

ZOOM TECHNOLOGIES INC  
Form 10-Q  
August 18, 2009

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

\_\_\_\_\_  
**FORM 10-Q**  
\_\_\_\_\_

(Mark One)

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

**For the quarterly period ended June 30, 2009**

or

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 0-18672**

**ZOOM TECHNOLOGIES, INC.**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of Incorporation or  
Organization)*

**51-0448969**

*(I.R.S. Employer Identification No.)*

**207 South Street, Boston, Massachusetts**

**02111**

*(Address of Principal Executive Offices)*

*(Zip Code)*

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting Company ☐

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☐

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of June 30, 2009, was 1,959,378 shares.

**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY**

**INDEX**

**Page**

**Part I. Financial Information**

Item 1.

Financial Statements

1

Condensed Consolidated Balance Sheets as of June 30, 2009 and  
December 31, 2008 (Unaudited)

1

Condensed Consolidated Statements of Operations for the three and six months  
ended June 30, 2009 and 2008 (Unaudited)

2

Condensed Consolidated Statements of Cash Flows for the six  
months ended June 30, 2009 and 2008 (Unaudited)

3

Notes to Condensed Consolidated Financial Statements

4

Item 2.

Management's Discussion And Analysis Of Financial Condition And Results Of Operations

9

Item 3.

Quantitative And Qualitative Disclosures About Market Risk

15

Item 4.

Controls And Procedures

16

**Part II. Other Information**

Item 1A.

Risk Factors

17

Item 6.

Exhibits

17

Signatures

18

Exhibit Index

19

---

**PART I - FINANCIAL INFORMATION****ITEM 1.****FINANCIAL STATEMENTS****ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY****Condensed Consolidated Balance Sheets  
(unaudited)**

|   | <b>June 30,</b> | <b>December 31,</b> |
|---|-----------------|---------------------|
| <b>ASSETS</b>   | <b>2009</b>     | <b>2008</b>         |
| <i>Current assets</i>   |                 |                     |
| Cash and cash equivalents   | \$ 710,680      | \$ 1,204,984        |
| Accounts receivable, net of allowances of \$610,646 at June 30, 2009 and \$811,813 at December 31, 2008 | 1,614,510       | 1,162,921           |
| Inventories   | 1,876,042       | 2,902,979           |
| Prepaid expenses and other current assets   | 178,268         | 234,428             |
| Total current assets  | 4,379,500       | 5,505,312           |
| Equipment, net  | 76,752          | 102,491             |
| Investments Unity Business Networks, LLC  | 960,000         | 960,000             |
| Total assets  | \$ 5,416,252    | \$ 6,567,803        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                 |                     |
| <i>Current liabilities</i>  |                 |                     |
| Accounts payable  | \$ 1,151,050    | \$ 1,210,970        |
| Accrued expenses  | 408,293         | 399,507             |
| Total current liabilities   | 1,559,343       | 1,610,477           |
| Total liabilities   | 1,559,343       | 1,610,477           |
| <i>Stockholders' equity</i>   |                 |                     |
| Common stock, \$0.01 par value:   |                 |                     |
| Authorized - 25,000,000 shares; issued 1,961,058 shares and 1,871,058                                   |                 |                     |
| shares at June 30, 2009 and December 31, 2008, respectively;  |                 |                     |
| including shares held in treasury   | 19,611          | 18,711              |
| Additional paid-in capital  | 32,064,187      | 31,860,809          |
| Accumulated deficit   | (28,589,013 )   | (27,260,044 )       |
| Accumulated other comprehensive income currency translation adjustment                                  | 369,446         | 345,172             |

Edgar Filing: ZOOM TECHNOLOGIES INC - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| Treasury stock (1,680 shares), at cost     | (7,322 )     | (7,322 )     |
| Total stockholders' equity                 | 3,856,909    | 4,957,326    |
| Total liabilities and stockholders' equity | \$ 5,416,252 | \$ 6,567,803 |

See accompanying notes.

