Zoom Telephonics, Inc.
Form 10-Q
November 13, 2018

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 September 30, 2018

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 0-53722

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

Delaware	04-2621506
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
99 High Street, Boston, Massachusetts	02110
(Address of Principal Executive Offices)	(Zip Code)

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

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 every Interactive Data File required to be submitted 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 such files). YES NO

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller Reporting Company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 5, 2018, was 16,106,681 shares.

ZOOM TELEPHONICS, INC.
INDEX

Part I. - Financial Information

Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of September 30, 2018 (Unaudited) and December 31, 2017	3
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (Unaudited)	4
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (Unaudited)	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative And Qualitative Disclosures About Market Risk	19
Item 4. Controls and Procedures	19

Part II. Other Information

Item 1. Legal Proceedings	20
Item 1A. Risk Factors	20
Item 6. Exhibits	21
Signatures	21
Exhibit Index	22

PART I - FINANCIAL INFORMATION

ITEM 1.
FINANCIAL STATEMENTS

ZOOM TELEPHONICS, INC.
Condensed Consolidated Balance Sheets

ASSETS	September 30, 2018 (Unaudited)	December 31, 2017
Current assets		
Cash and cash equivalents	$238,172	$229,218
Accounts receivable, net	4,400,032	2,229,512
Inventories, net	6,300,794	5,202,303
Prepaid expenses and other current assets	680,411	578,406
Total current assets	11,619,409	8,239,439
Other assets	240,999	391,668
Equipment, net	268,645	161,574
Total assets	$12,129,053	$8,792,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank debt	$1,949,850	$90,260
Accounts payable	3,529,843	3,526,851
Accrued sales tax	240,973	831,000
Accrued other expenses	1,883,741	1,172,984
Total liabilities	7,604,407	5,621,095
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock: Authorized: 25,000,000 shares at $0.01 par value		
Issued and outstanding: 16,106,681 shares at September 30, 2018 and 15,286,540 shares at December 31, 2017	161,067	152,865
Additional paid-in capital	40,857,998	40,265,282
Accumulated deficit	(36,494,419)	(37,246,561)
Total stockholders' equity	4,524,646	3,171,586
Total liabilities and stockholders' equity	$12,129,053	$8,792,681

See accompanying notes to condensed consolidated financial statements.

3

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$9,000,060	$8,582,076	$24,859,173	$20,556,157
Cost of goods sold	5,726,970	5,515,753	15,572,098	13,561,520
Gross profit	3,273,090	3,066,323	9,287,075	6,994,637
Operating expenses:				
Selling expenses	2,032,486	1,812,921	6,209,842	5,341,239
General and administrative expenses	438,326	383,475	1,059,613	1,153,753
Research and development expenses	420,475	457,309	1,199,067	1,367,718
	2,891,287	2,653,705	8,468,522	7,862,710
Operating income (loss)	381,803	412,618	818,553	(868,073)
Other income (expense):				
Interest income	39	22	230	59
Interest expense	(33,051)	(30,636)	(44,763)	(87,178)
Other, net	(320)	65	(385)	(11,072)
Total other income (expense)	(33,332)	(30,549)	(44,918)	(98,191)
Income (loss) before income taxes	348,471	382,069	773,635	(966,264)
Income taxes	2,537	4,984	21,493	14,123
Net income (loss)	$345,934	$377,085	$752,142	$(980,387)
Net income (loss) per share:				
Basic	$0.02	$0.03	$0.05	$(0.07)
Diluted	$0.02	$0.02	$0.05	$(0.07)
Basic weighted average common and common equivalent shares	16,050,540	14,953,285	15,905,348	14,851,229
Diluted weighted average common and common equivalent shares	16,775,498	16,419,374	16,630,306	14,851,229

See accompanying notes to condensed consolidated financial statements.

4

ZOOM TELEPHONICS, INC.
Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$752,142	$(980,387)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	274,339	391,181
Stock based compensation	226,160	170,074
Provision for accounts receivable allowances	5,651	540
Provision for (recovery of) inventory reserves	(120,420)	186,440
Changes in operating assets and liabilities:		
Accounts receivable	(2,176,171)	393,164
Inventories	(978,071)	(566,490)
Prepaid expenses and other assets	(102,005)	(327,462)
Accounts payable and accrued expenses	123,722	1,421,963
Net cash provided by (used in) operating activities	(1,994,653)	689,023
Cash flows from investing activities:		
Cost of other assets	(23,560)	(75,000)
Purchases of plant and equipment	(207,181)	(93,849)
Net cash provided by (used in) investing activities	(230,741)	(168,849)
Cash flows from financing activities:		
Net funds received from (paid to) bank credit lines	1,859,590	(711,842)
Proceeds from stock option exercises	374,758	102,675
Net cash provided by (used in) financing activities	2,234,348	(609,167)
Net change in cash	8,954	(88,993)
Cash and cash equivalents at beginning of period	229,218	179,846
Cash and cash equivalents at end of period	$238,172	$90,853
Supplemental disclosures of cash flow information:		

Cash paid during the period for:		
Interest	$44,763	$87,178
Income taxes	$21,493	$14,123

See accompanying notes to condensed consolidated financial statements.

