CONSOLIDATED AND AMENDED 
CLASS ACTION COMPLAINT

Plaintiff Dungan Ltd. ("Lead Plaintiff"), individually and on behalf of all other persons similarly situated, by its undersigned attorneys, make the following averments for its Consolidated and Amended Class Action Complaint ("Complaint"). These averments are based upon personal knowledge as to itself and its purchases of Zomax, Inc. ("Zomax" or the "Company") common stock, and on information and belief as to all other matters, based upon, inter alia, the investigation conducted by and through their attorneys, which included, among other things, a review of the Defendants' public documents, conference calls and announcements made by Defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding Zomax, securities analysts' reports and advisories about the Company, interviews with persons, including former Zomax employees, having knowledge about the Company's activities during the relevant time period and information readily obtainable on the Internet. Lead Plaintiff believes that substantial, additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.
NATURE OF THE ACTION

1. This is a federal class action brought under sections 10(b), 20(a) and 20A(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §§ 78j(b), 78t(a) and 78t(l), and the rules and regulations promulgated thereunder by the SEC, including Rule 10b-5, 17 C.F.R. § 240.10b-5. Lead Plaintiff brings these claims on behalf of a class (the “Class”) consisting of all persons and entities who purchased or otherwise acquired the common stock of Zomax between May 25, 2000 and October 18, 2002 (the “Class Period”), inclusive, at artificially inflated prices and were damaged thereby.

2. During the Class Period, Defendants issued a series of statements regarding both demand for Zomax’s products and the expected margins on its sales of CDs and DVDs. Defendants insisted demand would “escalate significantly” in the third and fourth fiscal quarters of 2000, and that the product pricing for its sales of DVDs and CDs would remain stable.

3. For example, on July 24, 2000, Defendant James T. Anderson (“Anderson”), Zomax’s Chairman and Chief Executive Officer, stated that the Company’s newly-released second quarter results “evidence the continuing strong demand for our services” and that “[w]e expect that demand to escalate through the balance of the year.” Moreover, in its Form 10-Q for the second quarter of 2000, filed with the SEC on August 8, 2000, the Company stated that “2000 unit prices for CDs and services are expected to remain somewhat consistent, although downward pricing pressure exists.”

4. Defendants knew these positive statements were false and misleading when made. In fact, Defendants were aware by the beginning of the Class Period that a drastic decline in demand from its largest customers, including Microsoft, had already begun to adversely impact the Company’s business. In addition, and at the same time, relentless pricing pressure from nearly all
of the Company’s key customers drove CD and DVD prices downward, negatively impacting its margins. Finally, in the beginning of 2000, Zomax lost one of its top five largest accounts, Expert Software, when that company was purchased by Activision, one of Zomax’s competitors in the CD replication business.

5. Moreover, the Company was facing increased price competition from foreign and domestic competitors. Thus, overall demand in the CD replication market waned considerably beginning in the early spring of 2000. These adverse trends were well known to top Zomax executives, as demonstrated by the fact that they took action in response to the dwindling sales.

6. Throughout August of 2000, while Defendants issued these positive statements concerning the Company’s business prospects which Defendants knew to be false and misleading, Individual Defendants Anderson and his wife, Vice President of Sales and Marketing Michelle S. Bedard (“Bedard”), began unloading massive sums of Zomax common stock. When the selling spree was over on August 24, 2000, the husband and wife Defendants had dumped 712,500 shares of their Zomax common stock at artificially inflated prices, reaping proceeds of over $12.5 million.

7. **Less than one month after the last of these insider sales**, on September 21, 2000, Zomax surprised the market by announcing that its third quarter 2000 financial results would be lower than what the Company had been falsely touting. As a direct result of this news, shares of Zomax common stock plummeted by 52.16%, or $9.06 per share, to close at $8.31 per share on extremely heavy volume on September 22, 2000.

8. In the aftermath of the August 2000 insider sales, Defendant Anderson was adamant that his substantial trades were completely legitimate. On October 3, 2000, Anderson steadfastly told
the Minneapolis Star Tribune that "there was no conspiracy" in connection with the sales, and that his primary purpose in unloading his shares was "plain old financial diversity."

9. It was not until approximately two years later, after the market closed on Friday, October 18, 2002, that Zomax stunned investors by announcing that it was under investigation by the SEC in connection with the insider trading the Company's top executives engaged in during the summer of 2000. The market's reaction to this news was swift. Shares of Zomax closed down more than 10% on the next trading day, Monday, October 21, 2002, to close at $3.23 per share, on volume of 264,000 shares traded, an increase in volume of more than 493% from the prior day's trading.

10. The Company's October 18, 2002 announcement, and subsequent drop in the price of Zomax stock, placed Plaintiffs on notice that the August 2000 insider sales may have been the result of fraudulent conduct.¹

JURISDICTION AND VENUE

11. The claims asserted herein arise under and pursuant to Sections 10(b), 20(a) and 20A of the Exchange Act, (15 U.S.C. §§ 78j(b), 78t(a) and 78t(1)), and Rules 10b-5, 10b-1 promulgated thereunder by the Securities and Exchange Commission ("SEC") (17 C.F.R. §240.10b-5).

¹ Lead Plaintiff's investigation of Defendants' fraudulent activity is ongoing. Specifically, Lead Plaintiff is awaiting the results of a Freedom of Information Act ("FOIA") request filed electronically with the SEC on July 8, 2004, seeking all materials related to the Wells Notice sent by the staff of the Chicago Regional Office of the SEC indicating its intention to recommend to the SEC that a civil enforcement action be commenced against the Company and certain of its current and former officers. According to Zomax, the substance of the Wells Notice's allegations relate to certain statements made by the Company in 2000, as well as stock sales by Zomax insiders during the same time period.
12. This Court has jurisdiction over the subject matter of this action pursuant to §27 of the Exchange Act (15 U.S.C. §78aa) and 28 U.S.C. § 1331.


14. In connection with the acts, conduct and other wrongs alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

15. Lead Plaintiff Dungan Ltd. bought shares of Zomax during the Class Period and has suffered damages as a result of the wrongful acts of Defendants as alleged herein.