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

|  | <b>Three Months Ended June 30,</b> |               | <b>Six Months Ended June 30,</b> |                 |
|--|------------------------------------|---------------|----------------------------------|-----------------|
|  | <b>2009</b>                        | <b>2008</b>   | <b>2009</b>                      | <b>2008</b>     |
| Net sales  | \$ 3,065,868                       | \$ 4,061,451  | \$ 5,414,282                     | \$ 7,642,028    |
| Cost of goods sold   | 2,081,907                          | 3,143,067     | 3,937,554                        | 5,999,640       |
| Gross profit   | 983,961                            | 918,384       | 1,476,728                        | 1,642,388       |
| Operating expenses:  |                                    |               |                                  |                 |
| Selling  | 450,920                            | 821,733       | 937,817                          | 1,562,294       |
| General and administrative                                 | 508,373                            | 589,515       | 1,252,838                        | 1,136,990       |
| Research and development                                   | 289,572                            | 436,285       | 652,566                          | 903,195         |
|  | 1,248,865                          | 1,847,533     | 2,843,221                        | 3,602,479       |
| Operating profit (loss) before gain on sale of real estate | (264,904 )                         | (929,149 )    | (1,366,493 )                     | (1,960,091 )    |
| Gain on sale of real estate                                |                                    | 95,626        |                                  | 191,852         |
| Operating profit (loss)                                    | (264,904 )                         | (833,223 )    | (1,366,493 )                     | (1,768,239 )    |
| Other:   |                                    |               |                                  |                 |
| Interest income  | 793                                | 11,780        | 2,920                            | 38,560          |
| Other, net   | (9,461 )                           | (11,833 )     | 34,899                           | (25,724 )       |
| Total other income(expense), net                           | (8,668 )                           | (53 )         | 37,819                           | 12,836          |
| Income (loss) before income taxes                          | (273,572 )                         | (833,276 )    | (1,328,674 )                     | (1,755,403 )    |
| Income taxes (benefit)                                     | 295                                |               | 295                              |                 |
| Net income (loss)  | \$ (273,867 )                      | \$ (833,276 ) | \$ (1,328,969 )                  | \$ (1,755,403 ) |
| Basic and diluted net income (loss) per share              | \$ (0.14 )                         | \$ (0.45 )    | \$ (0.68 )                       | \$ (0.94 )      |
| Weighted average common and common equivalent              |                                    |               |                                  |                 |

shares:

|                   |           |           |           |           |
|-------------------|-----------|-----------|-----------|-----------|
| Basic and diluted | 1,959,378 | 1,869,393 | 1,945,455 | 1,869,393 |
|-------------------|-----------|-----------|-----------|-----------|

See accompanying notes.



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

|  | <b>Six Months Ended</b> |                 |
|--|-------------------------|-----------------|
|  | <b>March 31,</b>        |                 |
|  | <b>2009</b>             | <b>2008</b>     |
| <b>Operating activities:</b>   |                         |                 |
| Net income (loss)  | \$ (1,328,969 )         | \$ (1,755,403 ) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                         |                 |
| Gain on sale of real estate  |                         | (191,852 )      |
| Non-cash common stock issuance   | 158,400                 |                 |
| Stock based compensation   | 45,878                  | 115,460         |
| Depreciation and amortization  | 38,253                  | 32,606          |
| Changes in operating assets and liabilities:   |                         |                 |
| Accounts receivable, net   | (442,018 )              | 390,008         |
| Inventories  | 1,030,373               | 1,281,150       |
| Prepaid expenses and other assets  | 57,625                  | 49,712          |
| Accounts payable and accrued expenses  | (45,424 )               | (251,569 )      |
| Net cash provided by (used in) operating activities  | (485,882 )              | (329,888 )      |
| <b>Investing activities:</b>   |                         |                 |
| Investment   |                         | (325,496 )      |
| Additions to property, plant and equipment   | (12,295 )               | (3,757 )        |
| Net cash provided by (used in) investing activities  | (12,295 )               | (329,253 )      |
| Effect of exchange rate changes on cash  | 3,873                   | (472 )          |
| Net change in cash   | (494,304 )              | (659,613 )      |
| Cash and cash equivalents at beginning of period   | 1,204,984               | 3,647,654       |
| Cash and cash equivalents at end of period   | \$ 710,680              | \$ 2,988,041    |

**Supplemental disclosures of cash flow information:**

Cash paid during the period for:

|              |    |    |
|--------------|----|----|
| Interest     | \$ | \$ |
| Income taxes |    |    |

See accompanying notes.

**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)**

**(1) Summary of Significant Accounting Policies**

The condensed consolidated financial statements of Zoom Technologies, Inc. and subsidiary (the "Company") presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008 included in the Company's 2008 Annual Report on Form 10-K.

The accompanying financial statements are unaudited. However, the condensed balance sheet as of December 31, 2008 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all adjustments, normal recurring adjustments, necessary for a fair presentation.

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

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

(a)

*Recently Issued or Proposed Accounting Pronouncements*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring the fair value of assets and liabilities, and expands disclosure requirements regarding the fair value measurement. SFAS 157 does not expand the use of fair value measurements. This statement, as issued, is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position (FSP) FAS No. 157-2 was issued in February 2008 and deferred the effective date of SFAS 157 for non-financial assets and liabilities to fiscal years beginning after November 2008. The adoption of SFAS 157 did not have a significant impact on the Company's financial statements.

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

and equity securities, accounts payable, and issued debt. If elected, SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not elected to measure any additional assets or liabilities at fair value that are not already measured at fair value under existing standards.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141(R) ). SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. The Company will apply the provisions of SFAS 141 (R) to any acquisition subsequent to December 31, 2008.

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

**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)**

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). It requires enhanced disclosures about (i) how and why an entity uses derivative instruments; (ii) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 was effective for the Company beginning January 1, 2009. Adoption of SFAS 161 did not have a significant impact on the Company's financial statements.

