable or not required.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZOOM TECHNOLOGIES, INC.
(Registrant)

Date: March 11, 2009	By:	/s/ FRANK B. MANNING Frank B. Manning President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ FRANK B. MANNING Frank B. Manning	Principal Executive Officer and Chairman of the Board	March 11, 2009
/s/ ROBERT A. CRIST Robert A. Crist	Principal Financial and Accounting Officer	March 11, 2009
/s/ PETER R. KRAMER Peter R. Kramer	Director	March 11, 2009
/s/ BERNARD FURMAN Bernard Furman	Director	March 11, 2009
/s/ J. RONALD WOODS J. Ronald Woods	Director	March 11, 2009

/s/ JOSEPH DONOVAN Joseph Donovan	Director	March 11, 2009

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Zoom Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Zoom Technologies, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for the years then ended. Our audits also included the financial statement schedule. The Company's management is responsible for these consolidated financial statements and schedule. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of the Company s internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Zoom Technologies, Inc. and subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has had recurring net losses and continues to experience negative cash flows from operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management s plans regarding those matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2, effective January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109.

/s/ UHY LLP

Boston, Massachusetts

March 11, 2009

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

	December 31, 2007		December 31, 2008	
ASSETS				
Current assets				
Cash and cash equivalents	$	3,647,654	$	1,204,984
Accounts receivable, net of allowances of $1,400,803 in 2007 and $811,813 in 2008		2,128,888		1,162,921
Inventories		4,452,503		2,902,979
Prepaid expense and other current assets		336,424		234,428
Total current assets		10,565,469		5,505,312
Equipment and leasehold improvements, net		172,070		102,491
Investment in Unity Business Networks, LLC.		1,178,709		960,000
Total assets	$	11,916,248	$	6,567,803
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	2,079,325	$	1,210,970
Accrued expense		415,468		399,507
Deferred gain on sale of real estate		340,913		
Total current liabilities		2,835,706		1,610,477
Total liabilities		2,835,706		1,610,477
Commitments and Contingencies (Note 7)				
Stockholders' equity				
Common stock, $0.01 par value:				
Authorized - 25,000,000 shares; issued and outstanding 1,871,058 shares, including shares held in treasury		93,554		93,554
Additional paid-in capital		31,507,393		31,785,966
Accumulated deficit		(23,100,390)		(27,260,044)
Accumulated other comprehensive income currency translation adjustment		587,307		345,172

Treasury stock (1,680 shares), at cost		(7,322)		(7,322)
Total stockholders' equity		9,080,542		4,957,326
Total liabilities and stockholders' equity	$	11,916,248	$	6,567,803

See accompanying notes.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31, 2007 and 2008

		2007		2008
Net sales	$	18,477,532	$	14,458,803
Cost of goods sold		14,746,978		11,467,187
Gross profit		3,730,554		2,991,616
Operating expenses:				
Selling		3,557,928		2,932,449
General and administrative		2,423,829		2,280,346
Research and development		1,825,018		1,720,677
		7,806,776		6,933,472
Operating profit (loss) before gain on sale of real estate		(4,076,221)		(3,941,856)
Gain on sale of real estate		383,404		340,913
Operating profit (loss)		(3,692,817)		(3,600,943)
Other :				
Interest income		229,523		54,081
Other, net		(39,800)		(599,873)
Total other income, net		189,723		(545,792)
Income (loss) before income taxes		(3,503,094)		(4,146,735)
Income taxes (benefit)				12,919
Net income (loss)	$	(3,503,094)	$	(4,159,654)
Basic and diluted net income (loss) per share	$	(1.87)	$	(2.23)
Weighted average common and common equivalent shares:				
Basic		1,869,378		1,869,378
Diluted		1,869,378		1,869,378

See accompanying notes.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

AND COMPREHENSIVE INCOME (LOSS)

	Common Stock		Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (A)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2006	1,871,058	$ 93,554	$ 31,275,169	$ (19,597,296)	$ 557,655	1,680	$ (7,322)	$ 12,321,760
Net income (loss)				(3,503,094)				(3,503,094)
Foreign currency translation adjustment					29,652			29,652
Comprehensive income (loss)								(3,473,442)
Stock based compensation			232,224					232,224
Balance at December 31, 2007	1,871,058	$ 93,554	$ 31,507,393	$ (23,100,390)	$ 587,307	1,680	$ (7,322)	$ 9,080,542
Net income (loss)				(4,159,654)				(4,159,654)
Foreign currency translation adjustment					(242,135)			(242,135)
Comprehensive income (loss)								(4,401,789)
			278,573					278,573

Stock based compensation								
Balance at December 31, 2008	1,871,058	$ 93,554	$ 31,785,966	$ (27,260,044)	$ 345,172	1,680	$ (7,322)	$ 4,957,326

(A) Consists exclusively of foreign currency translation adjustments.