5

ZOOM TELEPHONICS, INC.
Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements ("financial statements") are unaudited. However, the condensed consolidated balance sheet as of December 31, 2017 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all necessary adjustments to present fairly the condensed consolidated financial position, results of operations and cash flows of Zoom Telephonics, Inc. (the "Company" or "Zoom"). The adjustments are of a normal, recurring nature.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year. The Company has evaluated subsequent events from September 30, 2018 through the date of this filing and determined that there are no such events requiring recognition or disclosure in the financial statements.

The financial statements of 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 financial statements and notes thereto for the year ended December 31, 2017 included in the Company's 2017 Annual Report on Form 10-K for the year ended December 31, 2017.

Sales Tax

The Company recorded a sales tax accrual in 2017 after the Company became aware that a state sales tax liability was both probable and estimable as of December 31, 2017. The state sales tax liability stems from the Company's 'Fulfilled by Amazon' sales agreement which allows Amazon to warehouse the Company's inventory throughout a number of states. As a result, the Company recorded an expense of $831 thousand in Q4 2017, and approximated $119 thousand additional expense in Q1 2018. During Q2 2018, the Company settled its obligations with a number of states, and re-assessed its liability on the few states remaining, and determined that a reduction of approximately $203 thousand in the sales tax liability was warranted. During Q3 2018, the Company settled additional obligations with some of the remaining states. Additionally, there were no re-assessments to the liability during Q3 2018. As of September 30, 2018, approximately $86 thousand of the original state sales tax liability remains.

Recently Adopted Accounting Standards

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which a company expects to be entitled in exchange for those goods or services.

The Company adopted Accounting Standards Codification ("ASC") Topic 606 using the modified retrospective method provision of this standard effective January 1, 2018, which requires the Company to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, there was no material

impact which required a cumulative effect adjustment.

Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Identification of the contract, or contracts, with a customer — a contract with a customer exists when the Company enters into an enforceable contract with a customer, typically a purchase order initiated by the customer, that defines each party's rights regarding the goods to be transferred and identifies the payment terms related to these goods.

Identification of the performance obligations in the contract — performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are distinct, whereby the customer can benefit from the goods on their own or together with other resources that are readily available from third parties or from us. Persuasive evidence of an arrangement for the sale of product must exist. The Company ships product in accordance with the purchase order and standard terms as reflected within the Company's order acknowledgments and sales invoices.

Determination of the transaction price — the transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods to the customer. This would be the agreed upon quantity and price per product type in accordance with the customer purchase order, which is aligned with the Company's internally approved pricing guidelines.

Allocation of the transaction price to the performance obligations in the contract — if the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. This applies to the Company as there is only one performance obligation, which is to ship the goods.

Recognition of revenue when, or as, the Company satisfies a performance obligation — the Company satisfies performance obligations at a point in time when control of the goods transfers to the customer. Determining the point in time when control transfers requires judgment. Indicators considered in determining whether the customer has obtained control of a good include:

The Company has a present right to payment
The customer has legal title to the goods
The Company has transferred physical possession of the goods
The customer has the significant risks and rewards of ownership of the goods
The customer has accepted the goods

The Company has concluded that transfer of control substantively transfers to the customer upon shipment or delivery, depending on the delivery terms of the purchase agreement.

Other considerations of Topic 606 include the following:

Warranties - the Company does not offer customers to purchase a warranty separately. Therefore there is not a separate performance obligation. The Company does account for warranties as a cost accrual and the warranties do not include any additional distinct services other than the assurance that the goods comply with agreed-upon specifications. Warranties are variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to warranties are historically not material.

Returned Goods - analyses of actual returned product are compared to that of the product return estimates and historically have resulted in no material difference between the two. The Company has concluded that the current process of estimating the return reserve represents a fair measure with which to adjust revenue. Returned goods are variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). Under implementation of Topic 606, the Company will monitor pending authorized returns of goods and, if deemed appropriate, record the right of return asset accordingly.

