ZOOM TECHNOLOGIES INC
Form 10-K
March 28, 2008

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

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2007

or

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

For the transition period from ______to ______
Commission File Number 0-18672

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

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

Registrant's Telephone Number, Including Area Code: **(617) 423-1072**
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 o No x

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 o No x

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

Indicate by 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer o Accelerated Filer o
Non-Accelerated Filer (do not check if a smaller reporting company)o Smaller Reporting Company x

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

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 29, 2007 (computed by reference to the closing price of such stock on The Nasdaq Capital Market on such date) was approximately $10,085,080.32.

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of February 15, 2008 was 9,346,966 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the registrant's 2008 annual meeting of shareholders to be filed with the SEC in April 2008 are incorporated by reference into Part III, Items 10-14 of this Form 10-K.

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 sufficiency of our capital resources;**
- **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;**
- **the availability of debt and equity financing;**
- **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

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 modem-equipped 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 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 Microcomputer 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 Apple Macintosh computers. We now sell and market dial-up modems under the Zoom® and Hayes® names, as well as under various other private-label brands developed for some of our large accounts. In addition, we offer a VoIP service under the Global Village name.

In 2006 and 2007 our dial-up modems and related products accounted for approximately 48% and 40% 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 new USB and 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 2008 Zoom expects to expand its user-friendly QOS to include downstream (that is, from the Internet) QOS, to add QOS to more of Zoom’s DSL products, to add other features to some of its DSL products. Zoom will also introduce a DSL modem with a built-in wireless-G router and VoIP.

The maximum speed for the ADSL standard is 8 megabits per second for short phone lines, with lower speeds for longer phone lines. In 2005 Zoom began shipping some models with hardware that supports the ADSL 2 and 2+ standards. These modems work with central site equipment incorporating the ADSL standard, and typically offer enhanced functionality for central site equipment incorporating the ADSL 2 and ADSL 2+ standards. This enhanced functionality includes speeds up to 24 megabits per second for short phone lines, generally higher speeds for most phone line lengths, the ability to transmit at high speeds for longer phone lines (extended "reach"), and other features including lower overall power consumption and better diagnostics. Zoom now ships ADSL products with ADSL 2/2+ for Ethernet, Ethernet/USB, 4-port switch, and wireless models.

In 2006 and 2007 our DSL modems and related products accounted for approximately 44% and 50% of our net sales.

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.

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 cable service providers and original equipment manufacturers, both inside and outside the US, and to computer retailers in the US. 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 been expanding the number of U.S. retail outlets carrying Zoom's cable modems, and we dramatically increased our cable modem sales in 2007.

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 hopes to begin shipping some DOCSIS 3.0 cable modems in 2008. Though DOCSIS 3.0 cable modems will represent a small percentage of the total cable modems shipped in 2008, they represent an important product area; and Zoom hopes to be shipping DOCSIS 3.0 cable modems in volume at some point this year or next.

Voice over Internet Protocol

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 expects to introduce a DSL modem with a built-in wireless-G router and VOIP in 2008. 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 these 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.

Some of our Analog Telephone Adapters (ATAs) 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 2007, and we continue to devote considerable resources to VoIP hardware, firmware, and test, and to Zoom's Global Village phone service.

In 2007 Zoom improved and extended its VoIP product line by improving the performance of its existing SIP products, introducing new multiple-phone-port SIP products, and introducing its first Skype™ products. 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. We believe that Skype has tens of millions of active users worldwide. In 2007 we 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 introduced other Wireless-G products, including USB and PC Card clients, a wireless access point, and a wireless gaming adapter. In late 2006 Zoom introduced a Wireless-G router and a Wireless-G PCI client. Zoom is considering extensions of its wireless local area network product line, including the ADSL modem with wireless-G router and VoIP mentioned above, and also including wireless products with extended range. 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, which is expected to be finalized in late 2008.

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.

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 that will affect 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 will 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 power cube that costs about $1.50 more per unit than the power cubes we currently use, resulting in a smaller, lower-weight power cube that will reduce the customer's energy usage for the power cube. Because California is the most highly populated 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 2007 three customers each accounted for 10% or more of our total net sales. Together these three customers accounted for 44% 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 $14.0 million in 2005, $8.0 million in 2006, and $6.7 million in 2007. Approximately 46% and 61% of our net sales outside North America in 2006 and 2007, respectively, were to customers in the United Kingdom. Sales to Turkey accounted for 17% and 1% of our net sales outside North America in 2006 and 2007, respectively. 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 Western Europe, the Middle East, and Latin America.

North American High-volume Retailers and Distributors

In North America we reach the modem retail market primarily through high-volume retailers. Our North American retailers include Best Buy, Fry’s, Micro Center, Staples, and many others. Our revenues from sales in North America were $10.3 million in 2006 and $11.8 million in 2007. 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, and others.

Internet and Telephone Service Providers

In recent years a 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 those end-users of our products who require assistance, we have our own staff of technical specialists who currently provide telephone support six days per week. 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. In 2001 we expanded our European technical support to enable users in other countries to access support in languages other than English. This support is generally provided by our support staff in Boston.

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, 2007 we had 14 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 2006 and 2007 we expended $2.2 million and $1.8 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 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.

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. We currently use dial-up modem chipsets exclusively from two high-volume dial-up modem chipset manufacturers, Conexant Systems, Inc. and Agere Systems Inc. The majority of our DSL and cable modems use Conexant chipsets. We also purchase DSL chipsets from Ikanos, a company that purchased the DSL business of Analog Devices. We believe Conexant, Agere, and Ikanos have significant resources for semiconductor design and production, analog and digital signal processing, communications firmware development, and application sales and support. Integrated circuit product areas covered by these companies together include dial-up modems, DSL modems, cable modems, wireless networking, home phone line networking, routers, and gateways

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, Cisco Systems (Linksys division), D-Link, 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;

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- 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 placements in 2006 were sold at retail, and that a low percentage were sold through retailers in most other countries. DSL had even less success at retail in the U.S. 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 as of March 5, 2008 was $0.6 million, and on March 7, 2007 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, 2007 we had 64 full-time employees compared to 69 as of December 31, 2006. Of the 2007 total, 14 were engaged in research and development, 18 were involved in purchasing, assembly, packaging, shipping and quality control, 21 were engaged in sales, marketing and technical support, and the remaining 11 performed accounting, administrative, management information systems, and executive functions. None of our employees is represented by a labor union.