See accompanying notes.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2007 and 2008

	2007	2008
Operating activities:		
Net income (loss)	$ (3,503,094)	$ (4,159,654)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Gain on sale of real estate	(383,704)	(340,913)
Writedown of Investment in Unity Business Networks, LLC		218,709
Writedown of Investment in RedMoon, Inc.		325,497
Depreciation and amortization	85,432	87,774
Stock based compensation	232,224	278,573
Reversal of accounts receivable allowances recognized in prior periods		(220,839)
Changes in operating assets and liabilities:		
Accounts receivable	1,278,407	1,091,486
Inventories	62,913	1,496,731
Prepaid expense and other current assets	(65,789)	85,916
Accounts payable and accrued expense	(705,522)	(912,725)
Net cash provided by (used in) operating activities	(2,999,133)	(2,049,445)
Investing activities:		
Investment in Unity Business Networks, LLC	(1,178,709)	
Investment in RedMoon		(325,497)
Purchases of property, plant and equipment	(7,927)	(20,476)
Net cash provided by (used in) investing activities	(1,186,636)	(345,973)
Effect of exchange rate changes on cash	377	(47,252)
Net change in cash	(4,185,392)	(2,442,670)

Cash and cash equivalents at beginning of year		7,833,046		3,647,654
Cash and cash equivalents at end of year	$	3,647,654	$	1,204,984

See accompanying notes.

F-6

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Years Ended December 31, 2007 and 2008

(1)

NATURE OF OPERATIONS

Zoom Technologies, Inc. and subsidiary (collectively, the "Company") design, produce, and market broadband and dial-up modems and other communication-related products

The Company has had recurring net losses and continues to experience negative cash flows from operations As described further in Note 3, to conserve cash and manage liquidity, the Company has implemented cost cutting initiatives including the reduction of employee headcount and overhead costs; however, management does not believe the Company has sufficient resources to fund its normal operations over the next 12 months unless sales improve significantly or it raises capital. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available, the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is substantial doubt as to its ability to continue as a going concern. . The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(2)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those estimates. Significant estimates made by the Company include: 1) asset valuation allowances for accounts receivable (collectibility and sales returns) and deferred income tax assets; 2) write-downs of inventory for slow-moving and obsolete items, and market valuations; 3) stock based compensation; 4) the useful lives of property, plant and equipment; and 5) the recoverability of long-lived assets and investments..

(b) Principles of Consolidation

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

(c) Cash and Cash Equivalents

All highly liquid investments with original maturities of less than 90 days from the date of purchase are classified as cash equivalents. Cash equivalents consist exclusively of money market funds. The Company has deposits at a limited number of financial institutions with federally insured limits. Balances of cash and cash equivalents at these institutions are normally in excess of the insured limits. However, the Company believes that the institutions are financially sound and there is only nominal risk of loss.

(d) Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

(e) Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided using the straight-line method over the estimated useful lives of the improvement or lease term whichever is shorter.

(f) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to undiscounted future net cash flows expected to be generated by the asset or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

(g) Income Taxes

Deferred income taxes are provided on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and on net operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for that portion of deferred income tax assets not expected to be realized.

Effective January 1, 2007, the Company adopted FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109. As of that date and as of December 31, 2008 the Company had no material unrecognized income tax benefits. Further, no significant changes in the unrecognized income tax benefits are expected to occur over the next year.

Historically the Company has not accrued or paid significant interest and penalties for underpayments of income taxes. Interest and penalties related to such underpayments would be classified as a component of income tax expense. No material amounts of interest or penalties for underpayments of income taxes were required to be accrued as of December 31, 2008.

The Company files income tax returns in the United States and the United Kingdom. Years subsequent to 2002 are open for U.S. Federal and state income tax reporting and years subsequent to 2004 are open in the United Kingdom.

(h) Earnings (Loss) Per Common Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares outstanding during the period. Under the treasury stock method, the unexercised options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase common shares at the average market price during the period. A summary of the denominators used to compute basic and diluted earnings (loss) per share follow:

	2007	**2008**
Weighted average shares outstanding used to compute basic earnings (loss) per share	1,869,378	1,869,378

Net effect of dilutive potential common shares outstanding, based on the treasury stock method		
Weighted average shares outstanding used to compute diluted earnings (loss) per share	1,869,378	1,869,378

Potential common shares for which inclusion would have the effect of increasing diluted earnings per share (i.e., anti-dilutive) are excluded from the computation. Options to purchase 288,700 shares of common stock at December 31, 2008 were outstanding, but not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

(i) Revenue Recognition

The Company primarily sells hardware products to its customers. The hardware products include dial-up modems, DSL modems, cable modems, embedded modems, ISDN modems, telephone dialers, and wireless and wired networking equipment. The Company generally does not sell software.