Price protection - price protection provides that if the Company reduces the price on any products sold to the customer, the Company will guarantee an account credit for the price difference for all quantities of that product that the customer still holds. Price protection is variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to price protection are historically not material.

7

Volume Rebates and Promotion Programs - volume rebates are variable dependent upon the volume of goods sold-through the Company’s customers to end-users variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to rebates and promotions are historically not material.

Impact of adoption of new revenue guidance on financial statement line items:

Accounts receivable, net:

	September 30, 2018	December 31, 2017
Gross accounts receivable	$4,420,776	$2,811,638
Allowance for doubtful accounts	(20,744)	(15,094)
Allowance for marketing distribution funds *	—	(127,821)
Allowance for returns *	—	(439,211)
Allowance for price protection, promotions *	—	—
Total allowances	(20,744)	(582,126)
Total accounts receivable, net	$4,400,032	$2,229,512

Accrued other expenses:

	September 30, 2018	December 31, 2017
Audit, legal, payroll	$253,255	$314,504
Trademark licensing costs	875,000	750,000
Reserve for returns and allowances*	683,717	—
Other	71,769	108,480
Total accrued other expenses	$1,883,741	$1,172,984

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* Upon adoption of ASC 606 on January 1, 2018, certain accounts receivable allowances totaling $683,717 as of September 30, 2018 were reported as accrued other expenses as payable to the Company's customers and settled in cash or by credit on account.

Company revenues are primarily from the selling of products that are shipped and billed. Consistent with the revenue recognition accounting standard, revenues are recognized when control is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services. Sales are earned at a point in time through ship-and-bill performance obligations.

The impact of adopting this standard on the Company’s condensed consolidated financial statements required no cumulative transition adjustment.

Regarding disaggregated revenue disclosures, as previously noted, the Company’s business is controlled as a single operating segment that consists of the manufacture and sale of Internet access and other communications-related products. Most of the Company’s transactions are very similar in nature, contract, terms, timing, and transfer of control

of goods.

Disaggregated revenue by distribution channel:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Through :	2018	2017	2018	2017
Retailers	$7,998,492	$8,169,316	$22,745,719	$19,449,302
Distributors	552,346	231,765	1,255,259	503,321
Other	449,222	180,995	858,195	603,534
Total	$9,000,060	$8,582,076	$24,859,173	$20,556,157

8

Disaggregated revenue by product:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Cable Modems & gateways	$8,162,319	$8,328,518	$22,782,715	$19,785,177
Other	837,741	253,558	2,076,458	770,980
Total	$9,000,060	$8,582,076	$24,859,173	$20,556,157

Revenue is recognized when obligations under the terms of a contract with customers are satisfied. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring the products. Based on the nature of the Company’s products and customer contracts, the Company has not recorded any deferred revenue. Any agreements with customers that could impact revenue such as rebates or promotions are recognized in the period of agreement.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. ASU 2018-05 amends Accounting Standards Codification (“ASC”) Topic 740 to provide guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the “Tax Act”) pursuant to Staff Accounting Bulletin No. 118. ASU 2018-05 addresses situations where the accounting under ASC Topic 740 is incomplete for certain income tax effects of the Tax Act upon issuance of the entity’s financial statements for the reporting period in which the Tax Act was enacted. The adoption of ASU 2018-05 in March 2018 did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments Credit Losses —Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for public business entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period for fiscal years beginning after December 15, 2018. An entity should apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). The Company is currently evaluating the potential impact that the adoption of ASU 2016-13 may have on its consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, and ASU No. 2018-11, Targeted Improvements to Topic 842, Leases. ASU 2018-10 updates Topic 842 in order to clarify narrow aspects of the guidance issued in ASU 2016-02, Leases (Topic 842). Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening

balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current generally accepted accounting principles (Topic 840, Leases). An entity that elects this transition method must prove the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840. The amendments in ASU 2018-10 and ASU 2018-11 are effective when ASU 2016-02 is effective, for fiscal years beginning after December 15, 2018. The Company has evaluated which transition approach it will elect but does not expect the adoption of ASU 2016-02, ASU 2018-10 and ASU 2018-11 to have a significant impact on its consolidated financial statements. The Company will adopt ASC Topic 842 using the alternative transition approach effective January 1, 2019, which requires the Company to apply the new lease standard to (i) all new lease contracts entered into after January 1, 2019 and (ii) all existing lease contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, the Company does not expect there to be a material impact which would require a cumulative effect adjustment.