16. Section 20A Plaintiff Terry Fischer ("Section 20A Plaintiff") purchased Zomax's common stock on August 4, 2000, contemporaneously with the sales of Defendants Bedard and Anderson, as set forth in his certification, attached hereto as Exhibit A. As a result of Defendants' wrongful acts, Section 20A Plaintiff has suffered damages, as alleged herein. Lead Plaintiff and Section 20A Plaintiff are hereinafter collectively referred to as "Plaintiffs".

17. Defendant Zomax is a Minnesota public corporation that maintains office within this judicial district at 5353 Nathan Lane, Plymouth, MN 55442.
18. Defendant Anderson was at all relevant times the Company’s Chairman of the Board of Directors and Chief Executive Officer.

19. Defendant James E. Flaherty (“Flaherty”) was at all relevant times the Company’s Chief Financial Officer and a director of the Company.

20. Defendant Bedard was at all relevant times the Company’s Executive Vice President-Sales and Marketing.

21. Defendants Anderson, Flaherty and Bedard are collectively referred to hereinafter as the “Individual Defendants.” Defendants Zomax, Anderson, Flaherty and Bedard are collectively referred to hereinafter as “Defendants.” During the Class Period, each of the Individual Defendants, as senior executive officers and/or directors of Zomax were privy to non-public information concerning its business, finances, products, markets and present and future business prospects via access to internal corporate documents, conversations and connections with other corporate officers and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith. Because of their possession of such information, the Individual Defendants knew or recklessly disregarded the fact that adverse facts specified herein had not been disclosed to, and were being concealed from, the investing public.

22. Because of the Individual Defendants’ positions with the Company, they had access to the adverse, undisclosed information about the Company’s business, operations, operational trends, financial statements, markets and present and future business prospects via access to internal corporate documents (including the Company’s operating plans, budgets and forecasts and reports of actual operations compared thereto), conversations and connections with other corporate officers
and employees, attendance at management and Board of Directors meetings and committees thereof and via reports and other information provided to them in connection therewith.

23. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the false, misleading and incomplete information conveyed in the Company’s public filings, press releases and other publications as alleged herein are the collective actions of the narrowly defined group of Defendants identified above. Each of the above officers of Zomax, by virtue of their high-level positions with the Company, directly participated in the management of the Company, was directly involved in the day-to-day operations of the Company at the highest levels and was privy to confidential proprietary information concerning the Company and its business, operations, growth, financial statements, and financial condition, as alleged herein. Said Defendants were involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein, were aware, or recklessly disregarded, that the false and misleading statements were being issued regarding the Company, and approved or ratified these statements, in violation of the federal securities laws.

24. As officers and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the NASDAQ, and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate prompt, accurate and truthful information with respect to the Company’s financial condition and performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company’s publicly-traded common stock would be based upon truthful and accurate information.
The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

25. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public and shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Zomax, each of the Individual Defendants had access to the adverse undisclosed information about Zomax's financial condition and performance as particularized herein and knew or recklessly disregarded that these adverse facts rendered the positive representations made by or about Zomax and its business.

26. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company during the Class Period. Each of the Defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Zomax common stock by disseminating materially false and misleading statements and/or concealing material adverse facts. The scheme: (1) deceived the investing public regarding Zomax's business, operations, management and the intrinsic value of Zomax's common stock; (2) caused Plaintiff and other members of the Class to purchase Zomax's common stock at artificially inflated prices and (3) allowed Individual Defendants Anderson and Bedard to dispose of massive blocks of Zomax common stock at artificially inflated prices.
BACKGROUND

Microsoft’s Critical Importance to Zomax’s Success

27. Zomax describes itself as a leading international outsource provider of process management services. According to the Company, its fully integrated services include "front-end" e-commerce support; call center and customer support solutions; DVD authoring services; CD and DVD mastering; CD and DVD replication; supply chain and inventory management; graphic design; print management; assembly; packaging; warehousing; distribution and fulfillment; and RMA processing. Throughout the Class Period, Zomax’s success hinged on its relationship with its largest customer, Microsoft.

28. Numerous former Zomax employees, as well as Zomax’s own statements, confirm that throughout the Class Period, Microsoft was by far Zomax’s largest customer, accounting for at least 50%, and as much as 90%, of Zomax’s total business.

29. According to a staff accountant (“Staff Accountant”), who was responsible for processing bills and expense reports and who was employed at Zomax’s Concord, California call center from May of 2000 through February of 2002, Microsoft was responsible for “60-70% of Zomax’s revenue” during the Class Period. Moreover, Company executives were well aware of Microsoft’s overwhelming importance to Zomax’s fortunes. In this regard, Staff Accountant stated that Zomax had a controller at every site in which it did business and that each of these sites had its own books, as well as profit and loss statements. The site controllers then reported these accounting figures to senior company executives at the close of each month, according to Staff Accountant.

30. These facts are corroborated by other former Zomax employees. A director of operations (“Director of Operations”) at the Company’s San Ramon and Concord, California call
centers employed by Zomax from March through October of 2000, stated that Microsoft “supplied 80-90% of Zomax’s business” at Fremont during the Class Period. Director of Operations, who had hundreds of employees working directly below him, was responsible for managing Zomax’s two California call centers and for devising cash-flow proposals for the company. In addition, Director of Operations was also responsible for fulfillment, inventory tracking and distribution of inventory at the Fremont, California facility. Finally, he was responsible for handling all customer service issues with Microsoft and other major clients.

31. Similarly, a director of IT (“Director of IT”) at the Fremont facility employed by Zomax from approximately August of 1999 through October of 2000 stated that Microsoft accounted for at least 60% of Zomax’s business and that “every other customer played second fiddle to Microsoft.”

32. In fact, in a July 12, 2003 article in the Minneapolis Star Tribune discussing the Company’s problems, Zomax Chief Financial Officer John Gelp confirmed Microsoft’s overwhelming importance to the Company’s success. Gelp stated that “just a few years prior,” making startup CDs and other software for Microsoft accounted for at least 40-50% of the Company’s business.