The Company derives its net sales primarily from the sales of hardware products to computer peripherals retailers, computer product distributors, and original equipment manufacturers (OEMs). The Company sells an immaterial amount of its hardware products to direct consumers or to any customers via the internet.

The Company recognizes hardware net sales for all four types of customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes to the customer based on the contractual FOB point specified in signed contracts and purchase orders, which are both used extensively. Many customer contracts or purchase orders specify FOB destination.

The Company's net sales of hardware are reduced by 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 and in-store mail-in rebates. Each of these is accounted for as a reduction of net sales based on management estimates, which are reconciled to actual customer or end-consumer credits on a monthly or quarterly basis.

The estimates for product returns are based on recent historical trends plus estimates for returns prompted by announced stock rotations, announced customer store closings, etc. Management analyzes historical returns, current economic trends, and changes in customer demand and acceptance of the Company's products when evaluating the adequacy of sales return allowances. The Company's estimates for price protection refunds require a detailed understanding and tracking by customer, 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 reserve against accounts receivable and a reduction of current period revenue. The Company's estimates for consumer mail-in rebates are comprised of actual rebate claims processed by the rebate redemption centers plus an accrual for an estimated lag in processing. The Company's estimates for store rebates are comprised of actual credit requests from the eligible customers.

The Company accounts for point-of-sale taxes on a net basis.

(j) Financial Instruments

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses. Due to the short term nature payment terms associated with these instruments, their carrying amounts approximate fair value.

(k) Stock-Based Compensation

Compensation cost for awards granted after January 1, 2007 is generally recognized over the required service period based on the estimated fair value of the awards on their grant date. Fair value is determined using the Black Scholes option-pricing model. Compensation cost for unvested awards granted prior to January 1, 2007 is recognized using the modified-prospective method. Under this method, the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosures under SFAS No. 123 (R) , Accounting for Stock Based Compensation are used to recognize compensation cost.

(l) Advertising Costs

Advertising costs are expensed as incurred and reported in selling expense in the accompanying consolidated statements of operations and include costs of advertising, production, trade shows, and other activities designed to enhance demand for the Company's products. There are no deferred advertising costs in the accompanying consolidated balance sheets.

(m) Foreign Currencies

The Company generates a portion of its revenues in markets outside North America principally in transactions denominated in foreign currencies, which exposes the Company to risks of foreign currency fluctuations. Foreign currency transaction gains and losses are reflected in operations and were not material for any period presented. The Company does not use derivative financial instruments.

The Company considers the local currency to be the functional currency for its U.K. branch. Assets and liabilities denominated in foreign currencies are translated using the exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments resulting from this process are charged or credited to accumulated other comprehensive income.

(n) Warranty Costs

The Company provides currently for the estimated costs that may be incurred under its standard warranty obligations.

(o) Shipping and Freight Costs

The Company records the expense associated with customer-delivery shipping and freight costs in selling expense.

(3)

LIQUIDITY

As of December 31, 2008 the Company had working capital of $3.9 million including $1.2 million in cash equivalents. On December 31, 2007 the Company had working capital of $7.7 million including $3.6 million in cash and cash equivalents. The Company s current ratio at December 31, 2008 was 3.4 compared to 3.7 at December 31, 2007. A significant portion in the reduction of working capital and the corresponding current ratio was due to our 2008 net loss of $4.2 million and the cash expenditure of $0.3 million for our January 22, 2008 investment in RedMoon Inc.

In 2008 the Company s operating activities used $2.0 million in cash. Its net loss in 2008 was $4.2 million. After adjusting for non-cash items including the $0.3 million gain on sale of real estate, the $0.5 million write-down of certain investments, $0.09 million of depreciation and amortization expense, $0.3 million of stock-based compensation and the $0.2 million reversal of allowances, sources of cash from operations included a decrease in inventories of $1.5 million, a decrease in accounts receivable of $1.1 million, and a decrease of $0.01 million of prepaid expense and other current assets. Uses of cash from operations included a decrease in accounts payable and accrued expense of $0.9 million.

To conserve cash and manage liquidity, the Company has implemented cost cutting initiatives including the reduction of employee headcount and overhead costs. The Company s total headcount of full-time employees, including temporary workers, went from 64 on December 31, 2007 to 56 on December 31, 2008. Zoom had 50 full-time and part-time employees on February 28, 2009. Of the 50 Zoom employees on February 28, 2009 12 were engaged in research and development, 12 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 17 were engaged in sales, marketing and technical support, and the remaining 9 performed accounting, administrative, management information systems, and executive functions. Zoom has implemented cost cutting measures including reducing our headcount and reducing certain employees work week from 40 hours to 32 hours per week. As a result, Zoom currently has 40 full time employees and 10 part time employees (those working less than 40 hours per week). There were dedicated manufacturing personnel in Mexico who were employees of the Company s Mexican manufacturing service provider and not included in its 2007 or 2008 headcount 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 December 31, 2008 were $5.5 million and current liabilities were $1.6 million. The Company did not have any long-term debt at December 31, 2008. Management does not believe it has sufficient resources to fund its planned operations through December 31, 2009 without significantly increasing sales or raising capital.