Reclassification

Certain accrued other expenses as presented in the impact of adoption of new revenue guidance on financial statement line items note above previously classified as “Other” as of December 31, 2017, have been reclassified within “Audit, legal, payroll” for consistency with current quarter presentation. This reclassification had no effect on the reported condensed consolidated balance sheet.

(2) Liquidity

On September 30, 2018 the Company had approximately $1.95 million in bank debt for a $3.0 million asset-based credit line, approximately $238 thousand in cash and cash equivalents, and working capital of approximately $4.0 million. The Company’s credit line has a maturity date of November 2018, and automatically renews unless cancelled under the terms of agreement.

Major uses of cash during the first nine months of 2018 were increases of approximately $2.17 million in accounts receivable, and approximately $1.1 million in inventory. Major contributors to cash were an increase of approximately $1.86 million in bank debt and net income of approximately $752 thousand.

The Company continues to experience sales growth, and had operating profits for four of the last five quarters. The Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of the Company’s Quarterly filing of this Form 10-Q with the Securities Exchange Commission.

(3) Inventories

Inventories consist of :	September 30, 2018	December 31, 2017
Materials	$1,844,604	$1,524,728
Work in process	90,137	1,149
Finished goods	4,366,053	3,676,426
Total	$6,300,794	$5,202,303

Finished goods includes inventory consigned to Amazon of $1,851,900 at September 30, 2018 and $958,500 at December 31, 2017. The Company reviews inventory for obsolete and slow moving products each quarter and makes provisions based on its estimate of the probability that the material will not be consumed or that it will be sold below cost. The provision for inventory reserves was negligible for both three months ended September 30, 2018 and 2017, respectively.

(4) Commitments and Contingencies

(a) Contingencies

From time to time 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 matters will not materially and adversely affect the Company's business, financial position, or results of operations.

10

On July 11, 2018, Be Labs, Inc. ("Be Labs") filed a complaint in the U.S. District Court for the District of Delaware (U.S.D.C., D.Del.) against the Company alleging infringement of U.S. Patent Nos. 7,827,581 (“the ’581 patent”) and 9,344,183 (“the ‘183 patent”), both entitled “Wireless Multimedia System.” Be Labs alleged that the Company’s AC1900 Cable Modem/Routers, including its Model 5363 Routers, infringe both the '581 patent and the ‘183 patent. In its complaint, Be Labs sought injunctive relief and unspecified compensatory damages. The case was resolved in September 2018 with the entry by the judge of an Order of Dismissal with Prejudice.

The Company does not have any other pending or outstanding legal proceedings beyond that referenced above.

(b) Commitments

In May 2015 Zoom entered into a License Agreement with Motorola Mobility LLC (the “License Agreement”). The License Agreement provides Zoom with an exclusive license to use certain trademarks owned by Motorola Trademark Holdings, LLC. for the manufacture, sale and marketing of consumer cable modem products in the United States and Canada through certain authorized sales channels.

In August 2016 Zoom entered into an amendment to the License Agreement with Motorola Mobility LLC (the “2016 Amendment”). The 2016 Amendment expands Zoom’s exclusive license to use the Motorola trademark to a wide range of authorized channels worldwide, and expands the license from cable modems and gateways to also include consumer routers, WiFi range extenders, home powerline network adapters, and access points.

In August 2017 Zoom entered into an amendment to the License Agreement with Motorola Mobility LLC (the “2017 Amendment”). The 2017 Amendment expands Zoom’s exclusive license to use the Motorola trademark to a wide range of authorized channels worldwide, and expands the license from cable modems, gateways, consumer routers, WiFi range extenders, home powerline network adapters, and access points to also include MoCa adapters, and cellular sensors. The License Agreement, as amended, has a five-year term beginning January 1, 2016 through December 31, 2020 and increased the minimum trademark licensing payments as outlined below.

In connection with the License Agreement, the Company has committed to reserve a certain percentage of wholesale prices for use in advertising, merchandising and promotion of the related products. Additionally, the Company is required to make quarterly trademark licensing payments equal to a certain percentage of the preceding quarter’s net sales with minimum annual trademark licensing payments as follows:

Year ending December 31,

2018:	$3,500,000
2019:	$4,500,000
2020:	$5,100,000

Trademark licensing expense under the License Agreement was $875 thousand and $750 thousand for the third quarter of 2018 and 2017, respectively, and $2.625 million and $2.25 million for nine months ended September 30, 2018 and 2017, respectively. Trademark licensing expense is included in selling expense on the accompanying condensed consolidated statements of operations. The balance of the committed royalty expense for 2018 amounts to $875,000.