33. Because Zomax relied on Microsoft for such a large percentage of its total business, Microsoft enjoyed considerable leverage over Zomax. An illustrative example of the extent of Microsoft’s reach was related by Director of Operations, who stated that Microsoft’s influence was so great that he was forced to interview with Microsoft before being hired by Zomax.
Softening Demand and Price Pressures Effect a Decline in Revenue from Microsoft Sales In Early 2000

34. Beginning in April of 2000 and continuing throughout the Class Period, Microsoft demanded that Zomax reduce its CD prices. According to Director of Operations, managers raised Microsoft’s price reduction demands at every meeting during the summer of 2000. During this period, Microsoft “just kept squeezing and squeezing.” Director of Operations stated that price reduction pressure from Microsoft was relentless from the outset of his tenure at Zomax. Because of Microsoft’s significant leverage over Zomax’s success, the Company was forced to bow to its demands.

35. Microsoft’s price reduction demands were spurred on by both the entry of low-cost competition into the CD replication market and the software company’s own internal problems, according to Director of Operations. These facts are confirmed by a general manager (“General Manager”) of the Indianapolis distribution and return center employed by Zomax from March of 1999 through February of 2001, who stated that by May of 2000, and continuing throughout the Class Period, Microsoft sales fell off sharply. The Indianapolis facility was a good barometer of the whole company, according to General Manager, because it performed a representative mix of manufacturing and distribution: “We were kind of the tail of the dog,” he stated. General Manager stated that the recession, antitrust suit problems, and competition from other manufacturers all combined to slow orders from Microsoft throughout the Class Period.

36. During the first few months of 2000, the pressure from Microsoft on Zomax’s management team began to build substantially, according to a manager of client services (“Client Services Manager”), who worked at the Company’s Plymouth, Minnesota facility from December
of 1999 through July of 2001, and who worked closely with a sales group that included Defendant Bedard. During this time Microsoft was experiencing increased piracy of their CD software and insisted that Zomax put in large, labor-intensive security and tracking systems, according to Client Services Manager. These systems required Zomax both to purchase previously unnecessary hardware and to increase security in all of its facilities. The net effect of these demands on Zomax was a drastic increase in the cost of doing business.

37. In addition to these demands, in the spring of 2000 Microsoft terminated all of its “returns” business with Zomax. According to a Vice President of Operations (“VP of Operations”) employed by the Company from 1995 until November of 2001, “returns” business meant the processing of all faulty Microsoft CDs that were returned to and from Zomax’s distribution centers. VP of Operations, who was responsible for the Company’s operations, stated that this loss was a “blow to the company” and that Defendants Anderson, Bedard and Flaherty were keenly aware of the loss of business.

38. Furthermore, according to VP of Operations, during the first few months of 2000, Microsoft insisted that Zomax attain what it termed a “Certificate of Authenticity” from the software company. Microsoft sent in auditors to make sure all of Zomax’s tracking systems, inventory numbers and its security networks were up to Microsoft’s standards, according to VP of Operations. Implementation of the Microsoft systems was both “onerous and costly,” according to VP of Operations. Because of Microsoft’s tremendous leverage, however, there was little Zomax could do to avoid the substantial time and expense associated with the project.

39. Moreover, throughout the Class Period, and beginning in the Spring of 2000, competition from other CD replicators caused Microsoft to constantly push for lower CD prices from
Zomax, according to Client Services Manager. Because Microsoft sales accounted for the majority of Zomax’s revenues, the Company was left with little choice but to accede to its demands for fear that Microsoft would drastically reduce its business, or terminate it altogether.

40. In fact, at the beginning of 2000, Client Services Manager stated that Zomax was selling CDs for $0.80 to $1.00 each. But by the summer of 2000, Zomax was selling CDs for approximately $0.48 per copy as a result of Microsoft’s relentless pricing demands. This trend continued, according to Client Services Manager, until she left the company in July 2001, at which time CDs were selling for an average of just $0.28 per copy. These figures are confirmed by VP of Operations, who stated that by the spring of 2000, CD margins were drastically shrinking. Throughout 2000 the average price for CDs declined until, by early 2001, Zomax received only $0.35 per unit, according to VP of Operations.

41. General Manager confirmed that by May of 2000, sales to Microsoft began to slow down considerably. In addition, Microsoft’s declining demand caused it to close a distribution center next to the Zomax facility in Indianapolis. During the same period, sales and operations at what General Manager termed Zomax’s “crown jewel” facility at Fremont, California also began to slow considerably.

42. General Manager’s statements were confirmed by an audit clerk (“Audit Clerk”) who worked at the Berryessa facility in San Jose, California from July of 2000 through September of 2002, and was responsible for auditing the Company’s CD returns from distributors such as Ingram-Micro, which in turn served Filemaker, Microsoft, Micromedia, Lucas Arts and Adobe. Audit Clerk confirmed that, in the summer of 2000, income from the Microsoft business began to drop off due to the increased priced competition. In fact, Audit Clerk further stated that the volume of CD
products being returned from distributors such as Ingram-Micro also declined in the summer of 2000, a sign that general sales to these distributors were in decline.

**Softening Demand and Pricing Pressures from Other Large Customers Also Contribute to the Sharp Decline in Revenues by the Spring of 2000**

43. The general business decline beginning in early 2000 was not limited to the decline in higher-margin sales to Microsoft. Several other former employees confirmed that nearly all facets of Zomax’s business were in serious decline by at least the start of the Class Period. This general decline was marked by demands from Zomax’s other large customers for lower prices, resulting in shrinking margins and decreasing revenues. In addition, demand for CDs slowed. Key customers Dell, Hewlett-Packard, IBM and Gateway also began forcefully pushing for lower prices from Zomax in early 2000, according to Client Services Manager. Moreover, these customers demanded online access to their inventory data, and wanted Zomax to expand services beyond what Zomax was then capable of providing.

44. Contributing greatly to the slowing demand for Zomax’s products was the total loss of one of the Company’s top-five largest accounts, Expert Software, in the beginning of 2000. According to VP of Operations, Expert Software was purchased by one of Zomax’s competitors in the CD replication business, Activision.