In March 2009 FASB issued SFAS No. 165, Subsequent Events. It establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This Statement should not result in significant changes in the subsequent events that an entity reports either through recognition or disclosure in its financial statements. In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. The Company adopted SFAS 165 effective June 30, 2009 and evaluated any subsequent events through the date of this filing. The Company concluded there were no material subsequent events requiring disclosure.

**(2) Liquidity**

On June 30, 2009 the Company had working capital of \$2.8 million including \$0.7 million in cash and cash equivalents. On December 31, 2008 the Company had working capital of \$3.9 million including \$1.2 million in cash and cash equivalents. The Company's current ratio at June 30, 2008 was 2.8 compared to 3.4 at December 31, 2008. A significant portion of the reduction of the current ratio was due to the decline in inventories and cash.

In the first six months of 2009 the Company's operating activities used \$0.5 million in cash. The Company's net loss in the first six months of 2009 was \$1.3 million. Sources of cash from operations included primarily a decrease in inventories of \$1.0 million. Uses of cash included an increase in accounts receivable of \$0.4 million and a decrease in accounts payable and accrued expense of \$0.1 million.

As noted above, in the first six months of 2009 the Company incurred a net loss of \$1.3 million and used cash in operating activities of \$0.5 million, reducing the cash balance at June 30, 2009 to \$0.7 million. Management does not believe that the Company has sufficient resources to fund its normal operations over the next 12 months unless sales improve significantly or the Company receives additional funds. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. Zoom owns a 15% interest in Unity LLP. As described in Note 8 Zoom expects to receive \$0.8 million in cash in August or September, 2009 as a result of the sale of Unity to Telesphere Networks Ltd. Telesphere announced the purchase of Unity on July 28, 2009. The closing of the transaction awaits regulatory approval which is anticipated but not guaranteed. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is substantial doubt

as to its ability to continue as a going concern. See Risk Factors set forth in our Annual Report on Form 10-K for the year ended December 31, our Definitive Proxy Statement filed with the Securities and Exchange Commission ( SEC ) on August 6, 2009 and in our other filings with the SEC for further information with respect to events and uncertainties that could harm our business, operating results, and financial condition.

**(3) Inventories**

|                          | <b>June 30,</b> | <b>December 31,</b> |
|--------------------------|-----------------|---------------------|
|                          | <b>2009</b>     | <b>2008</b>         |
| Inventories consist of : |                 |                     |
| Raw materials            | \$ 922,978      | \$ 1,611,936        |
| Work in process          | 26,128          | 11,366              |
| Finished goods           | 926,936         | 1,279,677           |
| Total Inventories        | \$ 1,876,042    | \$ 2,902,979        |

**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY****Notes to Condensed Consolidated Financial Statements  
(Unaudited)****(4) Comprehensive Income (Loss)**

Comprehensive income (loss) follows:

|   | <b>Three Months Ended June 30,</b> |               |
|---|------------------------------------|---------------|
|   | <b>2009</b>                        | <b>2008</b>   |
| Net income (loss)                       | \$ (273,867 )                      | \$ (833,276 ) |
| Foreign currency translation adjustment | 32,009                             | 870           |
| Comprehensive income (loss)             | \$ (241,858 )                      | \$ (832,406 ) |

**(5) Contingencies**

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

**(6) Segment and Geographic Information**

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

|               | <b>Three Months Ended June 30, 2009</b> |       | <b>Three Months Ended June 30, 2008</b> |       | <b>Six Months Ended June 30, 2009</b> |       | <b>Six Months Ended June 30, 2008</b> |       |
|---------------|---|-------|---|-------|---------------------------------------|-------|---------------------------------------|-------|
|               | <b>% of Total</b>                       |       | <b>% of Total</b>                       |       | <b>% of Total</b>                     |       | <b>% of Total</b>                     |       |
| North America | \$ 2,592,933                            | 85 %  | \$ 2,716,488                            | 67 %  | \$ 4,570,137                          | 84 %  | \$ 5,087,727                          | 67 %  |
| UK            | 280,758                                 | 9 %   | 1,002,285                               | 25 %  | 422,382                               | 8 %   | 1,681,277                             | 22 %  |
| All Other     | 192,177                                 | 6 %   | 342,678                                 | 8 %   | 421,763                               | 8 %   | 873,024                               | 11 %  |
| Total         | \$ 3,065,868                            | 100 % | \$ 4,061,451                            | 100 % | \$ 5,414,282                          | 100 % | \$ 7,642,028                          | 100 % |

**(7) Customer Concentrations**

Relatively few customers account for a substantial portion of the Company's net sales. In the second quarter of 2009

the Company's net sales to its top three customers accounted for 53% of its total net sales. In the second quarter of 2008 the Company's net sales to its top three customers accounted for 39% of its total net sales. The Company's customers generally do not enter into long-term agreements obligating them to purchase the Company's products. The Company may not continue to receive significant revenues from any of these or from other large customers. A reduction or delay in orders from any of the Company's significant customers, or a delay or default in payment by any significant customer could materially harm the Company's business and prospects. Because of the Company's significant customer concentration, its net sales and operating income could fluctuate significantly due to changes in political or economic conditions, or the loss, reduction of business, or less favorable terms for any of our significant customers.