The Company has agreed with North American Production Sharing, Inc. (“NAPS”) to extend the Company’s existing Tijuana facility’s lease in connection with the Production Sharing Agreement (“PSA”) entered into between the Company and NAPS. The extension goes through November 30, 2018 and also facilitates the Company’s contracting

with Mexican personnel to work in our Tijuana facility. The Company is in the processing of renewing this agreement.

The Company moved its headquarters on June 29, 2016 from its long time location at 207 South Street, Boston, MA to a nearby location at 99 High Street, Boston, MA. The Company signed a lease for 11,480 square feet that terminates on June 29, 2019. Payments under the lease are zero for the first 2 months, an aggregate of $413,280 for the next 12 months, an aggregate of $424,760 for the next 12 months, and an aggregate of $363,533 for the remaining term of the lease ending June 29, 2019. Rent expense was $104,577 for the third quarter of 2018 and $102,338 for the third quarter of 2017. Rent expense was $318,959 for the first nine months of 2018 and $303,860 for the first nine months of 2017.

11

(5) Customer Concentrations

The Company sells its products primarily through high-volume retailers and distributors; and also sells through Internet service providers, value-added resellers, and system integrators. The Company supports its major accounts in their efforts to offer a well-chosen selection of attractive products and to maintain appropriate inventory levels.

Relatively few companies account for a substantial portion of the Company's revenues. In the third quarter of 2018 two companies accounted for 10% or greater individually, and 77% in the aggregate of the Company's total net sales. In the first nine months of 2018 two companies accounted for 10% or greater individually, and 78% in the aggregate of the Company's total net sales. At September 30, 2018, three companies with an accounts receivable balance of 10% or greater individually accounted for a combined 72% of the Company's accounts receivable. In the third quarter of 2017 three companies accounted for 10% or greater individually, and 92% in the aggregate of the Company's total net sales. In the first nine months of 2017 three companies accounted for 10% or greater individually, and 90% in the aggregate of the Company's total net sales. At September 30, 2017 three companies with an accounts receivable balance of 10% or greater individually accounted for a combined 83% of the Company's accounts receivable.

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

(6) Bank Credit Lines

On December 18, 2012, the Company entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). The Financing Agreement originally provided for up to $1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions. The Financing Agreement continued until November 30, 2014 with automatic renewals from year to year thereafter, unless sooner terminated by either party. The lender has the right to terminate the Financing Agreement at any time on 60 days' prior written notice. Borrowings are secured by all of the Company assets including intellectual property. The Financing Agreement contains several covenants, including a requirement that the Company maintain tangible net worth of not less than $2.5 million and working capital of not less than $2.5 million.

On March 25, 2014, the Company entered into an amendment to the Financing Agreement (the "Amendment") with an effective date of January 1, 2013. The Amendment clarified the definition of current assets in the Financing Agreement, reduced the size of the revolving credit line to $1.25 million, and revised the financial covenants so that Zoom is required to maintain tangible net worth of not less than $2.0 million and working capital of not less than $1.75 million.

On October 29, 2015, the Company entered into a second amendment to the Financing Agreement (the "Second Amendment"). Retroactive to October 1, 2015, the Second Amendment eliminated $2,500 in monthly charges for the Financing Agreement. Effective December 1, 2015, the Second Amendment reduces the effective rate of interest to 2.25% plus an amount equal to the higher of prime rate or 3.25%.

On July 19, 2016, the Company entered into a third amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $2.5 million effective as of date of the amendment.

12

On September 1, 2016, the Company entered into a fourth amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $3.0 million effective with the date of this amendment.

The Company is required to calculate its loan covenant compliance on a quarterly basis. At September 30, 2018, the Company was in compliance with both its working capital and tangible net worth covenants. At September 30, 2018, the Company’s tangible net worth was approximately $4.3 million, above the $2 million requirement; and the Company’s working capital was approximately $4.0 million, above the $1.75 million requirement. The Company's maximum borrowing at any time is 75 percent of eligible receivables less offsets, if any, with the total maximum borrowing capped at $3.0 million. On September 30, 2018 there was a $1.95 million outstanding loan balance and approximately $0.96 million of unused loan availability.

(7) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares, except for periods with a loss from operations. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential shares of common stock had been issued. Potential shares of common stock that may be issued by the Company include shares of common stock that may be issued upon exercise of outstanding stock options. Under the treasury stock method, the unexercised options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase shares of common stock at the average market price during the period.