45. This general slowdown in sales, coupled with a decrease in higher-margin sales, during early 2000 is further confirmed by a director of materials (“Director of Materials”) employed at the Fremont facility from April of 1998 through June of 2002, who was responsible for procurement for all of the facility’s materials. Director of Materials stated that he knew Zomax was not going to hit its manufacturing numbers in the third quarter of 2000 due to lack of sales. He
further stated that price competition had caused Zomax’s gross margins to shrink before the summer of 2000. As a result of these trends, Director of Materials stated that it was “not a surprise” that there was a third quarter 2000 earnings shortfall.

46. The general sales slowdown and margin squeeze is further confirmed by a quality engineer (“Quality Engineer”) employed at the Fremont facility from November of 1996 through September 2001. Quality Engineer, who was responsible for product quality, was informed by upper management in the beginning of 2000 at middle management staff meetings that the second half of 2000 “wouldn’t be that good.”

47. Further corroborating these facts is the testimony of Client Services Manager, who stated that sales were generally in decline from at least December of 1999 through the end of the Class Period. In fact, Defendant Bedard informed Client Services Manager that sales had slowed considerably from years past, that there was increased competition and that the overall price received for CD units “was nowhere close to the past couple of years.”

48. Specifically, orders from Novell, which accounted for approximately 60% of the Berryessa facility’s revenues, decreased by 40-50% in the first half of 2000, according to a project manager (“Project Manager I”) employed at the Company’s Berryessa facility in San Jose, California from 1999 until July of 2000. Project Manager I further stated that there was also a pronounced decrease in big dollar orders from Novell in 2000.

49. Moreover, according to VP of Operations, Gateway, another of Zomax’s top-five largest customers, began to pull back its business during early 2000 due to a corporate reorganization policy as well as a downward trend in the PC business.
50. The loss of Gateway's business during this time is confirmed by Client Services Manager, who stated that Zomax also experienced a substantial 20-30% decrease in business from Gateway at the Plymouth facility. This loss was particularly damaging to Zomax, according to Client Services Manager, because the Plymouth facility, which serviced several smaller accounts that generally paid above-average margins, was one of the Company's most profitable.

51. Also at the beginning of 2000, Zomax totally lost its business with MacMillan Publishing, an account responsible for approximately 25% of revenue at the Company's Indianapolis facility, according to General Manager.

52. In fact, Zomax's Indianapolis distribution center was a "huge money loser" by the spring of 2000, according to VP of Operations. Defendant Anderson was pressed in meetings with several high-ranking Zomax executives, including Angelini, to shut down the facility, according to VP of Operations. Anderson refused despite the facility's obvious unprofitability because he feared closing the distribution center "wouldn't look good in public," according to VP of Operations. As a result, the highly-unprofitable Indianapolis distribution center was allowed to stay open.

53. Finally, as sales slowed to nearly all of Zomax's customers in early 2000, production also declined. A test specialist ("Test Specialist") employed at the Fremont facility from December of 1998 through February of 2001, stated that production was "way down" in the summer of 2000. According to Test Specialist, "[t]here were times when we were just sitting there." In addition, Test Specialist reported that because of the slowdown in production, worker schedules were cut from 12 hours shifts to 8 hour shifts in the summer of 2000.
Defendants Were Well Aware of the Precipitous Decline in Revenue by the Spring of 2000 and Took Affirmative Steps to Respond to It

54. Defendants and other top executives at Zomax were well aware by at least April of 2000 (one month before the Class Period begins) that general market softness, loss of key customers, price competition and a production slow-down were having, and would continue to have, a material adverse impact on the Company’s third quarter 2000 financial results.

55. In fact, according to VP of Operations, in the spring of 2000, Angelini sent out a memorandum to managers stating that Zomax need to “tighten its belt,” and that the likely loss of future sales was “a bear in hibernation.”

56. In addition, according to VP of Operations, by the spring of 2000, Defendants Anderson and Bedard were well aware both of the declining prices of Zomax’s products and its negative effect on the Company’s long term business. In fact, at monthly manager’s meetings held at Zomax’s Plymouth, Minnesota headquarters during this time, Defendant Anderson often stated that the CD replication business “is a penny business and that margins are always shrinking.”

57. Moreover, Director of Operations stated that in the early summer of 2000, Zomax President Anthony Angelini (“Angelini”) directed him to come up with a plan to both reduce costs and improve net profit for the third quarter of 2000. According to Director of Operations, “this was not a directive we got every week,” and in fact stated that he never received another like it during his entire time at Zomax. Intense action and follow-up was required by Angelini, according to Director of Operations.

58. In addition, there was heavy emphasis on getting these goals completed quickly, and in time to impact the Company’s third quarter 2000 results. Director of Operations immediately
assembled his managers and assigned responsibility to cut costs. He also held several meetings regarding the directive. According to Director of Operations, the Company was “cracking down” in light of the adverse business trend described above, looking for opportunities to amplify net profits and cut costs.

59. These facts are confirmed by General Manager, who stated that in April of 2000, Angelini and Defendant Anderson issued an unusual directive to all general managers of the Company “to go out and drum up business.” General Manager stated that he protested to Angelini and Defendant Anderson that sales was never a part of his job function but his protests fell on deaf ears. General Manager was nonetheless ordered to go out and sell.

60. Defendants’ direct knowledge of the problems at Zomax is further evidenced by their conduct toward General Manager during the spring of 2000. According to General Manager, in the spring and summer of 2000, “all of a sudden things dropped off.” Defendant Anderson and Angelini began relentlessly ordering General Manager to “turn over every rock” in terms of cutting costs and increasing sales in the spring and early summer of 2000. He also reported that he and other general managers would really get “beat-up” in their quarterly meetings with Defendant Anderson and Angelini. At this point, the quarterly meetings became “really rough.” Angelini and Defendant Anderson insisted that general managers cut costs on items such as lights, training, machinery, shrink-wrap machines and a lot of equipment for assembly operations. General Manager stated that he had to scrape up machinery from other Zomax plants just to function. In addition, General Manager stated that 60% of his workforce was kept temporary by Angelini and Defendant Anderson. He was not allowed to hire anyone else permanently until the Company became more profitable.