## **(8) Investments**

During the quarter ended September 30, 2007 the Company purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of \$1.2 million, including transaction costs. The Series A Preferred Shares are convertible at the Company's option into 15% of Unity's common stock on a fully-diluted basis. In addition, the Company has an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity's 2008 revenues, as defined. At December 31, 2008 Zoom determined that the fair market value of its investment in Unity was \$0.96 million, which resulted in a write-down of \$0.219 million. The value of this investment on our June 30, 2009 balance sheet remains at \$0.96 million. Zoom expects to receive approximately \$1.0 million in cash as a result of the sale of Unity to Telesphere Networks Ltd. Telesphere announced the purchase of Unity on July 28, 2009. The closing of the transaction awaits regulatory approval which is anticipated but not guaranteed. If the transaction closes as expected, Zoom would receive approximately \$0.8 million of the \$1.0 million in August or September of 2009.



**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)**

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

At December 31, 2008 Zoom determined that the fair market value of its investment in RedMoon was zero due to RedMoon's working capital position, cash flow, and the Company's analysis of the recovery value of the assets. Accordingly, Zoom wrote-off 100% of the \$0.325 million asset value, including transaction costs of \$0.025 million. The value of the RedMoon investment on the Zoom balance sheet at December 31, 2008 and June 30, 2009 is zero.

**(9) Potential Share Exchange**

On January 28, 2009, Zoom entered into a Share Exchange Agreement (the Agreement ) with Tianjin Tong Guang Group Digital Communication Co., Ltd ( TCB Digital ), TCB Digital's majority shareholder, Gold Lion Holding Limited ( Gold Lion ) and Lei Gu ( Gu ), a shareholder of Gold Lion. On May 12, 2009, the parties amended the Agreement to, among other actions, add Songtao Du ( Du ), a shareholder of Gold Lion, as a party to the Agreement. In connection with the Agreement, the Company issued 90,000 common shares with an aggregate fair value of \$158,400.

On August 6, 2009 Zoom filed a definitive proxy statement with the SEC with respect to soliciting votes from the Company's shareholders to approve: (a) the acquisition by Zoom by the issuance of 4,225,219 shares of Zoom common stock for 100% of Gold Lion, which is a holding company that owns (i) 100% of Jiangsu Leimone Electronics Co., Ltd., or Jiangsu Leimone, a foreign investment enterprise organized under the laws of the People's Republic of China, or PRC, which owns 51.03% of Tianjin Tong Guang Group Digital Communication Co., Ltd., or TCB Digital, a company organized under the laws of the PRC, and (ii) 100% of Profit Harvest Corporation Ltd., or Profit Harvest, a company organized under the laws of Hong Kong, and (b) the future acquisition by Zoom by the issuance of an additional 2,402,576 shares of Zoom common stock of additional shares of TCB Digital such that Zoom would own up to 80% of the outstanding shares of TCB Digital; subject to an upward adjustment that could provide for a maximum of 9,126,963 shares of Zoom common stock being issued for the acquisition of both Gold Lion and the additional 28.97% interest in TCB Digital. The acquisition is made pursuant to the Share Exchange Agreement, dated January 28, 2009, as amended on May 12, 2009, between Zoom, Gold Lion, TCB Digital, Zoom Telephonics, Inc., a wholly owned subsidiary of Zoom, and the Gold Lion shareholders. The completion of the proposed acquisition will result in the change of control of Zoom under the NASDAQ Stock Market Rules.

**(10) Adjustment to Previously Reported Financial Statements**

Subsequent to the Company's announcement of its financial results for the quarter ended June 30, 2009, management discovered that it had improperly accounted for the issuance of the 90,000 common shares described in Note 9 above. Such share issuance should have been recorded in the first quarter of 2009 as a charge to general and administrative expenses. The accompanying balance sheet as of June 30, 2009 and the statements of operations and cash flows for the six months then ended reflect the proper accounting for this transaction. Management has also recorded adjustments to reduce cost of goods sold and general and administrative expenses by approximately \$38,000 and \$12,000, respectively, to correct errors in the Company's operating results for the first quarter of 2009 which were not previously corrected due to their immateriality.