On January 29, 2009 Zoom announced that it entered into a definitive agreement to acquire Tianjin Communication Broadcasting Group Digital Communication Company Limited (TCB Digital). TCB Digital is primarily engaged in research and development, manufacturing, and sale of advanced mobile phones, and also manufactures other electronic products.

According to the definitive agreement, Zoom will initially own 51% of TCB Digital by issuing 4,225,219 Zoom shares. In addition, another 29% of TCB Digital may be exchanged for an additional 2,402,576 Zoom shares, resulting in Zoom owning 80% of TCB Digital. Zoom will also have options to acquire five other companies that are under the ownership of TCB Digital s majority shareholder, with the option price of each company based on the higher of a minimum price or a multiple of that company s net income. Zoom would spin off its current business and operating subsidiary, Zoom Telephonics, in a transaction that is not anticipated to be a taxable distribution to Zoom s shareholders. Zoom Telephonics would grant TCB Digital licensing rights for Zoom and Hayes trademarks for certain products and geographic regions. The transaction was detailed in Zoom s Form 8-K SEC filing, and is subject to Zoom shareholder approval. If the transaction closes, Zoom s shareholders immediately prior to the closing date would retain their existing shares in Zoom Technologies and would also receive an equal number of new shares in Zoom Telephonics. The merger of Zoom with TCB Digital will enhance the liquidity of Zoom Technologies but will not enhance the liquidity of Zoom s operating company, Zoom Telephonics.

.If Zoom s operating company is unable to increase its revenues, reduce its expenses, or raise capital its longer-term ability to continue as a going concern and achieve its intended business objectives could be adversely affected.

(4)

NEW 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 non-financial 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 require 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 not 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.

(5)

INVENTORIES

Inventories consist of the following at December 31:

		2007		**2008**
Materials	$	2,913,556	$	1,611,936
Work in process		189,295		11,366
Finished goods (including $563,000 and $435,000 held by a customer at December 31, 2007 and 2008, respectively)		1,349,652		1,279,677
Total	$	4,452,503	$	2,902,979

(6)

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following at December 31:

		2007		**2008**	**Estimated Useful lives in years**
Leasehold improvements	$	6,216	$	4,506	5
Computer hardware and software		3,716,257		3,701,885	3
Machinery and equipment		1,906,949		1,882,871	5
Molds, tools and dies		1,624,899		1,641,829	5

Office furniture and fixtures		277,337		277,873	5
	$	7,531,658	$	7,508,964	
Accumulated depreciation and amortization		(7,359,588)		(7,406,473)	
Equipment and leasehold improvements, net	$	172,070	$	102,491	

(7)

COMMITMENTS AND CONTINGENCIES

(a) Lease Obligations

The Company leases its headquarters offices in Boston, Massachusetts, a manufacturing facility in Tijuana, Mexico, and a sales office facility in Fleet, United Kingdom. In December 2006, the Company sold its owned headquarters buildings in Boston, Massachusetts and leased back 25,000 square feet for two years expiring December 2008. In November 2008 the Company signed a lease amendment for its headquarters offices in Boston in the existing building for approximately 14,400 square feet for three years with a six month termination option starting July 1, 2010.

In September 2006 the Company moved out of its leased manufacturing facility in Boston, Massachusetts and moved into a leased manufacturing facility in Tijuana, Mexico. In August 2006 the Company signed a lease for a 35,575 square foot manufacturing and warehousing facility in Tijuana, Mexico with an initial lease term from October 2006 to May 2007, with five two-year options thereafter. In February 2007 the

Company renegotiated the first renewal term and signed a one-year extension starting in May 2007, with five two-year options thereafter. In January 2009 the Company signed a lease agreement for 10,800 square feet at another property in the same industrial park in Tijuana, Mexico, effective March 1, 2009.

In September 2005 the Company entered into a two year office lease consisting of 2,400 square feet at 2 Kings Road, Fleet, Hants, U.K for its U.K. sales office. In September 2007 the lease was continued on a month-to-month basis with a 3 month cancellation notice required by the Company or the landlord. In September, 2008 the Company signed an Office Service Agreement, which is an office rental agreement, rather than a lease. The rent is paid monthly, with a three month cancellation notice period.

In September 2002 the Company entered into a five-year lease, as a tenant, for approximately 3,500 square feet at 950 Broken Sound Parkway NW, Boca Raton, Florida, primarily for use as a technical support facility. In September 2007 the term of the lease expired and the Company moved its Florida-based customer service organization to its headquarters location in Boston, Massachusetts.