-18-
61. In addition, Defendant Bedard was aware of the precipitous decline in sales to Gateway by at least the beginning of the Class Period. According to VP of Operations, Gateway was Defendant Bedard’s key sales account and was responsible for her largest commission checks. Defendant Bedard was aware of Gateway’s declining sales by at least the start of the Class Period because her commission checks immediately shrank as a result of the sales decline.

62. Moreover, Zomax’s own internal procedures forced Defendants to be aware of the decline in high margin sales throughout the Class Period. Zomax’s internal policy dictated that any time the Company was required to give a quote for a large customer order, one of the “principals” – usually Defendant Bedard or Angelini – had to sign off, according to Client Services Manager. As a result of this internal mechanism, Defendants were intimately aware, by virtue of the Company’s own policy, of both the plummeting wholesale CD prices and decline in demand throughout the Class Period.

DEFENDANTS’ MATERIALLY FALSE AND MISLEADING STATEMENTS CONCERNING DEMAND AND PRODUCT PRICING

63. The Class Period commences on May 25, 2000. On that day, Zomax in a press release announced its intention to increase its CD replication capacity by approximately 20% in the second half of the year. Defendant Anderson stated that “[t]his decision to substantially increase our manufacturing capacity demonstrates our strong belief in the industry and is indicative of the expected demand for CD & DVD products from our customers. We believe that demand in the 3rd and 4th quarters will escalate significantly from where it is today.” (Emphasis added)

64. On June 6, 2000, Defendant Anderson, in an interview with the Minneapolis Star Tribune, reiterated this position. Defendant Anderson stated:
"Despite the economy slowing in a 'big picture' way, there are some sectors, such as personal computer sales, that are growing fast," said Anderson ... We believe that demand in the third and fourth quarter will escalate significantly from where it is today." (Emphasis added.)

65. The statements set forth at ¶¶ 63-64 were each materially false and misleading when made for at least the following reasons: (1) by the spring of 2000, Defendants knew or recklessly disregarded that demand from its key customer, Microsoft, as well as from other large customers, such as Dell, Gateway, IBM and Hewlett-Packard, had materially declined; (2) as a result of weakening demand from its key customers, Defendants knew or recklessly disregarded that sales growth for CDs and DVDs would not occur during the Company's seasonally strong third quarter; and (3) Individual Defendants Anderson, Bedard and Flaherty were aware, or recklessly disregarded, the adverse business trends affecting Zomax, as described in detail at ¶¶ 54-62 above, and took affirmative steps to remedy them.

66. On July 24, 2000, the Company announced its financial results for the second fiscal quarter ended June 30, 2000. Commenting on these results, Defendant Anderson stated:

"The second quarter finished very strong for us and we are pleased to report improvements in gross margin and operating income percentages ... These 2nd quarter results evidence the continuing strong demand for our services. We expect that demand to escalate through the balance of the year. We believe the market will recognize our superior performance and reward us accordingly.” (Emphasis added.)

67. On or about August 8, 2000, the Company filed its quarterly report on Form 10-Q with the SEC. The Company’s Form 10-Q was signed by Defendants Anderson and Flaherty (on
August 4, 2000) and reaffirmed the Company’s previously announced financial results. Therein, the Company stated:

The Company believes the total number of CDs sold worldwide will continue to grow in 2000. 2000 unit prices for CDs and services are expected to remain somewhat consistent, although downward pricing pressure exists. The Company believes it has the personnel, strategies and financial strength in place to support the expected increase in sales growth with a minimum increase in salaried personnel.

If the CD market demand does not continue to grow as expected, revenue growth would be adversely impacted and the manufacturing capacity installed may be underutilized. Pricing strategies of competitors and general economic factors, such as consumer confidence and inflation, all impact the Company. A substantial part of our revenues will be significantly lower than expected if we cannot keep these customers. (Emphasis added.)

68. The statements set forth at ¶¶ 66-67 were each materially false and misleading when made for at least the following reasons: (1) by the spring of 2000, Defendants knew or recklessly disregarded that demand for the Company’s products from almost all of its key customers such as Microsoft, Dell, Gateway, IBM and Hewlett-Packard had materially slowed; (2) as a result of weakening demand from its key customers, Defendants knew or recklessly disregarded that sales growth for CDs and DVDs would not occur during the Company’s seasonably strong third quarter; (3) Individual Defendants Anderson, Bedard and Flaherty were aware, or recklessly disregarded, the adverse business trends affecting Zomax, as described in detail at ¶¶ 54-62 above, and took affirmative steps to respond to them; (4) Defendant knew or recklessly disregarded by May of 2000 that unit prices for CDs had decreased materially; and (5) Defendants knew orrecklessly disregarded by May of 2000 that the pricing pressures from Microsoft and other large customers, the entrance
of other CD replicators into the marketplace and slowing demand all conspired to significantly and materially lower the price of Zomax products.

**COMPANY’S PRE-ANNOUNCEMENT CONCERNING THIRD QUARTER 2000 FINANCIAL RESULTS**

69. On September 21, 2000, Zomax issued a press release announcing that its third quarter 2000 financial results would be lower than current consensus estimates. According to Zomax, general market softness, and in particular softness in the European market, was a significant contributing factor to the earnings shortfall. Other factors contributing to the disappointing results, according to Zomax, included a major customer modifying a third quarter program that the Company was unable to replace with other business, an increase in polycarbonate prices resulting from increasing crude oil prices and further weakening of European currencies.

70. On news of the disappointing third quarter results, shares of Zomax fell 52.16%, or $9.06 per share, to close at $8.31 per share on extremely heavy trading volume on September 22, 2000.

71. While the market was surprised by Zomax’s disappointing pre-announcement of third quarter 2000 results, market analysts were uniform in their view that the miss was not the result of nefarious activity at the Company. In fact, not one analyst report filed after the earnings release suggested that Zomax had issued false and misleading statements to inflate the price of its common stock. Instead, analysts and the investing public were duped into accepting the Company’s stated reasons for the disappointing results which now are known to be have been false.
THE INSIDER SELLING BY DEFENDANTS ANDERSON AND BEDARD

72. Defendants Anderson and Bedard were motivated to artificially inflate the price of Zomax common stock through misrepresentations and omissions in order to engage in insider sales and realize substantial profits. Beginning on August 4, 2000, fewer than two weeks after Zomax released its second quarter 2000 financial results, Defendants Anderson and Bedard began unloading large blocks of their Zomax common stock holdings. Unbeknownst to investors, both Anderson and Bedard were aware of, or recklessly disregarded, the adverse impact the softening demand, pricing pressures and production slowdowns were having, and would continue to have, on Zomax’s financial results for the third quarter of 2000 and beyond. Nonetheless, on August 4, 2000, each sold 100,000 shares at prices ranging from $18.13 to $18.50 per share, for proceeds totaling $1,815,035 each.

73. On August 7, 2000, Defendants Anderson and Bedard again unloaded massive blocks of Zomax stock. Each sold 150,000 shares of Zomax common stock at prices ranging from $17.75 to $18.44 per share, for proceeds totaling $2,711,540 each.

74. Later, on August 9, 2000, Defendants Anderson and Bedard each sold 24,000 shares of their Company stock at $17.75 per share for proceeds totaling $426,000 for each.

75. The insider sales continued on August 14, 2000, when Defendants Anderson and Bedard each sold 37,000 shares of their Company stock at prices ranging from $17.13 to $17.19 per share for proceeds totaling $634,590 for each.

76. Finally, on August 24, 2000, Defendants Anderson and Bedard each sold 45,250 shares of their Company stock at $16.31 per share for proceeds totaling $738,027.50 for each. By the end of Anderson and Bedard’s selling spree, each had unloaded 356,250 shares, for a total of
712,500 shares of Zomax common stock, unto unsuspecting Class Members, reaping proceeds totaling $12,650,385.

77. Defendants' stock sales above were suspicious in both timing and amount. According to Defendant Bedard's Form 4 filed with the SEC on September 8, 2000, her August sales of 356,250 shares left her with only 168,704 common shares. As such, these sales comprised 68% of Bedard's total Zomax common stock holdings. Similarly, according to Defendant Anderson's Form 4, also filed with the SEC by the same counsel of record on September 8, 2000, his identical sales of 356,250 shares left him with only 296,296 Zomax common shares. These sales therefore constituted 56% of Anderson's total Zomax common stock holdings. Defendants Anderson and Bedard sold 56% and 68% of the stock they owned or acquired, respectively, because they knew the stock was artificially inflated and would decline sharply in price when the true facts, which Defendants were concealing, became public.

78. Defendants Anderson and Bedard's stock sales were also unusual in their timing. These stock sales occurred during the time period when Zomax was supposedly enjoying escalating demand and achieving strong revenue, net income and earnings per share growth. As a result, if these exceptionally favorable present conditions and future prospects actually existed, Zomax common stock should have been poised for continued advancement.

79. Nevertheless, the final insider sale was executed less than one month before Defendants issued the press release announcing that its third quarter 2000 financial results would be lower than current consensus estimates. Defendants unloaded more than half of their common stock holdings because they knew that Defendants' statements about the purportedly strong demand for
the Company’s products were false and misleading, and concealed the serious negative conditions in Zomax’s business as detailed herein.

80. The insider selling by Defendants Anderson and Bedard is strong evidence of scienter on the part of Defendants.

DEFENDANTS’ FALSE AND MISLEADING STATEMENTS CONCERNING ANDERSON AND BEDARD’S INSIDER SELLING

81. In addition, not only did Defendants Anderson and Bedard sell shares while in possession of material, nonpublic information, when pressed about their actions in the aftermath of the sales, they vehemently denied any wrongdoing. Specifically, when a reporter from the Minneapolis Star Tribune questioned Defendant Anderson about his August 2000 sales, in an October 3, 2000 article, he responded sarcastically, stated that he was “[s]orry, but there was no conspiracy.” Defendant Anderson further stated:

“But we’ve gotten the [investor] calls. I still directly own just shy of 500,000 shares and options for another 600,000 or 700,000. **I was a seller for the same reason [as I was earlier]: plain old financial diversity.** I used to have 100 percent of my net worth in Zomax. And I started diversifying three years ago. I sold stock I bought through option exercises. **You need cash because the taxes on the gain are due when you sell. So the sale was partly tax-driven.**”

(Emphasis added)

82. In addition, Defendant Flaherty backed up Anderson’s cover story to the press. On September 23, 2000 Flaherty told the Minneapolis Star Tribune that Anderson’s sales were completely legitimate in light of the fact that Anderson had “sold shares consistently over the past two or three years.”
83. Contrary to Defendant Flaherty’s statement, the August trades by Defendants Anderson and Bedard were in fact unusual in light of their prior trading practice. While both Anderson and Bedard sold shares of Zomax common stock in early 2000 and mid to late 1999, each disposed of more shares in August of 2000 than in any prior single month. Moreover, Anderson and Bedard’s 1999 and pre-Class Period 2000 sales were made during the zenith of the dot.com bubble, when the NASDAQ composite index, as well as Zomax’s common stock price, were each trading at or near their all-time high prices, a fact plainly apparent to Anderson and Bedard at the time. The aberrational nature of this unprecedented bull market undermines any direct comparison that might be made to later trading periods after the technology bubble burst in March of 2000.

84. Defendant Anderson was aware by May of 2000 of the adverse business trends then affecting Zomax. As such, Defendant Anderson’s statements regarding the August 2000 sales were false and misleading when made because, in fact, the sole purpose for the sales was to maximize the profits from holdings in Zomax common stock before the Defendants had to disclose the declining financial numbers to the public.

**THE TRUTH BEGINS TO BE REVEALED**

85. On October 18, 2002, Zomax shocked the market when it announced that the SEC had commenced a preliminary investigation into the trading of Zomax securities by insiders during 2000. The Company stated that it did not know when the investigation would be concluded. The Company’s announcement placed Lead Plaintiff on notice that the August 2000 insider stock sales of Defendants Anderson and Bedard may have been the result of material, nonpublic information and not “plain old financial diversity.”
86. Then, on February 5, 2004, more than 15 months after it disclosed the SEC’s preliminary investigation, Zomax announced that the Company had received a "Wells Notice" from the staff of the Chicago Regional Office of the SEC indicating its intention to recommend to the SEC that a civil enforcement action be commenced against the Company and certain of its current and former officers. According to the Company, the notice contained many of the same allegations set forth herein – violations regarding false and misleading forward looking statements made to the public and in a quarterly report in the year 2000. The SEC also indicated its intention to recommend a civil enforcement action be commenced against certain current and former officers regarding alleged insider trading violations during the same time period.

87. In its Form 10-K filed with the SEC on March 12, 2004, for the fiscal year ended December 26, 2003, Zomax stated that it received the Wells Notice from the SEC in December of 2003. Zomax offered no explanation for its decision to conceal the Well Notice until February 4, 2004.

88. Also on February 5, 2004, Zomax announced that Defendant Anderson resigned from his post as Chairman and Chief Executive Officer, effective immediately.

**UNDISCLOSED ADVERSE FACTS**

89. The market for Zomax’s common stock was open, well-developed and efficient at all relevant times. As a result of these materially false and misleading statements and failures to disclose, Zomax’s common stock traded at artificially inflated prices during the Class Period. Lead Plaintiff and other members of the Class purchased or otherwise acquired Zomax common stock relying upon the integrity of the market price of Zomax’s common stock and market information relating to Zomax, and have been damaged thereby.
90. During the Class Period, Defendants materially misled the investing public, thereby inflating the price of Zomax’s common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants’ statements, as set forth herein, not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company, its business and operations, as alleged herein.

91. At all relevant times, the material misrepresentations and omissions particularized in this Complaint directly or proximately caused or were a substantial contributing cause of the damages sustained by Lead Plaintiff and other members of the Class. As described herein, during the Class Period, defendants made or caused to be made a series of materially false or misleading statements about Zomax’s business, prospects and operations. These material misstatements and omissions had the cause and effect of creating in the market an unrealistically positive assessment of Zomax and its business, prospects and operations, thus causing the Company’s common stock to be overvalued and artificially inflated at all relevant times. Defendants’ materially false and misleading statements during the Class Period resulted in Plaintiff and other members of the Class purchasing the Company’s common stock at artificially inflated prices, thus causing the damages complained of herein.

CLASS ACTION ALLEGATIONS

92. Lead Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of the Class consisting of persons and entities who purchased or otherwise acquired the common stock of Zomax between June 6, 2000 and October 18, 2002, inclusive, and who were damaged thereby. Excluded from the Class are Defendants, the officers and
directors of the Company, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

93. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Zomax common shares were actively traded on the NASDAQ and millions of shares were traded during the Class Period. While the exact number of Class Members is unknown to Lead Plaintiff at this time and can only be ascertained through appropriate discovery, Lead Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Zomax or its transfer agent and may be notified of the pendency of this action by mail and publication, using forms of notice similar to those customarily used in securities class actions.

94. Lead Plaintiff's claims are typical of the claims of the members of the Class, because Lead Plaintiff and all of the Class Members are purchasers or acquirers of Zomax stock during the Class Period and were similarly affected by the wrongful conduct of Defendants as described in this Complaint.

95. Lead Plaintiff will fairly and adequately protect the interests of the Class Members and has retained counsel who are experienced and competent in class actions and securities litigation. Lead Plaintiff has no interests that conflict with the interests of the Class.

96. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

(a) whether Defendants violated the federal securities laws as alleged herein;
whether documents, filings, releases and statements made by Defendants to the investing public during the Class Period misrepresented or omitted material facts;

whether the market price of Zomax common stock during the Class Period was artificially inflated due to the misrepresentations or omissions complained of herein;

whether Defendants acted with scienter;

whether the Individual Defendants were control person of Zomax; and

whether members of the Class have sustained damages and, if so, what is the appropriate measure of damages.

97. A Class Action is superior to all other available methods for the fair and efficient adjudication of this controversy, since joinder of all members is impracticable. Furthermore, as the damages suffered by individual members of the Class may be relatively small, the expense and burden of individual litigation make it impossible for the members of the Class to individually redress the wrongs done to them. Lead Plaintiff knows of no difficulty that may be encountered in the management of this litigation that would preclude its maintenance as a class action.

Applicability Of Presumption Of Reliance:

Fraud-On-The-Market Doctrine

98. At all relevant times, the market for Zomax’s common stock was an efficient market for the following reasons, among others:

(a) Zomax’s stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;

(b) As a regulated issuer, Zomax filed periodic public reports with the SEC and the NASDAQ;
(c) Zomax regularly communicated with public investors via established market communication mechanisms, including through regular disseminations of press releases on the national circuits of major newswire services and through other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(d) Zomax was followed by several securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and certain customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace.

99. As a result of the foregoing, the market for Zomax’s common stock was open, well-developed and efficient at all relevant times, and therefore, a presumption of reliance applies. As a result of the materially false and misleading statements and omissions described above, Zomax common stock traded at artificially inflated prices throughout the Class Period. Lead Plaintiff and other members of the 10(b) Class purchased or otherwise acquired Zomax’s common stock relying upon the integrity of the market price of the Company’s common stock and market information relating to Zomax, and have been damaged thereby.

100. Throughout the Class Period, Defendants materially misled the investing public, as detailed above, thereby inflating the price of Zomax common stock, by publicly issuing false and misleading statements and omitting to disclose material facts necessary to make Defendants’ statements not false and misleading. Said statements and omissions were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about the Company and its business, operations, and financial results, as detailed herein.
NO STATUTORY SAFE HARBOR

101. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this complaint. Many of the specific statements pleaded herein were not identified as “forward-looking statements” when made. To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Zomax who knew that those statements were false when made.

FIRST CLAIM:

Violation Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against All Defendants

102. Lead Plaintiff repeats and reiterates the allegations set forth above as though fully set forth herein. This claim is asserted against all Defendants.

103. During the Class Period, Zomax and the Individual Defendants, and each of them, carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: a) deceive the investing public, including Lead Plaintiff and other Class Members, as alleged herein; b) artificially inflate and maintain the market price of Zomax’s common stock; and c) cause Lead Plaintiff and other members of the Class to purchase Zomax’s common stock at
artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Zomax and the Individual Defendants, and each of them, took the actions set forth herein.

104. These Defendants: a) employed devices, schemes, and artifices to defraud; b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's common stock in an effort to maintain artificially high market prices for Zomax's common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. These Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein. The Individual Defendants are also sued as controlling persons of Zomax, as alleged below.

105. In addition to the duties of full disclosure imposed on Defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, they each had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. § 210.01 et seq.) and S-K (17 C.F.R. § 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition and performance so that the market prices of the Company's common stock would be based on truthful, complete and accurate information.

106. Zomax and the Individual Defendants, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the
business, business practices, performance, operations and future prospects of Zomax as specified herein.

107. These Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Zomax's value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Zomax and its business operations and future prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Zomax's common stock during the Class Period.

108. Each of the Individual Defendants' primary liability, and controlling person liability, arises from the following facts: a) each of the Individual Defendants was a high-level executive and/or director at the Company during the Class Period; b) each of the Individual Defendants, by virtue of his responsibilities and activities as a senior executive officer and/or director of the Company, was privy to and participated in the creation, development and reporting of the Company's internal budgets, plans, projections and/or reports; c) the Individual Defendants enjoyed significant personal contact and familiarity with each other and were advised of and had access to other members of the Company's management team, internal reports, and other data and information about the Company's financial condition and performance at all relevant times; and d) the Individual Defendants were aware of the Company's dissemination of information to the investing public which they knew or recklessly disregarded was materially false and misleading.
109. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Such Defendants' material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose and effect of concealing Zomax's operating condition, business practices and future business prospects from the investing public and supporting the artificially inflated price of its common stock. As demonstrated by Defendants' overstatements and misstatements of the Company's financial condition and performance throughout the Class Period, the Individual Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

110. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Zomax's common stock were artificially inflated during the Class Period. In ignorance of the fact that market prices of Zomax's common stock were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the common stock trades, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Lead Plaintiff and the other members of the Class acquired Zomax common stock during the Class Period at artificially high prices and were damaged thereby.

111. At the time of said misrepresentations and omissions, Lead Plaintiff and other members of the Class were ignorant of their falsity, and believed them to be true. Had Lead Plaintiff
and the other members of the Class and the marketplace known of the true performance, business
practices, future prospects and intrinsic value of Zomax, which were not disclosed by Defendants,
Lead Plaintiff and other members of the Class would not have purchased or otherwise acquired their
Zomax common stock during the Class Period, or, if they had acquired such common stock during
the Class Period, they would not have done so at the artificially inflated prices which they paid.

112. By virtue of the foregoing, Zomax and the Individual Defendants have each violated
Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

113. As a direct and proximate result of Defendants’ wrongful conduct, Lead Plaintiff and
the other members of the Class suffered damages in connection with their respective purchases and
sales of the Company's common stock during the Class Period.

SECOND CLAIM:

Violation Of Section 20(a) Of The Exchange Act
Against the Individual Defendants

114. Lead Plaintiff repeats and reiterates the allegations as set forth above as if set forth
fully herein. This claim is asserted against the Individual Defendants.

115. Each of the Individual Defendants acted as a controlling person of Zomax within the
meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level
positions with the Company, participation in and/or awareness of the Company's operations and/or
intimate knowledge of the Company's actual performance, the Individual Defendants had the power
to influence and control and did influence and control, directly or indirectly, the decision-making of
the Company, including the content and dissemination of the various statements which Lead Plaintiff
contends are false and misleading. Each of the Individual Defendants was provided with or had
unlimited access to copies of the Company's reports, press releases, public filings and other statements alleged by Lead Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

116. In addition, each of the Individual Defendants had direct involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

117. As set forth above, Zomax and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their controlling positions, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Defendants' wrongful conduct, Lead Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

THIRD CLAIM:

Violation of §20A(a) of the Exchange Act Against Defendants Anderson and Bedard

118. Section 20A Plaintiff Terry Fischer repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

119. This Claim is brought by Section 20A Plaintiff against Defendants Anderson and Bedard. Section 20A Plaintiff purchased Zomax common stock contemporaneously with the sales of Zomax common stock by Anderson and Bedard.
120. By virtue of Defendant Anderson’s position as Chairman of the Board of Directors and Chief Executive Officer of Zomax and Defendant Bedard’s position as Executive Vice President-Sales and Marketing, and further by virtue of their marriage to one another, Defendants Anderson and Bedard were in knowing possession of material, nonpublic information about Zomax at the time of their collective sales of more than $12 million of their Zomax common stock.

121. By virtue of their participation in the scheme to defraud investors described herein, through their sales of stock while in knowing possession of material, non-public information about the adverse information detailed herein, Defendants Anderson and Bedard violated the Exchange Act and applicable rules and regulations thereunder, as set forth in the First and Second Claims.

122. Section 20A Plaintiff, and all other members of the Class who purchased shares of Zomax common stock contemporaneously with the sales of Zomax common stock by Defendants Anderson and Bedard on August 4, 2000, August 7, 2000, August 9, 2000, August 14, 2000 and August 24, 2000: (1) have suffered substantial damages as a result of the violations of §§ 10(b) and 20(a) and Rules 10b-5 and 10b5-1 herein described; and (2) would not have purchased Zomax common stock at the prices they paid, or at all, if they had been aware of the material, non-public information that Defendants Anderson and Bedard possessed.

123. This action is commenced within five years of the August 2000 open-market sales of Defendants Anderson and Bedard.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action, designating Dugan Ltd. as Lead Plaintiff and certifying Lead Plaintiff as a class representative under Rule 23 of the Federal Rules of Civil Procedure and Plaintiff's counsel as Lead Counsel;
(b) Awarding compensatory damages in favor of Lead Plaintiff and Section 20A Plaintiff and the other Class Members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants’ wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Date: August 13, 2004

ZIMMERMAN REED, P.L.L.P.

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