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

Management does not believe the correction of the errors described above requires a restatement of the previously reported financial statements for the quarter ended March 31, 2009 due to their insignificance to the financial position and results of operations of the Company taken as a whole. If the March 31, 2009 financial statements had been restated, the impact on key line items of the Statement of Operations and Balance Sheet would have been as follows:

| <b>\$ Thousands</b>   | <b>Q1 2009<br/>As Reported</b> | <b>Q1 2009<br/>Adjustment</b> | <b>Q1 2009<br/>If Restated</b> |
|---|--------------------------------|-------------------------------|--------------------------------|
| Statement of Operations for three months ended March 31, 2009 |                                |                               |                                |
| Net Sales   | \$ 2,348                       | \$                            | \$ 2,348                       |
| Gross Margin  | \$ 457                         | \$ 36                         | \$ 493                         |
| General & Administrative Expense                              | \$ 598                         | \$ 146                        | \$ 744                         |
| Operating Income  | \$ (992 )                      | \$ (110 )                     | \$ (1,102 )                    |
| Net Income (Loss) per share                                   | \$ (0.49 )                     | \$ (0.06 )                    | \$ (0.55 )                     |

| <b>\$ Thousands</b>                | <b>Q1 2009<br/>As Reported</b> | <b>Q1 2009<br/>Adjustment</b> | <b>Q1 2009<br/>If Restated</b> |
|------------------------------------|--------------------------------|-------------------------------|--------------------------------|
| Balance Sheet as of March 31, 2009 |                                |                               |                                |
| Inventories                        | \$ 2,521                       | \$ 36                         | \$ 2,558                       |
| Total Current Assets               | \$ 4,714                       | \$ 36                         | \$ 4,750                       |
| Total Assets                       | \$ 5,763                       | \$ 36                         | \$ 5,799                       |
| Total Liabilities                  | \$ 1,736                       | \$                            | \$ 1,736                       |
| Total Equity                       | \$ 4,027                       | \$ 36                         | \$ 4,063                       |



## ITEM 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion and analysis should be read in conjunction with the safe harbor statement and the risk factors contained in Item 1A of Part II of this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2008, in our Amended Preliminary Proxy Statement filed with the SEC on May 13, 2009 and in our other filings with the SEC. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.*

#### Potential Share Exchange

On January 28, 2009, Zoom entered into a Share Exchange Agreement (the "Agreement") with Tianjin Tong Guang Group Digital Communication Co., Ltd. ("TCB Digital"), TCB Digital's majority shareholder, Gold Lion Holding Limited ("Gold Lion") and Lei Gu ("Gu"), a shareholder of Gold Lion. On May 12, 2009, the parties amended the Agreement to, among other actions, add Songtao Du ("Du"), a shareholder of Gold Lion, as a party to the Agreement.

On August 6, 2009 Zoom filed a definitive proxy statement with the SEC with respect to soliciting votes from the Company's shareholders to approve: (a) the acquisition by Zoom by the issuance of 4,225,219 shares of Zoom common stock for 100% of Gold Lion, which is a holding company that owns (i) 100% of Jiangsu Leimone Electronics Co., Ltd., or Jiangsu Leimone, a foreign investment enterprise organized under the laws of the People's Republic of China, or PRC, which owns 51.03% of Tianjin Tong Guang Group Digital Communication Co., Ltd., or TCB Digital, a company organized under the laws of the PRC, and (ii) 100% of Profit Harvest Corporation Ltd., or Profit Harvest, a company organized under the laws of Hong Kong, and (b) the future acquisition by Zoom by the issuance of an additional 2,402,576 shares of Zoom common stock of additional shares of TCB Digital such that Zoom would own up to 80% of the outstanding shares of TCB Digital; subject to an upward adjustment that could provide for a maximum of 9,126,963 shares of Zoom common stock being issued for the acquisition of both Gold Lion and the additional 28.97% interest in TCB Digital. The acquisition is made pursuant to the Share Exchange Agreement, dated January 28, 2009, as amended on May 12, 2009, between Zoom, Gold Lion, TCB Digital, Zoom Telephonics, Inc., a wholly owned subsidiary of Zoom, and the Gold Lion shareholders. The completion of the proposed acquisition will result in the change of control of Zoom under the NASDAQ Stock Market Rules.

For a discussion of the Agreement and the proposed transaction please review Zoom's definitive proxy statement filed with the SEC on August 6, 2009.

#### Overview

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

For many years we performed most of the final assembly, test, packaging, warehousing and distribution at a production and warehouse facility on Summer Street in Boston, Massachusetts, which has also engaged in firmware programming for some products. On June 30, 2006 we announced our plans to move most of our Summer Street operations to a dedicated facility in Tijuana, Mexico commencing approximately September 1, 2006, and we have since implemented that plan.

Since 1983 our headquarters has been near South Station in downtown Boston. Zoom historically owned two adjacent buildings which connect on most floors, and which house our entire Boston staff. In December 2006 we sold our headquarters buildings to a third party, with a two-year lease-back of approximately 25,000 square feet of the 62,000 square foot facility. Our net sale proceeds were approximately \$7.7 million of which approximately \$3.6 million was repaid to our mortgage holder, eliminating the mortgage debt from our balance sheet. Our current lease expired in December 2008. On January 1, 2009 we reduced our leased Boston space from 25,000 square feet to

14,400 square feet with an increase in rent per square foot, resulting in a savings in 2009 of \$54,000. This new lease has a 2-year term.