Rent expense for all of the Company's leases was $621,234 in 2008 and $711,637 in 2007.

As of December 31, 2008, the Company's estimated future minimum committed rental payments, excluding executory costs, under the operating leases described above to their expiration are $426,401 for 2009 and $361,872 for 2010.

(b) 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 which it believes are without merit. The Company's management believes that the ultimate resolution of such matters will not materially and adversely affect the Company's business, financial position, results of operations or cash flows.

In February 2009 the Company was named as one of 15 defendants in a patent infringement lawsuit filed in the United States District Court for the Eastern District of Texas by Finoc Design Consulting Oy of Oulu, Finland. The complaint claims that the Company has been and is now infringing on U.S. patent 6,850,560, dated February 1, 2005, by offering for sale, selling, and providing service and support to customers of its wireless xDSL products. The Company believes that the basis for the infringement charge relates to certain chipsets in the Company's wireless xDSL products that were obtained from Conexant Systems, Inc (Conexant). All of the Company s wireless xDSL products use Conexant ADSL chipsets. The Company and Conexant are examining the patent to determine whether they believe infringement has occurred, and to determine whether Conexant should and will indemnify and defend the Company. The likelihood of an unfavorable outcome in the matter is uncertain, and the amount or range of potential loss is also uncertain.

(c) Concentrations

The Company participates in the PC peripherals industry, which is characterized by aggressive pricing practices, continually changing customer demand patterns and rapid technological developments. The Company's operating results could be adversely affected should the Company be unable to successfully anticipate customer demand accurately; manage its product transitions, inventory levels and manufacturing process efficiently; distribute its product quickly in response to customer demand; differentiate its products from those of its competitors or compete successfully in the markets for its new products.

The Company depends on many third-party suppliers for key components contained in its product offerings. For some of these components, the Company may only use a single source supplier, in part due to the lack of alternative sources of supply. If the supply of a key material component is delayed or curtailed, the Company's ability to ship the related product or solution in desired quantities and in a timely manner could be adversely affected, possibly resulting in reductions in net sales. In cases where alternative sources of supply are available, qualification of the sources and establishment of reliable supplies could result in delays and possible reduction in net sales.

In the event that the financial condition of the Company's third-party suppliers for key components was to erode, the delay or curtailment of deliveries of key material components could occur. Additionally, the Company's reliance on third-party suppliers of key material components exposes the Company to potential product quality issues that could affect the reliability and performance of its products and solutions. Any lesser ability to ship its products in desired quantities and in a timely manner due to a delay or curtailment of the supply of material components, or product quality issues arising from faulty components manufactured by third-party suppliers, could adversely affect the market for the Company's products and lead to a reduction in the Company's net sales.

(8)

SALE/LEASEBACK AND MORTGAGE DEBT

In December 2006, the Company sold real estate housing its corporate headquarters and concurrently entered into a leaseback arrangement for a portion of the property. The leaseback arrangement was for two years. Net proceeds from the sale were $7,733,970 of which a portion was used to retire related outstanding mortgage debt. A gain of $5,477,243 was realized on the sale in 2006. However, a portion of the gain ($724,618) was deferred and was recognized in operations over the term of the lease (2007 - $383,704 and 2008 - $340,914). The gain deferred is the estimated present value of the minimum lease payments under the leaseback arrangement. The gain recognized in operations in 2006, 2007, and 2008 was $4,752,625, $383,404, and $340,913 respectively. The Company s lease expired in December 2008 and the Company signed a three year lease amendment for reduced square footage in the same location.

(9)

STOCK OPTION PLANS

The Board of Directors approved a one-for-five reverse stock split (the Reverse Stock Split) that became effective at 5:00 p.m. on August 6, 2008, after the filing of a Certificate of Amendment to the Corporation s Certificate of Incorporation with the Secretary of State of the State of Delaware. The reverse stock split resulted in every five shares of common stock combined into one share of common stock. The reverse stock split affects all outstanding shares of common stock and stock options of Zoom. At December 31, 2008 the Company had three stock option plans as described below. Each of the three plans has been adjusted to reflect the reverse stock split.