Our Executive Officers

The names and biographical information of our current executive officers are set forth below:

Name	Age	Position with Zoom
Frank B. Manning	59	Chief Executive Officer, President and Chairman of the Board
Peter R. Kramer	56	Executive Vice President and Director
Robert A. Crist	64	Vice President of Finance and Chief Financial Officer
Terry J. Manning	56	Vice President of Sales and Marketing
Dean N. Panagopoulos	50	Vice President of Network Products
Deena Randall	54	Vice President of Operations

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.

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.

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

Not applicable.

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 expires in December 2008. A renewal of our current lease may require an increase in our monthly rent. We would likely move our headquarters to a new location in the same general area of Boston to avoid a material increase in our monthly rent. In the event this lease is not further extended, we believe we will be able to find alternative space that is suitable and adequate for our headquarters operation.

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 expect to sign another one-year extension starting in May 2008. In the event this lease is not further extended, we believe we will be able to find alternative space that is suitable and adequate for our manufacturing and warehousing operations.

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 the event this lease is not further extended, we believe we will be able to find alternative space that is suitable and adequate for our U.K. sales office.

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 use 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

No material litigation.

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.

Fiscal Year Ended December 31, 2007	**High**	**Low**
First Quarter	$ 1.80	$ 1.08
Second Quarter	$ 1.89	$ 1.15
Third Quarter	$ 1.30	$ .72
Fourth Quarter	$ 1.30	$ .53

Fiscal Year Ended December 31, 2006	**High**	**Low**
First Quarter	$ 1.75	$ 1.28
Second Quarter	$ 1.51	$ 1.05

Third Quarter	$	1.14	$	.91
Fourth Quarter	$	2.80	$	1.00

As of February 15, 2008, there were 9,346,966 shares of our common stock outstanding and 209 holders of record of our common stock.

Recent Sales of Unregistered Securities

We did not sell any unregistered securities during the fourth quarter of 2007.

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 2007 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.

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 typically design our hardware products, though we do sometimes use another company's design if it meets our requirements. 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 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 maquiladora manufacturing operation is managed by a maquiladora management company.

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

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

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

Over the past several years our net sales have declined. In response to declining sales volume, we have cut costs by reducing staffing and some overhead costs. Our total headcount of full-time employees, including temporary workers, went from 127 on December 31, 2005 to 64 on December 31, 2007. Of the decline of 63 employees, 47 were related to the outsourcing of our final assembly manufacturing operation to Mexico. Our dedicated manufacturing personnel in Mexico are employees of our Mexican manufacturing service provider and not included in our 2007 headcount. Of the 64 employees on December 31, 2007, 14 were engaged in research and development, 18 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 21 were engaged in sales, marketing and technical support, and the remaining 11 performed accounting, administrative, management information systems, and executive functions.

Generally our gross margin for a given product depends on a number of factors including the type of customer to whom we are selling. The gross margin for retailers tends to be higher than for some of our other customers; but the sales, support, returns, and overhead costs associated with retailers also tend to be higher. Zoom's sales to certain countries, including Turkey, Vietnam, and Saudi Arabia, 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 2007 our net sales were up 0.8% compared to 2006. The sales increase was mainly the result of strong increases in DSL and Cable modem sales which were substantially offset by declines in dial-up modem and wireless product sales. In 2007 we made new placements of DSL modems in large retailers in the U.S. and the U.K. and new placements of Cable modems in large retailers in the U.S. Sales of DSL modems to a previously large customer in Turkey essentially stopped in 2007. We attribute this decline to a number of factors including increased competition and actions by Turkish Telecom to dramatically increase their bundling of DSL modems with their service. 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.

Since 1999 we had a minority interest in a privately held software company, Intermute, Inc. In June 2005 Intermute was acquired by Trend Micro Inc., a U.S. subsidiary of Trend Micro Japan. In connection with the acquisition, in June 2005 we received a payment of approximately $3.5 million which we recorded as a non-operating gain in our second quarter of 2005. We realized in cash an additional contingent gain of $869,750 during the quarter ended September 30, 2006, representing our portion of an earn out payment paid by the buyer as a result of the achievement of a performance milestone. On November 11, 2006 we received a second and final performance milestone payment, also of $869,750. In December 2006 we received a return of our escrow deposit of approximately $365,933. There will be no further payments from the sale of Intermute. Total net proceeds from the sale of our minority interest in Intermute were $5.6 million, received over 2005 and 2006.

Our cash and cash equivalents balance at December 31, 2007 was $3.6 million, down from $7.8 million at December 31, 2006. This reduction was due primarily to our $3.5 million loss for the 2007 year and our June 2007 $1.2 million investment transaction with Unity Business Networks, LLC.

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 2007 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 8.9%, respectively, for 2007 and 2006. The 2006 figure does not include the impact of the start of the consignment arrangement in 2006 at a major retailer customer.

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

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 $0.8 million in 2006 and $1.2 million in 2007.

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

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 nominal for 2006.

Inventory Valuation and Cost of Goods Sold. Inventory is valued at the lower of cost, determined by the first-in, first-out method, or market. We review inventories for obsolete slow moving products each quarter and make provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. We did not have significant charges to costs and expenses for obsolete or slow-moving products in 2007. In 2006 we recorded an additional charge of $0.6 million 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, 2007 we had federal net operating loss carry forwards of approximately $36,777,000. These federal net operating losses are available to offset future taxable income, and are due to expire in years ranging from 2018 to 2027. We also had state net operating loss carry forwards of approximately $11,447,000. These state net operating losses are available to offset future taxable income, and are primarily due to expire in years ranging from 2008 to 2012.

Valuation of Investment in Affiliates. Since 1999 the Company had a minority interest in a privately held software company, Intermute, Inc., which the Company had been accounting for under the equity method of accounting. The Company made its original investment in 1999, at the time of Intermute’s formation, and subsequently made additional investments. Under the equity method of accounting, the Company's investment was increased or decreased, not below zero, based upon the Company's proportionate share of the net earnings or losses of Intermute. As a result of the losses incurred by Intermute subsequent to the Company's investments, the Company's investment balance was reduced to zero during 2002. The Company discontinued applying the equity method when the investment was reduced to zero and did not provide for additional losses, as the Company did not guarantee obligations of the investee and was not committed to provide further financial support.

In June 2005 Intermute was acquired by Trend Micro Inc., a U.S. subsidiary of Trend Micro Japan. In connection with the acquisition, in June 2005 the Company received a payment of approximately $3.5 million which was recorded as a non-operating gain in the Company’s second quarter of 2005. The Company realized in cash an additional contingent gain of $0.9 million during the quarter ended September 30, 2006, representing its portion of an earnout payment paid by the buyer as a result of the achievement of a performance milestone. On November 11, 2006 the Company received a second and final performance milestone payment, also of $0.9 million. In December 2006 the Company received a return of its escrow deposit of approximately $0.4 million. All of the payments were recorded as non-operating gains, a total of approximately $2.1 million in 2006. There will be no further payments from the sale of Intermute. Total net proceeds from the sale of our minority interest in Intermute were $5.6 million, received over 2005 and 2006.

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

On January 22, 2008, Zoom Technologies, Inc. (the "Company") and RedMoon, Inc., a provider of wireless networks headquartered in Plano, Texas ("RedMoon"), entered into a Convertible Note Purchase Agreement pursuant to which the Company made an initial investment of $300,000 in 6% convertible notes (the "Notes") and agreed to purchase an additional $50,000 per month of 6% convertible notes beginning on May 1, 2008 and continuing until the earlier of (i) the Company's election to exercise the option to purchase all outstanding stock of RedMoon contained in the Option Agreement described below or (ii) the Company's election to terminate such Option Agreement, up to a maximum total investment of $500,000. The Notes are senior to all long term liabilities of RedMoon and all current liabilities of RedMoon in excess of $11,000 and are secured by certain equipment of RedMoon. The Notes have a term of three years, and, at the Company's election, may be converted into shares of Series A Preferred Stock of RedMoon. If the Company purchases Notes with a total principal amount of $500,000, such Notes will be convertible into shares of Series A Preferred Stock representing 20% of the fully diluted capitalization of RedMoon. If the Company purchases Notes with a total principal amount of less than $500,000, the number of shares of Series A Preferred Stock issued upon conversion of the Notes will be pro-rated according to the amount of the actual investment.

On the same date, the Company, RedMoon and the holders of RedMoon's outstanding capital stock entered into an Option Agreement pursuant to which the Company has the right to buy the balance of RedMoon any time prior to the close of business on August 31, 2008, unless the Company elects to terminate the Option Agreement prior to that date, at a price equal to 1,000,000 shares of the Company's common stock plus up to 4,000,000 additional shares of the Company's common stock, or cash or a combination of cash and stock of equivalent value, with any issuance of some or all of the 4,000,000 additional shares or share equivalents based on RedMoon's performance during the five calendar quarters beginning with the quarter ending June 30, 2008.

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

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, 2006	2007
Net sales	100.0%	100.0%
Cost of goods sold	85.8	79.8
Gross profit	14.2	20.2
Operating expense:		
Selling	19.8	19.3
General and administration	15.5	13.1
Research and development	11.8	9.9
	47.1	42.3
Operating profit (loss) before sale of real estate	(32.9)	(22.1)
Gain on sale of real estate	25.9	2.1
Operating profit (loss)	(7.0)	(20.0)
Other income (expense):		
Gain on sale of investment in Intermute, Inc.	11.5	-
Other, net	0.8	1.0
Total other income (expense)	12.3	1.0
Loss before income taxes	5.3	(19.0)
Income taxes (benefit)	(0.3)	-
Net income (loss)	5.6%	(19.0)%

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

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, 2007 with the year ended December 31, 2006.

Net Sales. Our total net sales increased year-over-year by $0.2 million or 0.8%. In 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, and Zoom sales of dial-up modems declined $1.5 million due primarily to the decline of the dial-up modem market. Our DSL broadband modem category increased $1.2 million primarily as a result of increased placements at large electronic retailers the U.S. and the U.K., partially offset by a $1.3 million decline of DSL sales to our Turkish distributor due to actions by Turkish Telecom which dramatically increased their bundling of DSL modems with their service offerings. Net sales in our other product sales category, which included primarily cable modems, increased 33.3% from $1.5 million in 2006 to $2.0 million in 2007. The following table illustrates this change in net sales.

	Year 2006 Sales $000	Year 2007 Sales $000	Change $000	Change %
Dial-up	$ 8,851	$ 7,337	$ (1,514)	(17.1)%
DSL	7,981	9,154	1,173	14.7%
Cable and Other Products	1,490	1,987	497	33.3%
Total Net Sales	$ 18,322	$ 18,478	$ 156	0.9%

As shown in the table below our net sales in North America increased $1.5 million or 14.6% from $10.3 million in 2006 to $11.8 million in 2007. Our net sales in Turkey were negligible in 2007 compared to $1.4 million in 2006, a 96.4% decrease. The dramatic decline of our sales in Turkey resulted from decreased DSL sales to our Turkish distributor due to actions by Turkish Telecom which dramatically increased their bundling of DSL modems with their service offerings. This action significantly reduced the retail market for DSL modems in Turkey. Our net sales in the UK were $4.1 million in 2007 compared to $3.7 million in 2006, a 9.4% increase. The sales increase in North America and the UK primarily reflect our increased sales of broadband modems in our retailer channel, which offset the continued decline of dial-up modem sales in all channels. Our net sales in all other countries were $2.6 million in 2007 compared to $3.0 million in 2006, a 12.8% decline. The sales decline in all other countries was primarily due to declining sales of dial-up modems and DSL modems.

	Year 2006 Sales $000	Year 2007 Sales $000	Change $000	Change %
North America	$ 10,279	$ 11,776	$ 1,498	14.6%
Turkey	1,359	49	(1,310)	(96.4)%
UK	3,717	4,065	348	9.4%
All Other	2,967	2,588	(379)	(12.8)%
Total Net Sales	$ 18,322	$ 18,478	156	0.8%

During 2007 three customers each accounted for 10% or more of our total net sales. Together these three customers accounted for 44% of our total net sales. During 2006, a single customer accounted for more than 10% 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 $3.7 million in 2007 compared to $2.6 million in 2006. Our gross profit percentage of net sales increased to 20.2% in 2007 from 14.2% in 2006. The primary reason for this increase was lower obsolescence expense and lower manufacturing expense. Both our fixed and variable manufacturing costs were lower in 2007 compared to 2006 as a result of the third quarter 2006 transition of production to Mexico.

Operating Expense. Total operating expense excluding the gain on sale of real estate decreased by $0.8 million from $8.6 million in 2006 to $7.8 million in 2007. Total operating expense excluding the gain on sale of real estate as a percentage of net sales decreased from 47.1% in 2006 to 42.3% in 2007. The table below illustrates the change in operating expense.

Operating Expense	Year 2006 Sales $000	% Net Sales	Year 2007 Sales $000	% Net Sales	Change $000	% Change

Selling Expense	$	3,631	19.8%	$	3,558	19.3%	$	(73)	(2.0)%
General and Administrative Expense		2,847	15.5%		2,424	13.1%		(423)	(14.9)%
Research and Development Expense		2,158	11.8%		1,825	9.9%		(333)	(15.4)%
Total Operating Expense excluding the gain on sale of real estate	$	8,636	47.1%	$	7,807	42.3%		(829)	(9.5)%

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Selling Expense. Selling expense decreased from $3.6 million in 2006 to $3.56 million in 2007. Selling expense as a percentage of net sales was 19.8% in 2006 and 19.3% in 2007. The $0.1 million reduction in selling expense was primarily due to reduced personnel costs due to lower employee headcount.

General and Administrative Expense. General and administrative expense was $2.8 million in 2006 and $2.4 million in 2007. General and administrative expense as a percentage of net sales was 15.5% in 2006 and 13.1% in 2007. In 2006 compared to 2007, general and administrative expense decreased $0.4 million primarily due to a reduction in personnel costs ($0.4 million) and legal, audit and consulting fees ($0.2 million), partially offset by the increase in facility expenses as a result of the sale and leaseback of our headquarters facility in late 2006 ($0.1 million).

Research and Development Expense. Research and development expense decreased from $2.2 million in 2006 to $1.8 million in 2007. Research and development expense as a percentage of net sales decreased from 11.8% in 2006 to 9.9% in 2007. The $0.3 million decrease in research and development expense was primarily due to reduced personnel costs ($0.3 million).

Gain on Sale of Real Estate. In 2006 we recognized a gain in operations on the sale of real estate of $4.8 million. The gain as a percentage of net sales was 32.9% in 2006. In December 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 is 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 is being recognized in operations over the term of the lease ($0.37 million in 2007 and $0.36 million in 2008). The gain initially deferred is the estimated present value of the minimum lease payments under the leaseback arrangement.

Other Income (Expense). Other income, net decreased to $0.2 million in 2007 from $2.3 million in 2006. The $2.3 million other income in 2006 included $2.1 million gain under an earn-out provision from the sale of our investment in Intermute in a prior year. We will not receive any additional similar payments.

Income Tax Expense (Benefit). We recorded a favorable $0.05 million net income tax benefit in 2006 resulting solely from changes in prior years' estimates. We have not recognized any income tax benefits on our operating losses in 2007 and 2006 because we are in a net operating loss carry forward position and realization of such benefits is unlikely.

Liquidity and Capital Resources

On December 31, 2007 we had working capital of $7.7 million including $3.6 million in cash and cash equivalents. On December 31, 2006 we had working capital of $12.4 million including $7.8 million in cash and cash equivalents. Our current ratio at December 31, 2007 was 3.7 compared to 4.5 at December 31, 2006. A significant portion in the reduction of the current ratio was due to our 2007 net loss of $3.5 million and the cash expenditure of $1.2 million for our June 2007 investment in Unity Business Networks, LLC.

In 2007 operating activities used $3.0 million in cash. Our net loss in 2007 was $3.5 million. Sources of cash from operations included a decrease in accounts receivable of $1.3 million, non-cash stock-based compensation of $0.2 million, non-cash depreciation and amortization expense of $0.1 million, and a decrease in inventories of $0.1 million. Uses of cash from operations included a decrease in accounts payable and accrued expense of $0.7 million and a non-cash gain on sale of real estate of $0.4 million.

In 2007 our net cash used by investing activities was $1.2 million, which included our investment in Unity Business Networks, LLC of $1.2 million

In 2007 there was no significant cash provided by or used in financing activities.

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, 2007 we had 64 full-time employees compared to 69 as of December 31, 2006. 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.

Management believes we have sufficient resources to fund our normal operations over the next 12 months, through at least December 31, 2008. However, if we are unable to increase our revenues, reduce or otherwise adequately control our expenses, or raise capital, our longer-term ability to continue as a going concern and achieve our intended business objectives could be adversely affected. See "Risk Factors" below, for further information with respect to events and uncertainties that could harm our business, operating results, and financial condition.

ITEM 1A. RISK FACTORS

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

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

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

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

Industry analysts believe that the market for our dial-up modems will continue to decline. If we are unable to increase demand for and sales of our broadband modems, we may be unable to sustain or grow our business. The market for high-speed communications products and services has a number of competing technologies. For instance, Internet access can be achieved by:

- using a standard telephone line and appropriate service for dial-up modems;
- DSL modems;
- using a cable modem with a cable TV line and cable modem service;
- using a router and some type of modem to service the computers connected to a local area network; or
- other approaches, including wireless links to the Internet.

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

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

Our stock is currently trading below $1.00 per share, which is below the Nasdaq $1.00 minimum bid price requirement. Because our stock traded below $1.00 per share for 30 consecutive business days, on November 16, 2007 the Nasdaq Stock Market notified us that we are no longer in compliance with Marketplace Rule 4310(c)(4). We were provided until May 14, 2008 to regain compliance. In order to regain compliance, the bid price of our common stock must meet or exceed $1.00 per share for a minimum of ten consecutive business days before that date. If we cannot demonstrate compliance with Rule 4310(c)(4) by May 14, 2008, the Nasdaq staff will determine whether we meet the Nasdaq Capital Market initial listing criteria set forth in Nasdaq Marketplace Rule 4310(c), except for the bid price requirement. If the Nasdaq determines that we meet the initial listing criteria, the Nasdaq staff will grant us an additional 180 calendar day compliance period. If we are not eligible for an additional compliance period, the Nasdaq staff will provide written notice that our securities will be delisted. At that time, we may appeal the determination to delist our securities to a Listing Qualifications Panel. A delisting of our shares could have a negative effect on the market price for our shares.

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

Relatively few customers have accounted for a substantial portion of our net sales. In 2007, our net sales to three companies constituted 44% of our total net sales. 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. For example, in 2006, DSL sales to our Turkish distributor, one of our large customers, declined significantly from $5.6 million in 2005 to $1.3 million in 2006. We attribute this decline due to a number of factors including increased competition and plans by Turkish Telecom to dramatically increase their bundling of DSL modems with their service. We cannot guarantee that we will increase our sales to our Turkish distributor. A reduction or delay in orders from any of our significant customers, or a delay or default in payment by any significant customer could materially harm our business, results of operation and liquidity.

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

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

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

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

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

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

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

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

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

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

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

With the shrinking of the dial-up modem market, we believe that our future success will depend in large part on our ability to more successfully penetrate the broadband modem markets, DSL and cable, and the VoIP market. These markets have significant barriers to entry that have adversely affected our sales to these markets. Although some cable and DSL modems are sold at retail, the high volume purchasers of these modems are concentrated in a relatively few large cable, telecommunications, and Internet service providers which offer broadband modem services to their customers. These customers, particularly cable services providers, also have extensive and varied approval processes for modems to be approved for use on their network. These approvals are expensive, time consuming, and continue to evolve. Successfully penetrating the broadband modem market therefore presents a number of challenges including:

· the current limited retail market for broadband modems;

· the relatively small number of cable, telecommunications and Internet service provider customers that make up the bulk of the market for broadband modems in certain countries, including the United States;

· the significant bargaining power of these large volume purchasers;

· the time consuming, expensive, uncertain and varied approval process of the various cable service providers; and

· the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Motorola and Cisco.

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

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

The market for PC communications products and high-speed broadband access products and services is characterized by aggressive pricing practices, continually changing customer demand patterns, rapid technological advances, emerging industry standards and short product life cycles. Some of our product and service developments and enhancements have taken longer than planned and have delayed the availability of our products and services, which adversely affected our sales and profitability in the past. Any significant delays in the future may adversely impact our ability to sell our products and services, and our results of operations and financial condition may be adversely affected. Our future success will depend in large part upon our ability to:

· identify and respond to emerging technological trends and industry standards in the market;

· develop and maintain competitive products that meet changing customer demands;

· enhance our products by adding innovative features that differentiate our products from those of our competitors;

· bring products to market on a timely basis;

· introduce products that have competitive prices;

- manage our product transitions, inventory levels and manufacturing processes efficiently;
- respond effectively to new technological changes or new product announcements by others; and
- meet changing industry standards.

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

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

Currently our business is significantly dependent on our operations outside the United States, particularly sales of our products and the production of most of our products. All of our manufacturing operations except our rework operations are now located outside of the United States. In 2006, sales outside North America were 44% of our net sales. In 2007, sales outside North America were 60% of our net sales. The inherent risks of international operations could harm our business, results of operation, and liquidity. Specifically, our manufacturing operations in Mexico are subject to the challenges and risks associated with international operations, including those related to integration of operations across different cultures and languages, currency risk, and economic, legal, political and regulatory risks. The types of risks faced in connection with international operations and sales include, among others:

- regulatory and communications requirements and policy changes;
- favoritism toward local suppliers;
- delays in the rollout of broadband services by cable and DSL service providers outside of the United States;
- local language and technical support requirements;
- difficulties in inventory management, accounts receivable collection and the management of distributors or representatives;
- cultural differences;
- reduced control over staff and other difficulties in staffing and managing foreign operations;
- reduced protection for intellectual property rights in some countries;
- political and economic changes and disruptions;
- governmental currency controls;
- shipping costs;
- currency exchange rate fluctuations, including, as a result of the move of our manufacturing operations to Mexico, changes in value of the Mexican Peso relative to the US dollar; and import, export, and tariff regulations.

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

If our products contain undetected defects, errors, or failures, we could face:

- delays in the development of our products;
- numerous product returns; and
- other losses to us or to our customers or end users.

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

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

Due to rapid technological change and changing markets we are required to manage our inventory levels carefully to both meet customer expectations regarding delivery times and to limit our excess inventory exposure. In the event we fail to effectively manage our inventory our liquidity may be adversely affected and we may face increased risk of inventory obsolescence, a decline in market value of the inventory, or losses from theft, fire, or other casualty. We did not incur a significant inventory obsolescence charge in 2007 for inventory reserves related to obsolete and slow-moving products.

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

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

We are subject to the following risks because of our reliance on third party manufacturers:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may have difficulty protecting our intellectual property.

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

We could infringe the intellectual property rights of others.

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

ITEM 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, 2007 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, 2007

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 required by this item appears under the caption "Our Executive Officers" in Part 1, Item 1 — Business, and under the captions "Election of Directors", "Board of Directors", "Code of Ethics" and "Section 16(a) Beneficial Ownership Compliance " in our definitive proxy statement for our 2008 annual meeting of stockholders which will be filed with the SEC within 120 days after the close of our fiscal year, and is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

Information required by this item appears under the captions "Executive Compensation," and "Directors' Compensation", in our definitive proxy statement for our 2008 annual meeting of stockholders which will be filed with the SEC within 120 days after the close of our fiscal year, and is incorporated herein by reference.

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, 2007 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)	**874,000**	**$ 1.72**	**2,145,646**
Equity compensation plans not approved by security holders(2)	**510,750**	**$ 1.90**	**1,673,050**
Total:	**1,384,750**	**$ 1.79**	**3,818,696**

(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 2,700,000 shares of our common stock have been authorized for issuance under the 1998 Plan.

The additional information required by this item is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management " in our definitive proxy statement for our 2008 annual meeting of stockholders to be filed with the SEC within 120 days after the close of our fiscal year.

ITEM 13 - CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Any information required by this item may appear under the caption "Certain Relationships and Related Transactions" and “Board of Directors” in our Definitive Proxy Statement for our 2008 annual meeting of Stockholders to be filed with the SEC within 120 days after the close of our fiscal year and is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item appears under the caption “Principal Accountant Fees and Services” in our Definitive Proxy Statement for our 2008 annual meeting of stockholders to be filed with the SEC within 120 days after the close of our fiscal year and is incorporated herein by reference.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this item appears under the caption “Principal Accountant Fees and Services” in our Definitive Proxy Statement for our 2007 annual meeting of stockholders to be filed with the SEC within 120 days after the close of our fiscal year and is incorporated herein by reference.

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.)

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 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

**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

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.

**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.*

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 26, 2008	**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 26, 2008**
/s/ Robert A. Crist **Robert A. Crist**	**Principal Financial and Accounting Officer**	**March 26, 2008**
/s/ Peter R. Kramer **Peter R. Kramer**	**Director**	**March 26, 2008**
/s/ Bernard Furman **Bernard Furman**	**Director**	**March 26, 2008**
/s/ J. Ronald Woods **J. Ronald Woods**	**Director**	**March 26, 2008**
/s/ Joseph Donovan **Joseph Donovan**	**Director**	**March 26, 2008**

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, 2007 and 2006, 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, 2007 and 2006, 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.

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 26, 2008

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,833,046	$ 3,647,654
Accounts receivable, net of allowances of $915,969 in 2006 and $1,400,803 in 2007	3,385,280	2,128,888
Inventories	4,511,814	4,452,503
Prepaid expense and other current assets	269,301	336,424
Total current assets	15,999,441	10,565,469
Equipment and leasehold improvements, net	249,221	172,070
Investment in Unity Business Networks, LLC.	-	1,178,709
Total assets	$ 16,248,662	$ 11,916,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 2,639,935	$ 2,079,325
Accrued expense	562,349	415,468
Deferred gain on sale of real estate	367,245	340,913
Total current liabilities	3,569,529	2,835,706
Deferred gain on sale of real estate	357,373	-
Total liabilities	3,926,902	2,835,706
Commitments and Contingencies (note 7)		
Stockholders' equity		
Common stock, $0.01 par value:		
Authorized - 25,000,000 shares; issued – 9,355,366 shares, including shares held in treasury	93,554	93,554
Additional paid-in capital	31,275,169	31,507,393
Accumulated deficit	(19,597,296)	(23,100,390)
Accumulated other comprehensive income –currency translation adjustment	557,655	587,307
Treasury stock (8,400 shares), at cost	(7,322)	(7,322)
Total stockholders' equity	12,321,760	9,080,542
Total liabilities and stockholders' equity	$ 16,248,662	$ 11,916,248

See accompanying notes.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2006 and 2007

	2006	2007
Net sales	$ 18,322,301	$ 18,477,532
Cost of goods sold	15,720,574	14,746,978
Gross profit	2,601,727	3,730,554
Operating expenses:		
Selling	3,631,340	3,557,928
General and administrative	2,846,862	2,423,829
Research and development	2,157,529	1,825,018
	8,635,731	7,806,776
Operating profit (loss) before gain on sale of real estate	(6,034,004)	(4,076,221)
Gain on sale of real estate	4,752,625	383,404
Operating profit (loss)	(1,281,379)	(3,692,817)
Other :		
Interest income	226,015	229,523
Interest expense	(306,867)	-
Gain on sale of investment in Intermute, Inc.	2,105,433	-
Other, net	233,515	(39,800)
Total other income, net	2,258,096	189,723
Income (loss) before income taxes	976,717	(3,503,094)
Income taxes (benefit)	(53,405)	-
Net income (loss)	$ 1,030,122	$ (3,503,094)
Basic and diluted net income (loss) per share	$ 0.11	$ (0.37)
Weighted average common and common equivalent shares:		
Basic	9,346,966	9,346,966
Diluted	9,349,381	9,346,966

See accompanying notes.

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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 (A)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance at December 31, 2005	9,355,366	$ 93,554	$ 31,015,977	$ (20,627,318)	$ 393,245	8,400	$ (7,322)	$ 10,868,136
Net income (loss)	-	-	-	1,030,022	-	-	-	1,030,022
Foreign currency translation adjustment	-	-	-	-	164,410	-	-	164,410
Comprehensive income (loss)	-	-	-	-	-	-	-	1,194,432
Stock based compensation	-	-	259,192	-	-	-	-	259,192
Balance at December 31, 2006	9,355,366	93,554	31,275,169	(19,597,296)	557,655	8,400	(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	9,355,366	$ 93,554	$ 31,507,393	$ (23,100,390)	$ 587,307	8,400	$ (7,322)	$ 9,080,542

(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, 2006 and 2007

		2006		2007
Operating activities:				
Net income (loss)	$	1,030,023	$	(3,503,094)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Gain on sale of investment in Intermute, Inc.		(2,105,433)		-
Gain on sale of real estate		(4,752,625)		(383,704)
Depreciation and amortization		140,540		85,432
Stock based compensation		259,192		232,224
Changes in operating assets and liabilities:				
Accounts receivable		(629,677)		1,278,407
Inventories		573,902		62,913
Prepaid expense and other current assets		37,084		(65,789)
Accounts payable and accrued expense		(702,546)		(705,522)
Net cash provided by (used in) operating activities		(6,149,540)		(2,999,133)
Investing activities:				
Proceeds from sale of investment in Intermute, Inc.		2,105,433		-
Proceeds from sale of real estate		7,733,970		-
Investment in Unity Business Networks, LLC		-		(1,178,709)
Purchases of property, plant and equipment		(43,643)		(7,927)
Net cash provided by (used in) investing activities		9,795,760		(1,186,636)
Financing activities:				
Repayment of long-term debt		(4,889,929)		-
Net cash provided by (used in) financing activities		(4,889,929)		-
Effect of exchange rate changes on cash		(4,367)		377
Net change in cash		(1,248,076)		(4,185,392)
Cash and cash equivalents at beginning of year		9,081,122		7,833,046
Cash and cash equivalents at end of year	$	7,833,046	$	3,647,654

See accompanying notes.

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
Years Ended December 31, 2006 and 2007

(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

(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.

(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, 2007 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, 2007.

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:

	2006	**2007**
Weighted average shares outstanding – used to compute basic earnings (loss) per share	9,346,966	9,346,966
Net effect of dilutive potential common shares outstanding, based on the treasury stock method	2,415	-
Weighted average shares outstanding – used to compute diluted earnings (loss) per share	9,349,381	9,346,966

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. The dilutive effect of options to purchase 1,384,750 shares of common stock at December 31, 2007 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 a very small 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 verifies the delivery date on all significant FOB destination shipments made during the last 10 business days of each quarter.

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 careful 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. It is not practicable to estimate the fair value of the Company’s investment in Unity Business Networks, LLC.

(k) Stock-Based Compensation
Compensation cost for awards granted after January 1, 2006 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, 2006 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, 2007 the Company had working capital of $7.7 million including $3.6 million in cash equivalents. On December 31, 2006 the Company had working capital of $12.4 million including $7.8 million in cash and cash equivalents. The Company’s current ratio at December 31, 2007 was 3.7 compared to 4.5 at December 31, 2006. A significant portion in the reduction of working capital and the corresponding current ratio was due to our 2007 net loss of $3.5 million and the cash expenditure of $1.2 million for our June 2007 investment in Unity Business Networks, LLC.

In 2007 the Company’s operating activities used $3.0 million in cash. Its net loss in 2007 was $3.5 million. Sources of cash from operations included a decrease in accounts receivable of $1.3 million, non-cash stock-based compensation of $0.2 million, non-cash depreciation and amortization expense of $0.1 million, and a decrease in inventories of $0.1 million. Uses of cash from operations included a decrease in accounts payable and accrued expense of $0.7 million and a non-cash gain on sale of real estate of $0.4 million.

In 2007 the Company's net cash used by investing activities was $1.2 million, which included the cost of its investment in Unity Business Networks, LLC. of $1.2 million

In 2007 there was no significant cash provided by or used in the Company's financing activities.

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 127 on December 31, 2005 to 64 on December 31, 2007. Of the decline of 63 employees, 47 were related to the outsourcing of our final assembly manufacturing operation to Mexico. The dedicated manufacturing personnel in Mexico are employees of the Company's Mexican manufacturing service provider and not included in its 2007 headcount. Of the 64 employees on December 31, 2007, 14 were engaged in research and development, 18 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 21 were engaged in sales, marketing and technical support, and the remaining 11 performed accounting, administrative, management information systems, and executive functions. 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, 2007 were $10.6 million and current liabilities were $2.8 million. The Company did not have any long-term debt at December 31, 2007. Management believes it has sufficient resources to fund its planned operations through at least December 31, 2008. However, if the Company is unable to increase its revenues, reduce its expense, or raise capital the Company's longer-term ability to continue as a going concern and achieve its intended business objectives could be adversely affected.

(4) NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standard Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("SFAS 157") which defines fair value, establishes a framework and gives guidance regarding the method used for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 requires companies to disclose the fair value of their financial instruments according to a fair value hierarchy, as defined, and may require companies to provide additional disclosures based on that hierarchy. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently assessing the effect that SFAS 157 may have on its consolidated financial statements.

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

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 adopt SFAS 141(R) in the first quarter of 2009 and apply its provisions to any acquisition after the adoption date.

(5) INVENTORIES

Inventories consist of the following at December 31:

	2006	2007
Materials	$ 2,969,375	$ 2,913,556
Work in process	522,307	189,295
Finished goods (including $563,000 held by a customer at December 31, 2006)	1,020,132	1,349,652
Total	$ 4,511,814	$ 4,452,503

(6) EQUIPMENT AND LEASEHOLD IMPROVEMENTS
Equipment and leasehold improvements consist of the following at December 31:

	2006	2007	Estimated Useful lives in years
Leasehold improvements	$ 6,100	$ 6,216	5
Computer hardware and software	3,706,110	3,716,257	3
Machinery and equipment	1,905,434	1,906,949	5
Molds, tools and dies	1,607,669	1,624,899	5
Office furniture and fixtures	277,337	277,337	5
	$ 7,502,650	$ 7,531,658	
Accumulated depreciation and amortization	(7,253,429)	(7,359,588)	
Equipment and leasehold improvements, net	$ 249,221	$ 172,070	

(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 (see Note 8). 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. The Company received verbal approval from the landlord and expects to sign another one-year extension starting in May 2008. In the event this lease is not further extended, the Company believes it will be able to find alternative space that is suitable and adequate for our manufacturing and warehousing operations.

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 the event this lease is not further extended, the Company believes it will be able to find alternative space that is suitable and adequate for its U.K. sales office.

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 $711,637 in 2007 and $628,221 in 2006.

As of December 31, 2007, the Company's estimated future minimum committed rental payments, excluding executory costs, under the operating leases described above to their expiration are $608,530 for 2008 and $75,575 for 2009.

(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.

(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 is 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. However, a portion of the gain ($724,618) has been deferred and is being recognized in operations over the term of the lease (2007 - $383,704 and 2008 - $340,914). The gain initially deferred is the estimated present value of the minimum lease payments under the leaseback arrangement. The gain recognized in operations in 2006 and 2007 was $4,752,625 and $383,404, respectively. The Company’s lease expires in December 2008. A renewal of the Company’s current lease may require an increase in the rent. The Company would likely move its headquarters to a new location in the same general area of Boston to avoid a material increase in the rent. In the event this lease is not further extended, the Company believes it will be able to find alternative space that is suitable and adequate for its headquarters operation.

(9) STOCK OPTION PLANS

At December 31, 2007 the Company had three stock option plans as described below.

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 4,800,000 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:

	Number of shares	Weighted average exercise price
Balance at December 31, 2005	636,000	$ 2.21
Granted	335,000	$ 1.03
Exercised	-	-
Expired	(301,000)	$ 1.95
Balance at December 31, 2006	670,000	$ 1.74
Granted	-	-

Exercised	-		-
Expired	-		-
Balance at December 31, 2007	670,000	$	1.74

The weighted average grant date fair value of options granted was $1.03 in 2006.

The following table summarizes information about fixed stock options under the Employee Stock Option Plan outstanding on December 31, 2007:

	Options Outstanding				Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price	
$1.03	335,000	1.9	$	1.03	167,500	$	1.03
$2.45	335,000	0.3	$	2.45	335,000	$	2.45
$1.03 to $2.45	**670,000**	**1.1**	**$**	**1.74**	**502,500**	**$**	**1.97**

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 12,000 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 450,000 shares authorized for issuance under the Directors Plan. Each option expires two years from the grant date. Option activity under this plan follows:

	Number of shares	Weighted average exercise price	
Balance at December 31, 2005	108,000	$	3.20
Granted	72,000	$	1.27
Exercised	-		-
Expired	(48,00)	$	3.81
Balance at December 31, 2006	132,000	$	1.93
Granted	72,000	$	1.21
Exercised	-		-
Expired	-		-
Balance at December 31, 2007	204,000	$	1.67

The weighted average grant date fair value of options granted was $1.27 in 2006 and $1.21 in 2007.

The following table summarizes information about fixed stock options under the Directors Plan on December 31, 2007:

	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-$1.75	144,000	0.8	$	1.245	108,000	$	1.24
$1.75-$3.50	60,000	0.0	$	2.71	60,000	$	2.71
$1.24271	204,000	0.5	$	1.67	168,000	$	1.77

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 2,700,000 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:

	Number of shares		Weighted average exercise price
Balance at December 31, 2005	493,700	$	2.36
Granted	273,000	$	1.03
Exercised	-		-
Expired	(215,700)	$	1.97
Balance at December 31, 2006	551,000	$	1.85
Granted	-		-
Exercised	-		-
Expired	(40,250)	$	1.28
Balance at December 31, 2007	510,750	$	1.90

The weighted average grant date fair value of options granted was $1.03 in 2006. The following table summarizes information about fixed stock options under the 1998 Plan outstanding on December 31, 2007:

	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-$1.75	240,000	1.9	$	1.03	120,000	$	1.03
$1.75-$3.50	218,750	0.3	$	2.42	218,750	$	2.43
$3.50-$5.25	52,000	0.0	$	3.70	52,000	$	3.70
$1.03-$4.83	510,750	1.0	$	1.90	390,750	$	2.16

As of December 31, 2007 both the fair value of options outstanding and the fair value of options exercisable were less than the exercise price.

As of December 31, 2007 there were 3,818,696 additional shares available for issuance under all three stock option plans. The per share weighted-average fair value of stock options granted during 2006 and 2007 was $0.3928 and $0.42065, respectively.

The unrecognized stock-based compensation cost related to non-vested stock awards was less than $50,000 as of December 31, 2007. 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, 2006:						
US federal	$	47,483	$	-	$	47,483
State and local		(100,006)		-		(100,006)
Foreign		882)		-		(882)
	$	(53,405)	$	-	$	(53,405)
Year Ended December 31, 2007:						
US federal	$	-	$	-	$	-
State and local		-		-		-

Foreign		-		-		-
	$	-	$	-	$	-

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

	2006	2007
Computed "expected" US tax (benefit)	$ 333,455	$ (1,191,052)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	(66,004)	-
Federal valuation allowance	406,594	1,175,308
Non-deductible items	38,251	5,031
Change in estimate for prior years' provisions	46,601	10,713
Other, net	887	-
Income tax expense (benefit)	$ (53,405)	$ -

Temporary differences at December 31 follow:

	2006	2007
Deferred income tax assets:		
Inventories	$ 1,511,389	$ 1,344,792
Accounts receivable	242,647	378,714
Accrued expenses	97,565	68,866
Net operating loss and tax credit carry forwards	12,410,482	14,482,300
Plant and equipment	656,327	669,929
Stock compensation	-	183,246
Other	2,056	-
Total deferred income tax assets	14,920,466	17,127,847
Valuation allowance	(14,920,466)	(17,127,847)
Net deferred tax assets	$ -	$ -

As of December 31, 2007 the Company had federal net operating loss carry forwards of approximately $36,777,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2027. The Company had state net operating loss carry forwards of approximately $11,447,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2008 through 2012.

Subsequently recognized tax benefits relating to valuation allowances for deferred income tax assets, if any, will be allocated as follows: $16,348,000 to continuing operations and $765,000 to additional paid-in capital which is attributable to the exercise of employee stock options.

(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 net sales. During 2007 three customers each accounted for 10% or more of our total net sales. Together these three customers accounted for 44% of our total net sales and 74% of our net accounts receivable. During 2006 three customers accounted for 10% or more of its total net sales. Together these three customers accounted for 30% of the Company's total net sales and 56% 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) GAIN ON SALE OF INVESTMENT IN INTERMUTE

Since 1999 the Company had a minority interest in a privately held software company, Intermute, Inc., which the Company had been accounting for under the equity method of accounting. The Company made its original investment in 1999, at the time of the company's formation, and subsequently made additional investments. Under the equity method of accounting, the Company's investment was increased or decreased, not below zero, based upon the Company's proportionate share of the net earnings or losses of Intermute. As a result of the losses incurred by Intermute subsequent to the Company's investments, the Company's investment balance was reduced to zero during 2002. The Company discontinued applying the equity method when the investment was reduced to zero and did not provide for additional losses, as the Company did not guarantee obligations of the investee and was not committed to provide further financial support.

In June 2005 Intermute was acquired by Trend Micro Inc., a U.S. subsidiary of Trend Micro Japan. In connection with the acquisition of Intermute in June 2005, the Company received a payment in exchange for its investment of approximately $3.5 million, also in June 2005. The Company realized in cash an additional gain of $2.1 million during 2006, representing its portion of an earnout paid by the buyer as a result of the achievement of a performance milestone. Total net proceeds from the sale of the Company's minority interest in Intermute were $5.6 million, received over 2005 and 2006. There will be no further payments from the sale of Intermute.

(13) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2006	2007
Cash paid during year for interest	$ 306,867	$ -
Cash paid during year for income taxes	$ -	$ -

(14) 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 our relationship could materially and adversely harm our business. To lessen the risk associated with this company being the primary manufacturer of a substantial portion of our products and for a number of other reasons including cost and availability, we are also using six other vendors to manufacture various products.

(15) 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:

	2006	Percent	2007	Percent
North America	$ 10,278,545	56%	$ 11,776,442	65%
Outside North America	8,043,756	44%	6,701,090	36%
Total	$ 18,322,301	100%	$ 18,477,532	100%

(**16) 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 2006 and 2007 were $16,750 and $12,635, respectively.

(17) INVESTMENT IN UNITY BUSINESS NETWORKS, LLC
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.

(18) 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.

	2006 Quarter Ended (1,2)				2007 Quarter Ended			
	Mar. 31	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Jun. 30	Sept. 30	Dec. 31
Net sales	$ 5,281	$ 4,518	$ 3,579	$ 4,944	$ 4,754	$ 4,342	$ 5,580	$ 3,801
Costs of goods sold	4,315	4,295	3,338	3,772	3,634	3,871	4,287	2,954
Gross profit	966	223	241	1,172	1,120	471	1,293	847
Operating expenses:								
Selling	904	878	782	1,067	894	878	979	807
General and administrative	849	698	689	610	639	607	617	561
Research and development	632	557	521	448	491	491	434	409
	2,385	2,133	1,992	2,125	2,024	1,976	2,030	1,777
Operating loss before gain of sale of real estate	(1,419)	(1,910)	(1,751)	(953)	(904)	(1,505)	(737)	(930)
Gain on sale of real estate	-	-	-	4,752	96	96	96	96
Operating profit (loss)	(1,419)	(1,910)	(1,751)	3,799	(808)	(1,409)	(641)	(834)
Other income (expense), net (1)	44	53	919	1,243	58	70	28	33
Income (loss) before income taxes	(1,375)	(1,857)	(832)	5,042	(750)	(1,339)	(613)	(801)
Income tax expense (benefit)	-	-	-	(53)	-	-	-	-
Net income (loss)	$ (1,375)	$ (1,857)	$ (832)	$ 5,095	$ (750)	$ (1,339)	$ (613)	$ (801)
Net loss per common share:								
Basic	$ (0.15)	$ (0.20)	$ (0.09)	$ 0.55	$ (0.08)	$ (0.14)	$ (0.07)	$ (0.09)
Diluted	$ (0.15)	$ (0.20)	$ (0.09)	$ 0.54	$ (0.08)	$ (0.14)	$ (0.07)	$ (0.09)
Weighted average common and common								

equivalent shares:								
Basic	9,347	9,347	9,347	9,347	9,347	9,347	9,347	9,347
Diluted	9,347	9,347	9,347	9,357	9,347	9,347	9,347	9,347

(1) Includes gain on sale of investment in Intermute, Inc. of $870 thousand and $1,236 thousand during the quarters ended September 30, 2006 and December 31, 2006, respectively.

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Schedule II

ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY
VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2006 and 2007

Description	Balance at Beginning of year	Charged to Expense	Deductions	Balance at end of year
Allowance for doubtful accounts	$ 229,854	$ (49,828)	$ (2,794)	$ 182,819
Allowance for price protection	23,076	63,909	83,571	3,415
Allowance for sales returns	607,183	2,871,120	3,090,989	387,314
COOP advertising and other allowances	434,524	1,826,128	1,918,231	342,421
Year ended December 31, 2006	$ 1,294,637	$ 4,711,329	$ 5,089,996	$ 915,969
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

EXHIBIT INDEX

(a) Financial Statements, Schedules and Exhibits:

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

** 10.1 1990 Stock Option Plan, as amended.

** 10.3 1998 Employee Equity Incentive Plan, as amended.

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.