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

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

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

In the second quarter of 2009 our net sales were down 24.5% compared to the second quarter of 2008. The sales decline was mainly the result of decreases in DSL and wireless product sales. Because of our significant customer concentration our net sales and operating results have fluctuated and in the future could continue to fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers.

Over the past several years our net sales have declined. In response to declining sales volume, we have cut costs by reducing staffing and overhead costs. Our total headcount of full-time employees was reduced from 63 on June 30, 2008 to 42 on June 30, 2009. As of August 5, 2009 Zoom had 42 full-time and part-time employees. Of the 42 Zoom employees on August 5, 2009, 9 were engaged in research and development, 10 were involved in manufacturing oversight, purchasing, assembly, packaging, shipping and quality control, 14 were engaged in sales, marketing and technical support, and the remaining 9 performed accounting, administrative, management information systems, and executive functions. Zoom has implemented cost cutting measures including reducing our headcount and reducing certain employees' work week from 40 hours to 32 hours per week. As a result, Zoom currently has 38 full-time employees and 4 employees working less than 40 hours per week. Our dedicated manufacturing personnel in Mexico were 26 on August 5, 2009. They are employees of our Mexican manufacturing service provider and not included in

our headcount.

On June 30, 2009 we had working capital of \$2.8 million including \$0.7 million in cash and cash equivalents. On December 31, 2008 we had working capital of \$3.9 million including \$1.2 million in cash and cash equivalents. Our current ratio at June 30, 2009 was 2.8 compared to 3.4 at December 31, 2008. The reduction of the current ratio was due primarily to the decline of inventories and cash.

In the first six months of 2009 the Company's operating activities used \$0.5 million in cash. The Company's net loss in the first six months of 2009 was \$1.3 million. Sources of cash from operations included a decrease in inventories of \$1.0 million. Uses of cash included an increase in accounts receivable of \$0.4 million.



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

On January 28, 2009, Zoom entered into a Share Exchange Agreement (the Agreement) with Tianjin Tong Guang Group Digital Communication Co., Ltd (TCB Digital), TCB Digital's majority shareholder, Gold Lion Holding Limited (Gold Lion) and Lei Gu (Gu), a shareholder of Gold Lion. On May 12, 2009, the parties amended the Agreement to, among other actions, add Songtao Du (Du), a shareholder of Gold Lion, as a party to the Agreement. See above in the beginning of the MD&A for a full description.

### 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 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.

**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 10.9% and 8.2%, respectively, for the second quarter of 2008 and 2009.

**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 \$0.005 million in the second quarter of 2008 and \$0.07 million in the second quarter of 2009.

**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. Reductions in our net sales due to sales and marketing incentives were \$0.2 million in the second quarter of 2008 and \$0.1 million in the second quarter of 2009.

**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 \$0.004 million in the second quarter of 2008 and \$0.001 million in the second quarter of 2009.

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 \$0.2 million in the second quarter of 2008 and \$0.006 million in the second quarter of 2009.

**Inventory Valuation and Cost of Goods Sold.** Inventory is valued at the lower of cost, determined by the first-in, first-out method, or market. We review inventories for obsolete slow moving products each quarter and make provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. In the second quarter of 2008 and 2009 we recorded immaterial amounts 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 available objective evidence, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. If we establish a record of continuing profitability, at some point we will be required to reduce the valuation allowance and recognize an equal income tax benefit which will increase net income in that period(s).

As of December 31, 2008 we had federal net operating loss carry forwards of approximately \$41,553,000. These federal net operating losses are available to offset future taxable income, and are due to expire in years ranging from 2018 to 2028. We also had state net operating loss carry forwards of approximately \$14,696,000. These state net operating losses are available to offset future taxable income, and are primarily due to expire in years ranging from 2009 to 2013.

**Valuation of Investments.** During the quarter ended September 30, 2007 the Company purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of \$1.2 million, including transaction costs. The Series A Preferred Shares are convertible at the Company's option into 15% of Unity's common stock on a fully-diluted basis. In addition, the Company has an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity's 2008 revenues, as defined. At December 31, 2008

Zoom determined that the fair market value of its investment in Unity was \$0.96 million, which resulted in a write-down of \$0.219 million. The value of this investment on our June 30, 2009 balance sheet remains at \$0.96 million. Zoom expects to receive approximately \$1.0 million in cash as a result of the sale of Unity to Telesphere Networks Ltd. Telesphere announced the purchase of Unity on July 28, 2009. The closing of the transaction awaits regulatory approval which is anticipated but not guaranteed. If the transaction closes as expected, Zoom would receive approximately \$0.8 million of the \$1.0 million in August or September of 2009.