Diluted earnings per common share for the three-month period ended September 30, 2018 was $0.02, and includes the dilutive effects of 724,958 common share equivalents. Diluted earnings per common share for the three-month period ended September 30, 2017 was $0.02 and includes the effects of 1,466,089 common share equivalents. Diluted earnings per common share for the nine-month period ended September 30, 2018 was $0.05, and includes the dilutive effects of 724,958 common share equivalents. Diluted loss per common share for the nine-month period ended September 30, 2017 excludes the effects of 1,466,089 common share equivalents, since such inclusion would be anti-dilutive. The common share equivalents consist of common shares issuable upon exercise of outstanding stock options.

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

"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; 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 of this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission on March 30, 2018 and in our other filings with the Securities and Exchange Commission. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Overview

We derive our net sales primarily from sales of Internet access and other communications-related products including cable modems and modem/routers, Digital Subscriber Line (“DSL”) modems and modem/routers, routers and other local area network products, and dial-up modems through retailers, distributors, and other customers. We sell our products through a direct sales force and through independent sales agents. All of our employees are located at our headquarters in Boston, Massachusetts. We are experienced in electronics hardware, firmware, and software design and test, regulatory certifications, 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 our products in accordance with our specifications is typically done in Asia, and we do further testing, warehousing, and shipping in our Tijuana facility.

In July 2016 Zoom headquarters moved from our long-time location at 207 South Street to 99 High Street in Boston. The lease for this new location terminates June 29, 2019. We also lease a test/warehouse/ship facility in Tijuana, Mexico. In November 2014 we signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility in Tijuana, Mexico. In September 2015, we extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, we also signed a new lease for additional space in the adjacent building, which doubled the existing capacity. The term of the lease is from March 1, 2016 through November 30, 2018; and the Company expects to renew this lease.

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.

Our gross margin for a given product generally depends on a number of factors including the type of customer to whom we are selling. The gross margin for sales through retailers tends to be higher than for some of our other customers; but the sales, support, returns, and overhead costs associated with retailers tend to be higher.

As of September 30, 2018, we had thirty-three full-time and part-time employees. Eleven employees were engaged in research and development and quality control. Four employees were involved in operations, which manages production, inventory, purchasing, warehousing, freight, invoicing, shipping, collections, and returns. Eleven employees were engaged in sales, marketing, and customer support. The remaining seven employees performed executive, accounting, administrative, and management information systems functions. We currently have twenty-nine full-time employees and four employees working less than 5 days per week, typically 4 days per week. Our dedicated personnel in Tijuana, Mexico are employees of our Mexican service provider and not included in our headcount. As of September 30, 2018, we had two consultants in sales and one consultant in information systems, none of whom is included in our employee headcount.

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 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 Recognition. We adopted ASC 606 using the modified retrospective method provision of this standard effective January 1, 2018, which requires us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, there was no material impact which required a cumulative effect adjustment.

Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Identification of the contract, or contracts, with a customer — a contract with a customer exists when we enter into an enforceable contract with a customer, typically a purchase order initiated by the customer, that defines each party's rights regarding the goods to be transferred and identifies the payment terms related to these goods.

Identification of the performance obligations in the contract — performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are distinct, whereby the customer can benefit from the goods on their own or together with other resources that are readily available from third parties or from us. Persuasive evidence of an arrangement for the sale of product must exist. We ship product in accordance with the purchase order and standard terms as reflected within our order acknowledgments and sales invoices.

Determination of the transaction price — the transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods to the customer. This would be the agreed upon quantity and price per product type in accordance with the customer purchase order, which is aligned with our internally approved pricing guidelines.

Allocation of the transaction price to the performance obligations in the contract — if the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. This applies to

us as there is only one performance obligation, which is to ship the goods.

Recognition of revenue when, or as, we satisfy a performance obligation — we satisfy performance obligations at a point in time when control of the goods transfers to the customer. Determining the point in time when control transfers requires judgment. Indicators considered in determining whether the customer has obtained control of a good include:

We have a present right to payment
The customer has legal title to the goods
We have transferred physical possession of the goods
The customer has the significant risks and rewards of ownership of the goods
The customer has accepted the goods

15

We have concluded that transfer of control substantively transfers to the customer upon shipment or delivery, depending on the delivery terms of the purchase agreement.

We primarily sell hardware products to our customers. The hardware products include dial-up modems, DSL modems, cable modems, and local area networking equipment.

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

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 us to the customer based on the contractual Free on Board ("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, which means that title and risk remain with the seller until it has delivered the goods to the location specified in the contract. 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. Product returns are variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods).

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. Information from customer inventory-on-hand reports or from direct communications with the customers is used to estimate the refund. Price protection refunds are variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g.

upon shipment of goods).