1990 Employee Stock Option Plan

The 1990 Employee Stock Option Plan (the "Employee Stock Option Plan") is for officers and certain full-time and part-time employees of the Company. Non-employee directors of the Company are not entitled to participate under this plan. The Employee Stock Option Plan provides for 960,000 shares of common stock for issuance upon the exercise of stock options granted under the plan. Shares of common stock were registered for issuance under this plan in accordance with the Securities Act of 1933. Under this plan, stock options are granted at the discretion of the Compensation Committee of the Board of Directors at an option price not less than the fair market value of the stock on the date of grant. The options are exercisable in accordance with terms specified by the Compensation Committee not to exceed ten years from the date of grant. Option activity under this plan follows. All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

	Number of shares		Weighted average exercise price
Balance at December 31, 2006*	134,000	$	8.70
Granted			
Exercised			

Expired			
Balance at December 31, 2007*	134,000	$	8.70
Granted	70,500	$	3.60
Exercised			
Expired	(67,000)	$	12.25
Balance at December 31, 2008	137,500	$	4.36

The weighted average grant date fair value of options granted was $3.60 in 2008.

The following table summarizes information about fixed stock options under the Employee Stock Option Plan outstanding on December 31, 2008: All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

		Options Outstanding			Options Exercisable				
Exercise Prices		**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**		**Number Exercisable**	**Weighted Average Exercise Price**		
$	3.60	70,500	1.5	$	3.60				
$	5.15	67,000	1.5	$	5.15	67,000	$	5.15	
$	**3.60 to $5.15**	**137,500**	**1.5**	**$**	**4.36**	**67,000**	**$**	**5.15**	

Director Stock Option Plan

In 1991 the Company established the Director Stock Option Plan (the "Directors Plan"). Shares of common stock were registered for issuance under this plan in accordance with the Securities Act of 1933. The Directors Plan was established for all directors of the Company except for any director who is a full-time employee or full-time officer of the Company. In 2003, the Directors Plan was amended to provide that, each eligible director is automatically granted an option to purchase 2,400 shares of common stock on July 10 and January 10 of each year, beginning July 10, 2003. The option price is the fair market value of the common stock on the date the option is granted. There are 90,000 shares authorized for issuance under the Directors Plan. Each option expires two years from the grant date. Option activity under this plan follows. All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

	Number of shares		**Weighted average exercise price**
Balance at December 31, 2006	26,400	$	9.65
Granted	14,400	$	6.08
Exercised			
Expired			
Balance at December 31, 2007	40,800	$	8.35
Granted	19,200	$	2.70
Exercised			
Expired	(26,400)	$	9.65
Balance at December 31, 2008	33,600	$	4.15

The weighted average grant date fair value of options granted was $6.08 in 2007 and $2.70 in 2008.

The following table summarizes information about fixed stock options under the Directors Plan on December 31, 2008. All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

	Options Outstanding			Options Exercisable	
Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$ 0.00 - $5.00	19,200	1.3	$ 2.70	9,600	$ 3.60
$ 5.05-$10.00	14,400	0.3	$ 6.08	14,400	$ 6.08
$ 1.80-$6.20	33,600	0.8	$ 4.15	24,000	$ 5.09

1998 Employee Equity Incentive Stock Option Plan

The 1998 Employee Equity Incentive Stock Option Plan (the "1998 Plan") was adopted by the Board of Directors to attract and retain employees and provide an incentive for them to assist the Company to achieve long-range performance goals, and to enable them to participate in the long-term growth of the Company. Non-employee directors of the Company and certain officers of the Company are not entitled to participate under this plan. The authorized number of shares available for issuance under the 1998 Plan is 540,000 shares of common stock. Under this plan, stock options may be granted at the discretion of the Compensation Committee of the Board of Directors at an option price determined by the Compensation Committee. All options under this plan have been issued at fair market value on the date of the grant. The options are exercisable in accordance with terms specified by the Compensation Committee. Option activity under this plan follows. All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

	Number of shares	Weighted average exercise price
Balance at December 31, 2006	110,200	$ 9.28
Granted		
Exercised		
Expired	(14,100)	$ 6.40
Balance at December 31, 2007	96,100	$ 9.50
Granted	88,400	$ 3.49
Exercised		
Expired	(66,900)	$ 10.73
Balance at December 31, 2008	117,600	$ 1.90

The weighted average grant date fair value of options granted was $3.49 in 2008. The following table summarizes information about fixed stock options under the 1998 Plan outstanding on December 31, 2008. All shares prior to August 7, 2008 have been restated to reflect the five to one reverse stock split.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.00-$5.00	73,000	2.1	$ 3.47		$ 0.00
$5.05-$10.00	44,600	0.9	$ 5.15	44,600	$ 5.15
$1.03-$4.83	117,600	1.6	$ 4.11	44,600	$ 5.15

As of December 31, 2008 both the fair value of options outstanding and the fair value of options exercisable were less than the exercise price.

As of December 31, 2008 there were 751,989 additional shares available for issuance under all three stock option plans. The per share weighted-average fair value of stock options granted during 2007 and 2008 was $0.4206 and $1.5700, respectively.

The unrecognized stock-based compensation cost related to non-vested stock awards was less than $50,000 as of December 31, 2008. Such amount will be recognized in operations ratably through 2009.

(10)

INCOME TAXES

Income tax expense (benefit) consists of:

	Current		Deferred		Total	
Year Ended December 31, 2007:						
US federal	$		$		$	
State and local						
Foreign						
	$		$		$	
Year Ended December 31, 2008:						
US federal	$		$		$	
State and local						
Foreign		12,919				12,919
	$	12,919	$		$	12,919

A reconciliation of the expected income tax expense or benefit to actual follows:

		2007		2008
Computed "expected" US tax (benefit)	$	(1,191,052)	$	(1,409,890)
Change resulting from:				
State and local income taxes, net of federal income tax benefit				
Foreign income taxes				12,919
Federal valuation allowance		1,175,308		1,420,499
Non deductible items		5,031		3,120
Change in estimate for prior years provisions		10,713		(13,729)
Other, net				
Income tax expense (benefit)	$		$	12,919

Temporary differences at December 31 follow:

		2007	2008
Deferred income tax assets:			
Inventories	$	1,344,792	974,181
Accounts receivable		378,714	212,333
Intangible assets		526,704	451,605
Accrued expenses		68,866	79,143
Net operating loss and tax credit carry forwards		13,842,338	15,631,280
Plant and equipment		106,202	11,000

Stock compensation	183,246	287,124
Other investment impairments		202,931
Total deferred income tax assets	16,450,862	17,849,597
Valuation allowance	(16,450,862)	(17,849,597)
Net deferred tax assets	$	$

As of December 31, 2008 the Company had federal net operating loss carry forwards of approximately $41,553,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2028. The Company had state net operating loss carry forwards of approximately $14,696,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2009 through 2013.

Subsequently recognized tax benefits relating to valuation allowances for deferred income tax assets, if any, will be allocated as follows: $17,094,964 to continuing operations and $754,633 to additional paid-in capital which is attributable to the exercise of employee stock options.

In accordance with APB Opinion No. 23, "Accounting for Income Taxes" and SFAS No. 109, the Company has not provided for U.S. income taxes related to undistributed earnings from its foreign operations at December 31, 2008, as the Company considers these earnings to be permanently reinvested. Determination of the additional income taxes and applicable withholding that would be payable on the remittance of such undistributed earnings is not practicable because such liability, if any, is dependent upon circumstances existing if and when the Company no longer considers all or a portion of such undistributed earnings to be permanently reinvested.

(11)

SIGNIFICANT CUSTOMERS

The Company sells its products primarily through high-volume distributors and retailers, Internet service providers, telephone service providers, value-added resellers, PC system integrators, and original equipment manufacturers ("OEMs"). The Company supports its major accounts in their efforts to discern strategic directions in the market, to maintain appropriate inventory levels, and to offer a balanced selection of attractive products.

Relatively few customers have accounted for a substantial portion of the Company s revenues. In 2008, two two customers accounted for 33% of our total net sales and 40% of our net accounts receivable. During 2007 three customers accounted for 10% or more of its total net sales. Together these three customers accounted for 44% of the Company s total net sales and 74% of net accounts receivable.

The Company s customers generally do not enter into long-term agreements obligating them to purchase 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 for any of the Company's significant customers.

(12)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2007	2008
Cash paid during year for interest	$	$
Cash paid during year for income taxes	$	$ 12,919

(13)

DEPENDENCE ON KEY SUPPLIERS AND CONTRACT MANUFACTURERS

The Company produces its products using components or subassemblies purchased from third-party suppliers.

Currently a substantial percentage of our manufacturing is performed by Xavi Technologies Corp. The loss of their services or a material adverse change in their business or in the Company s relationship could materially and adversely harm the Company s business. To lessen the risk associated with this company being the primary manufacturer of a substantial portion of the Company s products and for a number of other reasons including cost and availability, the

Company is also using six other vendors to manufacture various products.

(14)

SEGMENT AND GEOGRAPHIC INFORMATION

The Company's operations are classified as one reportable segment. Substantially all of the Company's operations and long-lived assets reside primarily in the United States. Net sales information follows:

		2007	Percent		2008	Percent
North America	$	11,776,442	64 %	$	10,101,331	70 %
Outside North America		6,701,090	36 %		4,357,472	30 %
Total	$	18,477,532	100 %	$	14,458,803	100 %

(15)

RETIREMENT PLAN

The Company has a 401(k) retirement savings plan for employees. Under the plan, the Company matches 25% of an employee's contribution, up to a maximum of $350 per employee per year. Company matching contributions charged to expense in 2007 and 2008 were $12,635 and $8,556, respectively.

(16)

INVESTMENT IN UNITY BUSINESS NETWORKS, LLC AND REDMOON, INC.

During 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-if converted basis with Unity s common stock. The Company is unable to exercise significant influence over Unity s policies or operations. The Company accounts for its investment in Unity at cost. The investment is reviewed periodically for potential impairment. . A transaction for the sale of Unity to a third party has been under evaluation since December 2008 and has a mid-year 2009 target close date. If and when this sale closes, the Company should recover $0.96 million of the $1.179 million asset value capitalized during the quarter ended September 30, 2007 and carried on the balance sheet at December 31, 2007. If the sale does not take place the Company believes the $0.96 million value is the appropriate estimate of fair market value at December 31, 2008. As a result, the Company has written down the $1.179 million asset value to $0.96 million at December 31, 2008.

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 its option to purchase all outstanding stock of RedMoon or (ii) the Company s election to terminate such option, 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. The option to purchase all of RedMoon s outstanding stock was not exercised and was terminated in accordance with its terms on August 31, 2008.

At December 31, 2008 Zoom determined that the fair market value of its investment in RedMoon was zero due to RedMoon s working capital position, cash flow, and our analysis of the recovery value of the assets. Accordingly, Zoom wrote-off 100% of the $0.325 million asset value, which included transaction costs of $0.025 million.

(17)

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION (IN THOUSANDS, EXCEPT PER SHARE DATA)

The following table depicts selected quarterly financial information. Operating results for any given quarter are not necessarily indicative of results for any future period.

	2007 Quarter Ended				**2008 Quarter Ended**			
	Mar. 31	**Jun. 30**	**Sept. 30**	**Dec. 31**	**Mar. 31**	**Jun. 30**	**Sept. 30**	**Dec. 31**
Net sales	$ 4,754	$ 4,342	$ 5,580	$ 3,801	$ 3,581	$ 4,061	$ 3,885	$ 2,931
Costs of goods sold	3,634	3,871	4,287	2,954	2,587	3,143	3,136	2,331
Gross profit	1,120	471	1,293	847	724	918	749	600
Operating expenses:								
Selling	894	878	979	807	741	821	749	621
General and administrative	639	607	617	561	547	590	620	523
Research and development	491	491	434	409	467	436	419	398
	2,024	1,976	2,030	1,777	1,755	1,847	1,788	1,542
Operating loss before gain of sale of real estate	(904)	(1,505)	(737)	(930)	(1,031)	(929)	(1,039)	(942)
Gain on sale of real estate	96	96	96	96	96	96	96	53
Operating profit (loss)	(808)	(1,409)	(641)	(834)	(935)	(833)	(943)	(889)
Other income (expense), net (1)	58	70	28	33	13		(50)	(509)
Income (loss) before income	(750)	(1,339)	(613)	(801)	(922)	(833)	(993)	(1,398)

taxes								
Income tax expense (benefit)								13
Net income (loss)	$ (750)	$ (1,339)	$ (613)	$ (801)	$ (922)	$ (833)	$ (993)	$ (1,411)
Net loss per common share:								
Basic	$ (0.40)	$ (0.72)	$ (0.33)	$ (0.43)	$ (0.49)	$ (0.45)	$ (0.53)	$ (0.75)
Diluted	$ (0.40)	$ (0.72)	$ (0.33)	$ (0.43)	$ (0.49)	$ (0.45)	$ (0.53)	$ (0.75)
Weighted average common and common equivalent shares:								
Basic	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869
Diluted	1,869	1,869	1,869	1,869	1,869	1,869	1,869	1,869

Schedule II

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY

VALUATION AND QUALIFYING ACCOUNTS

Years Ended December 31, 2007 and 2008

Description	Balance at Beginning of year	Charged to Expense	Deductions	Balance at end of year
Allowance for doubtful accounts	$ 182,819	$ 71,265	$ 81,633	$ 172,451
Allowance for price protection	3,415	91,468	90,989	3,894
Allowance for sales returns	387,314	2,421,901	1,981,163	828,052
COOP advertising and other allowances	342,421	1,793,741	1,739,756	396,406
Year ended December 31, 2007	$ 915,969	$ 4,378,375	$ 3,893,541	$ 1,400,803
Allowance for doubtful accounts	$ 172,451	$ 3,075	$ 158,845	$ 16,681
Allowance for price protection	3,894	36,658	37,452	3,100
Allowance for sales returns	828,052	2,817,143	3,091,940	553,255
COOP advertising and other allowances	396,406	940,850	1,098,479	238,777
Year ended December 31, 2008	$ 1,400,803	$ 3,797,726	$ 4,386,716	$ 811,813

EXHIBIT INDEX

(a) Financial Statements, Schedules and Exhibits:

(1),(2) The consolidated financial statements and required schedules are indexed on page 35.

10.29 First Amendment to Lease, Surrender and Extension Agreement dated November 11, 2008 between 201-207 South Street LLC and Zoom Telephonics, Inc.

21. Subsidiaries, filed as Exhibit 21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000. *

23.1 Consent of Independent Registered Public Accounting Firm.

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