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

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

## Results of Operations

**Summary.** Net sales were \$3.1 million for our second quarter ended June 30, 2009, down 24.5% from \$4.1 million in the second quarter of 2008. We had a net loss of \$0.274 million for the second quarter of 2009, compared to a net loss of \$0.833 million in the second quarter of 2008. Loss per diluted share was \$0.14 in the second quarter of 2009 compared to \$0.45 for the second quarter of 2008. Net sales were \$5.4 million for the first six months ended June 30, 2009, down 29.2% from \$7.6 million in the first six months ended June 30, 2008. We had a net loss of \$1.3 million for the first six months ended June 30, 2009 compared to a net loss of \$1.8 million for the first six months ended June 30, 2008. Loss per diluted share was \$0.68 in the first six months ended June 30, 2009 compared to \$0.94 for first six months ended June 30, 2008.

**Net Sales.** Our total net sales for the second quarter of 2009 decreased \$1.0 million or 24.5% from the second quarter of 2008, primarily due to decreases in DSL and wireless product sales. DSL modem net sales decreased from \$1.4 million in the second quarter of 2008 to \$0.7 million in the second quarter of 2009. The DSL modem sales decline was primarily a result of declines in sales to large customers both in the U.S. and internationally, primarily due to price competition. Despite the continuing significant decline in the dial-up modem market, our dial-up modem net sales decreased less than 3% from the second quarter of 2008 to the second quarter of 2009, primarily due to increased sales of personal computers without dial-up modems. Wireless product sales decreased from \$0.8 million in the second quarter of 2008 to \$0.4 million in the second quarter of 2009. Cable modem sales were \$0.4 million in both the second quarter of 2008 and the second quarter of 2009.

Our net sales for the first six months of 2009 decreased 29.2% from the first six months of 2008, primarily due to sales declines for DSL and wireless product sales. The decline in DSL modem sales was primarily for the reasons cited above.

Our net sales in North America were \$2.7 million in the second quarter of 2008 and \$2.6 million in the second quarter of 2009. Our net sales outside North America declined from \$1.3 million in the second quarter of 2008 to \$0.5 million in the second quarter of 2009. Sales outside North America declined primarily due to the market shift away from broadband modems to mobile broadband modems in the U.K. and strong price competition on DSL modems in other International markets.

Our net sales in North America were \$4.6 million in the first six months of 2009, a decrease from \$5.1 million in the first six months of 2008. Our net sales in the U.K. were \$0.4 million in the first six months of 2009 and \$1.7 million in the first six months of 2008. Our net sales in countries outside North America and the U.K. were \$0.4 million for the first six months of 2009 and \$0.9 million for the first six months of 2008. The decline in sales outside North America was primarily due to declines in DSL modem sales resulting from aggressive price competition.

In the second quarter of 2009 the Company's net sales to its top three customers accounted for 53% of its total net sales. Because of our significant customer concentration, our net sales and operating income has fluctuated and could in the future fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers.

**Gross Profit.** Our total gross profit was \$1.0 million in the second quarter of 2009, an increase from \$0.9 million in the second quarter of 2008. Our gross margin percent of net sales was 32.1% in the second quarter of 2009 compared to 22.6% in the second quarter of 2008. The gross margin percentage was higher in the second quarter of 2009 primarily due to the impact of selling higher margin dial-up modems; reductions in manufacturing personnel and related and fixed manufacturing costs, and reductions in manufacturing freight costs. Our total gross profit was \$1.5 million in the first six months of 2009 and \$1.6 million in the first six months of 2008. Gross margin as a percent of net sales increased to 27.3% in the first six months of 2009 from 21.5% in the first six months of 2008, primarily for the reasons cited above.

**Selling Expense.** Selling expense was \$0.5 million or 14.7% of net sales in the second quarter of 2009 compared to \$0.8 million or 20.2% of net sales in the second quarter of 2008. Selling expense decreased primarily as a result of reduced sales and support personnel and lower distribution costs. Selling expense was \$0.9 million for the first six months of 2009 and \$1.6 million for the first six months of 2008. Selling expense as a percentage of net sales was 17.3% in the first six months of 2009 and 20.4% of net sales in the first six months of 2008. Personnel and related costs and product distribution costs were the primary areas of selling cost reduction.

**General and Administrative Expense.** General and administrative expense was \$0.5 million or 16.6% of net sales in the second quarter of 2009 and \$0.6 million or 14.5% of net sales in the second quarter of 2008. General and administrative expense was reduced primarily in personnel and related costs, rent and utilities.. General and administrative expense in the second quarter of 2009 included \$0.1 million of expense related to the China merger transaction. General and administrative expense was \$1.3 million or 23.1% of net sales in the first six months of 2009 compared to \$1.1 million or 14.9% of net sales in the first six months of 2008. General and administrative expense in first six months of 2009 included \$0.4 million of expense related to the China merger transaction.

**Research and Development Expense.** Research and development expense was \$0.3 million or 9.4% of net sales in the second quarter of 2009 and \$0.4 million or 10.7% of net sales in the second quarter of 2008. Development and support continues on all of our major product lines. Research and development expense was \$0.7 million or 12.1% of net sales in the first six months of 2009 compared to \$0.9 million or 11.8% of net sales in the first six months of 2008. Research and development costs decreased primarily as a result of lower personnel costs due to headcount reductions.