Sales and Marketing Incentives. Many of our retailer customers require sales and marketing support funding, which is an expense item in selling expense, unless the funding is a function of sales activity and therefore variable. Under Topic 606, sales and marketing incentives must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods).

Rebates and Promotions. Our rebates are based on a detailed understanding and tracking by customer and sales program. Rebates and promotions are variable and under Topic 606, must be estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods).

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.

Inventory Valuation and Cost of Goods Sold. Inventory is valued at the lower of cost, determined by the first-in, first-out method, or its net realizable value. We review inventories for obsolete and 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. Additionally, material product certification costs on new products are capitalized and amortized over the expected period of value of the respective products.

Valuation and Impairment of Deferred Tax Assets. As part of the process of preparing our 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 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, 2017 we had federal net operating loss carry forwards of approximately $54.60 million which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2037. As of December 31, 2017, we had state net operating loss carry forwards of approximately $8.88 million which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2037. A valuation allowance has been established for the full amount of deferred income tax assets as management has concluded that it is more-likely than-not that the benefits from such assets will not be realized.

Results of Operations

Comparison of the three months ended September 30, 2018 to the three months ended September 30, 2017

Summary. Net sales were $9.0 million for the third quarter ended September 30, 2018 (“Q3 2018”), up 4.9% from $8.58 million for the third quarter ended September 30, 2017 (“Q3 2017”). We reported net income of $346 thousand for Q3 2018, compared to net income of $377 thousand for Q3 2017.

Net Sales. Our total net sales for Q3 2018 increased $418 thousand or 4.9% from Q3 2017, primarily due to higher sales volume of Motorola branded products.

Concentration. In Q3 2018 two companies accounted for 10% or greater separately and 77% combined of the Company’s total net sales. At September 30, 2018 three companies with an accounts receivable balance of 10% or

greater accounted for a combined 72% of the Company's accounts receivable. In Q3 2017, three companies accounted for 10% or greater separately and 92% combined of the Company's total net sales. At September 30, 2017 three companies with an accounts receivable balance of 10% or greater accounted for a combined 83% of the Company's accounts receivable.

17

Gross Profit. Gross profit was $3.27 million or 36.4% of net sales in Q3 2018, up from $3.07 million or 35.7% of net sales in Q3 2017. Improvement in gross profit was primarily due to increased total sales and higher sales through online retailers, or etailers, which carry more favorable margins.

Selling Expense. Selling expense was $2.03 million or 22.6% of net sales in Q3 2018, up from $1.81 million or 21.1% of net sales in Q3 2017. The increase of $220 thousand was primarily due to increased advertising costs and Motorola brand royalty payments.

General and Administrative Expense. General and administrative expense was $438 thousand or 4.9% of net sales in Q3 2018, up 14.3% from $383 thousand or 4.5% of net sales in Q3 2017. The increase of $55 thousand was primarily due to increases in stock option costs and legal expenses.

Research and Development Expense. Research and development expense was $420 thousand or 4.7% of net sales in Q3 2018, down from $457 thousand or 5.3% of net sales in Q3 2017. The decrease of $37 thousand was primarily due to decreases in certification expenses, partially offset by increased stock option costs.

Other Income (Expense). Other expense was $33 thousand in Q3 2018 due to interest expense related to our bank credit line. Other expense was $31 thousand in Q3 2017, also due to interest expense on our bank debt.

Net Income (Loss). Net income was $346 thousand for Q3 2018, compared to net income of $377 thousand for Q3 2017.

Comparison of the nine months ended September 30, 2018 to the nine months ended September 30, 2017

Summary. Net sales of $24.86 million for the first nine months of 2018 were up 20.9% from net sales of $20.56 million for the first nine months of 2017. Our net income was $0.75 million for the first nine months of 2018, compared to a net loss of $0.98 million for the first nine months of 2017. Earnings per diluted share was $0.05 in the nine months ended September 30, 2018 compared to a loss per diluted share of $0.07 for the nine months ended September 30, 2017.

Net Sales. Our total net sales for the first nine months of 2018 increased $4.3 million or 20.9% from the first nine months of 2017, primarily due to sales growth of Motorola branded products.

Concentration. In the first nine months of 2018, two companies accounted for 10% or greater separately and 78% combined of the Company’s total net sales. In the first nine months of 2017, three companies accounted for 10% or greater separately and 90% combined of the Company’s total net sales.

Gross Profit. Gross profit was $9.29 million for the first nine months of 2018, up $2.29 million or 32.8% from gross profit of $6.99 million for the first nine months of 2017. Improvement in gross profit was primarily due to increased sales. The improvement in gross margin was due to a higher volume of sales through etailers, which carry more favorable margins, as well as an increase in total sales, which reduced our fixed overhead as a percentage of sales.

Selling Expense. Selling expense was $6.2 million or 25.0% of net sales in the first nine months of 2018, up from $5.34 million or 26.0% of net sales in the first nine months of 2017. The increase of $0.87 million was primarily due to increased advertising costs and Motorola royalty payments, partially offset by decreases in marketing funds and freight costs.

General and Administrative Expense. General and administrative expense was $1.06 million or 4.3% of net sales for the first nine months of 2018, down 8.2% from $1.15 million or 5.6% of net sales for the first nine months of 2017.

The decrease of $94 thousand was due primarily reassessment of sales tax liability, and decreased marketing and promotion costs.

Research and Development Expense. Research and development expense was $1.20 million or 4.8% of net sales in the first nine months of 2018, down 12.3% from $1.37 million or 6.7% of net sales in the first nine months of 2017. The decrease of $169 thousand was due primarily to decreased product certification testing and compliance.

18

Other Income (Expense). Other expense was $45 thousand in the first nine months of 2018, and was $98 thousand in the first nine months of 2017, due to interest expense related to our bank credit line.

Net Income (Loss). Net income was $752 thousand for the first nine months of 2018, compared to the net loss of $980 thousand for the first nine months of 2017.

Liquidity and Capital Resources

On September 30, 2018 we had approximately $1.95 million in bank debt for a $3.0 million asset-based credit line, approximately $238 thousand in cash and cash equivalents, and working capital of approximately $4.0 million. Our credit line has a maturity date of November 2018, and automatically renews unless cancelled under the terms of agreement.

Major uses of cash during the first nine months of 2018 were increases of approximately $2.17 million in accounts receivable, and approximately $1.1 million in inventory. Major contributors to cash were an increase of approximately $1.86 million in bank debt and net income of approximately $752 thousand.

We continue to experience sales growth, and had operating profits for four of the last five quarters. We expect to maintain acceptable levels of liquidity to meet our obligations as they become due for at least twelve months from the date of filing of this Quarterly Report on Form 10-Q with the Securities Exchange Commission.

Commitments

During the nine months ended September 30, 2018, 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, 2017.

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2018, there were no material changes to our off-balance sheet arrangements from those disclosed in our Form 10-K for the year ended December 31, 2017.

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 reports pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer who is also our Acting Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of this Quarterly Report on the Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Acting 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 Exchange Act as of September 30, 2018. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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

PART II OTHER INFORMATION

ITEM 1.
LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please refer to Note 4, "Contingencies – Legal Matters" of the Notes to Condensed Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

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, 2017, filed with the SEC on March 30, 2018, as well as those discussed in this report and in our other filings with the SEC.

Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.

We import almost all of our products from manufacturers in China. The Office of the U.S. Trade Representative (the "USTR") recently implemented a 10% tariff that affects close to 100% of our products imported into the U.S., and proposed a 25% tariff that is likely to begin in January 2019. If these or other significant tariffs occur, they could materially negatively impact our financial results; as we will likely only be able to pass some of the costs of the tariffs on to our customers. Further, even if we are able to pass the costs on, it would be likely to reduce the amount of impacted products that customers in the U.S. purchase. While we may be able to shift the manufacturing locations for some of these products to locations that would not be subject to the proposed tariffs, executing such a shift would take significant time and would be difficult or impracticable for many products; and manufacturing in such locations would likely increase our manufacturing costs.

In addition, the current U.S. presidential administration has in the past discussed modifying or withdrawing from the North American Free Trade Agreement ("NAFTA"). The vast majority of our products currently move through our facility in Mexico, where we perform test, quality control, warehousing, shipping, and other functions. Future modifications to, or withdrawal from, NAFTA could also have a material negative impact on our financial results.

Except for the risk factor set forth above, there have not been any material changes from the risk factors previously disclosed under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 6.
EXHIBITS

Exhibit No.	Exhibit Description
10.1	Employment Agreement between Zoom Telephonics, Inc. and Joseph Wytanis, dated as of October 4, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on October 18, 2018).
31.1	Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 (1)	Certifications of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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(1)
In accordance with Item 601(b)(32)(ii) of Regulation S-K, the certifications furnished in Exhibit 32.1 hereto is deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certification will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

ZOOM TELEPHONICS, INC.

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 TELEPHONICS, INC.
(Registrant)

Date: November 13, 2018 By: /s/ Frank B. Manning
Frank B. Manning, Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

21

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