**Gain on Sale of Real Estate.** No gain on sale of real estate was recorded in the second quarter or the first six months of 2009. A gain on sale of real estate of \$0.096 million and \$0.19 million was recorded in the second quarter and the first six months of 2008, respectively. In December 2006 Zoom sold its headquarter building in Boston and agreed to lease-back some of the office space. The lease-back arrangement resulted in an accounting deferral of \$0.725 million of the gain. This deferred gain was recorded over the subsequent eight quarters at \$0.096 million per quarter for seven quarters and \$0.053 million in the eighth and final quarter, which was the fourth quarter of 2008.

**Other Income (expense).** Other income (expense) was expense of \$0.009 million in the second quarter of 2009 and \$0.0 million in the second quarter of 2008. Other income (expense) was income of \$0.04 million in the first six months of 2009 compared to income of \$0.01 million in the first six months of 2008.

## Liquidity and Capital Resources

On June 30, 2009 we had working capital of \$2.8 million including \$0.7 million in cash and cash equivalents. On December 31, 2008 we had working capital of \$3.9 million including \$1.2 million in cash and cash equivalents. Our current ratio at June 30, 2008 was 2.8 compared to 3.4 at December 31, 2008. A significant portion of the reduction of the current ratio was due to a decline in inventories.

In the first six months of 2009 the Company's operating activities used \$0.5 million in cash. The Company's net loss in the first six months of 2009 was \$1.3 million. Sources of cash from operations included a decrease in inventories of \$1.0 million. Uses of cash included an increase in accounts receivable of \$0.4 million.



To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. As of June 30, 2009 we had 42 full-time employees compared to 63 as of June 30, 2008. 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.

As noted above, in the first six months of 2009 the Company incurred a net loss of \$1.3 million and used cash in operating activities of \$0.5 million, reducing the cash balance at June 30, 2009 to \$0.7 million. Management does not believe that the Company has sufficient resources to fund its normal operations over the next 12 months unless sales improve significantly or the Company receives additional funds. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. Zoom owns a 15% interest in Unity LLP. As described in Note 8 Zoom expects to receive \$0.8 million in cash in August or September, 2009 as a result of the sale of Unity to Telesphere Networks Ltd. Telesphere announced the purchase of Unity on July 28, 2009. The closing of the transaction awaits regulatory approval which is anticipated but not guaranteed. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is substantial doubt as to its ability to continue as a going concern. See Risk Factors set forth in our Annual Report on Form 10-K for the year ended December 31, our Definitive Proxy Statement filed with the Securities and Exchange Commission ( SEC ) on August 6, 2009 and in our other filings with the SEC for further information with respect to events and uncertainties that could harm our business, operating results, and financial condition.

## Commitments

During the six months ended June 30, 2009, there were no material changes to our capital commitments and contractual obligations from those disclosed in our Form 10-K for the year ended December 31, 2008.

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

*Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to statements regarding: Zoom's plans, expectations and intentions, including statements relating to Zoom's prospects and plans relating to sales of and markets for its products; Zoom's expected benefits and cost savings resulting from the move of its manufacturing facilities to Mexico; Zoom's ability to complete the Gold Lion acquisition and the spin-off, on a timely basis, if at all; and Zoom's financial condition or results of operations.*

*In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our*

*expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include those discussed in the risk factors set forth in Item 1A of Part II below as well as those discussed elsewhere in this report and in our filings with the Securities and Exchange Commission. We qualify all of our forward-looking statements by these cautionary statements.*

**ITEM 3.**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not Required.

**ITEM 4.**

**CONTROLS AND PROCEDURES**

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

As of June 30, 2009 we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic filings with the Securities and Exchange Commission within the required time period.

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

## PART II OTHER INFORMATION

### ITEM 1A.

#### RISK FACTORS

*This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report are applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2008, in our Preliminary Proxy Statement filed with the SEC on May 13, 2009, as well as those discussed in this report.*

### ITEM 6.

#### EXHIBITS

| Exhibit No. | Exhibit Description   |
|-------------|---|
| 10.1        | Amendment to the Share Exchange Agreement dated May 12, 2009 (filed as Annex A-1 to the Company's Preliminary Proxy Statement filed with the SEC on May 13, 2009 and incorporated by reference herein). |
| <u>31.1</u> | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>31.2</u> | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| <u>32.1</u> | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| <u>32.2</u> | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

**ZOOM TECHNOLOGIES, INC. AND SUBSIDIARY**

**SIGNATURES**

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

**ZOOM TECHNOLOGIES, INC.**

(Registrant)

Date: August 18, 2009

By:

/s/ Frank B. Manning

Frank B. Manning, President

(Principal Executive Officer)

Date: August 18, 2009

By:

/s/ Robert Crist

Robert Crist, Vice President of Finance and Chief  
Financial Officer (Principal Financial and  
Accounting Officer)

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>   |
|--------------------|--|
| <u>31.1</u>        | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>31.2</u>        | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>32.1</u>        | CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>32.2</u>        | CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |