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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐ (do not check if a smaller reporting company)	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 August 7, 2017, was 14,907,790 shares.

ZOOM TELEPHONICS, INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZOOM TELEPHONICS, INC.
Condensed Consolidated Balance Sheets

	June 30, 2017	December 31, 2016
ASSETS	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 495,271	$ 179,846
Accounts receivable, net of allowances of $561,293 at June 30, 2017 and $507,296 at December 31, 2016	2,566,120	2,498,259
Inventories, net	5,260,093	4,926,612
Prepaid expenses and other current assets	808,649	652,402
Total current assets	9,130,133	8,257,119
Other assets	400,823	588,907
Equipment, net	215,849	175,743
Total assets	$ 9,746,805	$ 9,021,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank debt	$ 1,950,917	$ 1,306,620
Accounts payable	3,678,186	2,502,323
Accrued expenses	1,159,092	1,051,616
Total liabilities	6,788,195	4,860,559
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock: Authorized: 25,000,000 shares at $0.01 par value		
Issued and outstanding: 14,900,290 shares at June 30, 2017 and 14,685,290 shares at December 31, 2016	149,003	146,853
Additional paid-in capital	40,046,640	39,893,919
Accumulated deficit	(37,237,033)	(35,879,562)
Total stockholders' equity	2,958,610	4,161,210
Total liabilities and stockholders' equity	$ 9,746,805	$ 9,021,769

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$ 6,828,192	$ 3,976,865	$ 11,974,081	$ 6,697,710
Cost of goods sold	4,634,148	2,776,304	8,045,766	4,662,921
Gross profit	2,194,044	1,200,561	3,928,315	2,034,789
Operating expenses:				
Selling	1,681,786	1,300,440	3,528,318	2,046,243
General and administrative	338,886	412,668	770,279	882,003
Research and development	402,438	454,928	910,409	801,940
	2,423,110	2,168,036	5,209,006	3,730,186
Operating profit (loss)	(229,066)	(967,475)	(1,280,691)	(1,695,397)
Other:				
Interest income	15	22	37	216
Interest expense	(30,745)	(4,337)	(56,542)	(4,337)
Other, net	(35)	762	(11,137)	752
Total other income (expense)	(30,765)	(3,553)	(67,642)	(3,369)
Income (loss) before income taxes	(259,831)	(971,028)	(1,348,333)	(1,698,766)
Income taxes (benefit)	9,138	1,286	9,138	1,277
Net income (loss)	$ (268,969)	$ (972,314)	$ (1,357,471)	$ (1,700,043)
Net income (loss) per share:				
Basic and diluted	$ (0.02)	$ (0.07)	$ (0.09)	$ (0.12)
Weighted average common and common equivalent shares:				
Basic and diluted	14,817,213	13,721,534	14,799,648	13,660,855

See accompanying notes.

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

	Six Months Ended June 30,	
	2017	**2016**
Operating activities:		
Net income (loss)	$ (1,357,471)	$ (1,700,043)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	287,808	245,211
Stock based compensation	86,646	119,762
Provision (recovery) for accounts receivable allowances	540	9,505
Provision for inventory reserves	126,344	2,612
Changes in operating assets and liabilities:		
Accounts receivable	(68,401)	(933,448)
Inventories	(459,825)	(1,009,026)
Prepaid expenses and other assets	(205,127)	(582,085)
Accounts payable and accrued expenses	1,283,339	1,576,289
Net cash provided by (used in) operating activities	(306,147)	(2,271,223)
Investing activities:		
Cost of other assets	-	(200,000)
Additions to plant and equipment	(90,950)	(22,043)
Net cash provided by (used in) investing activities	(90,950)	(222,043)
Financing activities:		
Net funds from (to) bank credit lines	644,297	606,285
Proceeds from stock option exercises	68,225	136,145
Net cash provided by (used in) financing activities	712,522	742,430
Net change in cash	315,425	(1,750,836)
Cash and cash equivalents at beginning of period	179,846	1,846,704
Cash and cash equivalents at end of period	$ 495,271	$ 95,868
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 56,542	$ 4,337
Income taxes	$ 9,138	$ 1,277

See accompanying notes.

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, 2016 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all necessary adjustments to present fairly the 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 June 30, 2017 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, 2016 included in the Company's 2016 Annual Report on Form 10-K for the year ended December 31, 2016.

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted ASU 2016-09 as of January 1, 2017 and elected an accounting policy to record forfeitures as they occur. The impact of this change in accounting policy had an insignificant effect on accumulated deficit as of January 1, 2017. ASU 2016-09 also provides that companies no longer record excess tax benefits or certain tax deficiencies in additional paid-in capital. Instead, all excess tax benefits and tax deficiencies are recorded as income tax expense or benefit in the statement of operations. There was no financial statement impact of adopting this provision of ASU 2016-09 as the Company is currently in a net operating loss position and the excess tax benefits that existed from options previously exercised had a full valuation allowance. The effects of adopting the remaining provisions in ASU 2016-09 affecting the classification of awards as either equity or liabilities when an entity partially settles the award in cash in excess of the employer’s minimum statutory withholding requirements and classification in the statement of cash flows did not have a significant impact on the Company’s financial position, results of operations or cash flows.

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition” and some cost guidance included in ASC Subtopic 605-35, “Revenue Recognition - Construction-Type and Production-Type Contracts.” The core principle of ASU 2014-09 is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. ASU 2014-09 requires the disclosure of sufficient information to enable readers of the Company’s financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 also requires disclosure of information regarding significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 provides two methods of retrospective application. The first method would require the Company to apply ASU 2014-09 to each prior reporting period presented. The second method would require the Company to retrospectively apply ASU 2014-09 with the cumulative effect recognized at the date of initial application. ASU 2014-09 will be effective for the Company beginning in fiscal 2019 as a result of ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which was issued by the FASB in August 2015 and extended the original effective date by one year. The Company is currently evaluating the impact of adopting the available methodologies of ASU 2014-09 and 2015-14 upon its financial statements in future reporting periods. The Company has not yet selected a transition method. The Company is in the process of evaluating the new standard against its existing accounting policies, including the timing of revenue recognition, and its contracts with customers to determine the effect the guidance will have on its financial statements and what changes to systems and controls may be warranted.

There have been four new ASUs issued amending certain aspects of ASU 2014-09, ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross Versus Net)," was issued in March 2016 to clarify certain aspects of the principal versus agent guidance in ASU 2014-09. In addition, ASU 2016-10, "Identifying Performance Obligations and Licensing," issued in April 2016, amends other sections of ASU 2014-09 including clarifying guidance related to identifying performance obligations and licensing implementation. ASU 2016-12, "Revenue from Contracts with Customers - Narrow Scope Improvements and Practical Expedients" provides amendments and practical expedients to the guidance in ASU 2014-09 in the areas of assessing collectability, presentation of sales taxes received from customers, noncash consideration, contract modification and clarification of using the full retrospective approach to adopt ASU 2014-09. Finally, ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," was issued in December 2016, and provides elections regarding the disclosures required for remaining performance obligations in certain cases and also makes other technical corrections and improvements to the standard. With its evaluation of the impact of ASU 2014-09, the Company will also consider the impact on its financial statements related to the updated guidance provided by these four new ASUs.

In March 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheets, a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (the lease asset). For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-02 may have on its consolidated financial statements.

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 May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting." ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following criteria are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. Disclosure requirements remain unchanged. ASU 2017-09 is effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted as described in ASU 2017-09. The Company is currently evaluating the potential impact that the adoption of ASU 2017-09 will have on its consolidated financial statements.

(2) Liquidity

The Company’s cash and cash equivalents balance on June 30, 2017 was approximately $495 thousand, an increase of approximately $315 thousand from December 31, 2016. Major uses of cash were a $1.4 million loss for the six months ended June 30, 2017, an increase of approximately $333 thousand in inventory, an increase of approximately $156 thousand in prepaid expenses, and an increase of approximately $68 thousand in accounts receivable. These were offset by an increase of approximately $1.3 million in accounts payable and accrued expenses, an increase of approximately $644 thousand in bank debt, and a decrease of approximately $188 thousand in other assets.

On June 30, 2017 the Company had approximately $1.95 million in bank debt for a $3.0 million asset-based credit line and had working capital of approximately $2.3 million, including approximately $495 thousand in cash and cash equivalents. On December 31, 2016 the Company had working capital of approximately $3.4 million including approximately $180 thousand in cash and cash equivalents. The Company’s current ratio at June 30, 2017 was 1.4 compared to 1.7 at December 31, 2016.

The Company has experienced losses in the past, and is expected to continue to experience losses until sales grow significantly. The Company has experienced dramatic growth, with sales in 2016 up 65% over sales in 2015 and with sales in the first six months of 2017 up 79% over sales in the first six months of 2016. The Company expects year-over-year growth to continue due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the associated improved net income, and its Financing Agreement (as described below) with Rosenthal & Rosenthal, Inc., 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 our quarterly filing of this Form 10-Q with the Securities Exchange Commission.

(3) Inventories

Inventories consist of :	June 30, 2017	December 31, 2016
Materials	$ 1,651,902	$ 888,830
Work in process	90,344	27,708
Finished goods	3,517,847	4,010,074
Total	$ 5,260,093	$ 4,926,612

Finished goods includes consigned inventory held by our customers of $659,800 at June 30, 2017 and $442,300 at December 31, 2016. 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 $129,651 in the second quarter of 2017 and negligible in the fourth quarter of 2016.

(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.

On May 17, 2016, Magnacross LLC ("Magnacross") filed a complaint in the U.S. District Court for the Eastern District of Texas (U.S.D.C., E.D.Tex.) against the Company alleging infringement of U.S. Patent No. 6,917,304 (“the ’304 patent”) entitled “Wireless Multiplex Data Transmission System.” Magnacross alleged that the Company’s wireless routers, including its Model 5363, 5360, and 5354 (N300, N600, and AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case was resolved on February 2, 2017 with the entry by the judge of an Order of Dismissal with Prejudice.

(b) Commitments

On May 14, 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.

On August 8, 2016, Zoom entered into an amendment to the License Agreement with Motorola Mobility LLC (the “Amendment”). The 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. The License Agreement, as amended, has a five-year term beginning January 1, 2016 through December 31, 2020.

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 royalty payments equal to a certain percentage of the preceding quarter’s net sales with minimum annual royalty payments as follows:

Year ending December 31,	
2017:	$3,000,000
2018:	$3,500,000
2019:	$4,000,000
2020:	$4,500,000

Royalty expense under the License Agreement was $588,333 for the second quarter of 2016 and $750,000 for the second quarter of 2017, and royalty expense is included in selling expense on the accompanying condensed consolidated statements of operations. The balance of the committed royalty expense for 2017 amounts to $750,000 for each of the remaining two quarters of 2017.

In order to facilitate the Company’s current and planned increase in production demand, driven in part by the launch of Motorola branded products, the Company has committed with North American Production Sharing, Inc. (“NAPS”) to extend its existing lease used in connection with the Production Sharing Agreement (“PSA”) entered into between the Company and NAPS. The extension term is December 1, 2015 through November 30, 2018 and allows the Company to contract additional Mexican personnel to work in the Tijuana facility.

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 $100,867 for the second quarter of 2017.

(5) Customer Concentrations

The Company sells its products primarily through high-volume retailers and distributors, Internet service providers, value-added resellers, Personal Computer (“PC”) system integrators, and original equipment manufacturers ("OEMs"). 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 customers account for a substantial portion of the Company’s revenues. In the second quarter of 2017, three customers accounted for 87% of our total net sales, with our largest customer accounting for 41% of our net sales. In the first six months of 2017, three customers accounted for 88% of our total net sales, with our largest customer accounting for 42% of our net sales. At June 30, 2017, three customers accounted for 89% of our accounts receivable, with our largest customer representing 45% of our accounts receivable. In the second quarter of 2016, three customers accounted for 79% of our total net sales, with our largest customer accounting for 28% of our net sales. In the first six months of 2016, three customers accounted for 77% of our total net sales, with our largest customer accounting for 29% of our net sales. At June 30, 2016, three customers accounted for 86% of our accounts receivable, with our largest customer representing 43% of our 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.

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 covenant compliance on a quarterly basis. As of June 30, 2017, the Company was in compliance with both its working capital and tangible net worth covenants. At June 30, 2017, the Company’s tangible net worth was approximately $2.6 million, while the Company’s working capital was approximately $2.3 million.

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, 2016, filed with the Securities and Exchange Commission on March 22, 2017 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, cable modem / routers, Digital Subscriber Line ("DSL") modems and dial-up modems to retailers, distributors, Internet Service Providers and original equipment manufacturers ("OEMs"). 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.

Last year 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, Zoom extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, Zoom 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.

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 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. Our sales to certain countries are currently handled by a single master distributor for each country, who handles the support and marketing costs within the country. Gross margin for sales to these master distributors tends to be low, since lower pricing to these distributors helps them to cover the support and marketing costs for their country.

As of June 30, 2017 we had 31 employees, 26 working full-time and 5 working less than five days per week. Eleven employees were engaged in research and development and quality control. Five employees were involved in operations, which manages production, inventory, purchasing, warehousing, freight, invoicing, shipping, collections, and returns. Nine employees were engaged in sales, marketing, and customer support. The remaining six employees performed executive, accounting, administrative, and management information systems functions. Our dedicated personnel in Tijuana, Mexico are employees of our Mexican service provider and are not included in our 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 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
- OEMs.

We recognize hardware net sales for our customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes from Zoom to the customer based on the contractual 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. The estimate for future returns is recorded as a reserve against accounts receivable, a reduction in our net sales, and the corresponding change to inventory reserves and cost of sales.

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

Sales and Marketing Incentives. Many of our retailer customers require sales and marketing support funding, usually set as a percentage of our sales in their stores. The incentives are reported as reductions in our net sales.

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

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 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, 2016 the Company had federal net operating loss carry forwards of approximately $54.0 million which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2036. As of December 31, 2016, the Company had Massachusetts state net operating loss carry forwards of approximately $7.3 million which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2036. 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 June 30, 2017 to the three months ended June 30, 2016

Summary. Net sales were $6.83 million for the second quarter ended June 30, 2017 (“Q2 2017”), up 71.7% from $3.98 million for the second quarter of 2016 (“Q2 2016”). Zoom reported a net loss of $269 thousand or $0.02 per share for Q2 2017 compared to net loss of $972 thousand or $0.07 per share for Q2 2016.

Net Sales. Our total net sales for the second quarter of 2017 increased $2.85 million or 71.7% from the second quarter of 2016. This growth was fueled by significant growth in sales to major US retailers in Q2 2017, with some of that growth due to successful introduction of the highly rated Motorola MB8600 DOCSIS 3.1 cable modem during Q2 2017.

Concentration. In the second quarter of 2017, three retailers accounted for 87% of our total net sales with our largest retailer accounting for 41% of our net sales. In the second quarter of 2016, three retailers accounted for 79% of our total net sales, with our largest retailer accounting for 28% of our net sales.

Gross Profit. Gross profit was $2.2 million or 32.1% of net sales in Q2 2017, up from $1.2 million or 30.2% of net sales in Q2 2016. Improvement in gross profit was primarily due to increased sales.

Selling Expense. Selling expense was $1.7 million or 24.6% of net sales in the second quarter of 2017, up from $1.3 million or 32.7% of net sales in the second quarter of 2016. The increase of $0.4 million was primarily due to advertising expenses and Motorola trademark royalty costs.

General and Administrative Expense. General and administrative expense was $339 thousand or 5.0% of net sales in the second quarter of 2017, down from $413 thousand or 10.4% of net sales in the second quarter of 2016. The decrease of $74 thousand was primarily due to reductions in personnel-related expenses, legal expenses for Federal Communications Commission work, and expenses associated with moving Zoom's Boston headquarters location in 2016.

Research and Development Expense. Research and development expense was $402 thousand or 5.9% of net sales in the second quarter of 2017, down from $455 thousand or 11.4% of net sales in the second quarter of 2016. The decrease of $52 thousand was primarily due to lower product certification costs.

Other Income (Expense). Other expense was $31 thousand in the second quarter of 2017 and $4 thousand in the second quarter of 2016. The increase related to interest costs on loan.

Net Income (Loss). The net loss was $269 thousand for the second quarter of 2017, compared to net loss of $972 thousand for the second quarter of 2016.

Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016

Summary. Net sales were $11.97 million for the six months ended June 30, 2017, up 78.8% from $6.70 million for the six months ended June 30, 2016. Zoom reported a net loss of $1.36 million for the six months ended June 30, 2017 compared to a net loss of $1.70 million for the six months ended June 30, 2016. Loss per diluted share was $0.09 in the six months ended June 30, 2017 compared to $0.12 for the six months ended June 30, 2016.

Net Sales. Our total net sales for the first half of 2016 increased $5.28 million or 78.8% from the first half of 2016, primarily due to Motorola brand products' revenue growth and introduction of new products.. Geographically, our North American sales continued their dominant share of our overall sales, representing 98% of our net sales in both Q2 2016 and Q2 2017.

Concentration. In the first six months of 2017, three customers accounted for 88% of our total net sales with our largest customer accounting for 42% of our net sales. In the first six months of 2016, three retailers accounted for 77% of our total net sales with our largest retailer accounting for 29% of our net sales.

Gross Profit. Gross profit was $3.93 million for the first six months of 2017, up from gross profit of $2.03 million for the first 6 months of 2016. Our gross margin for the first six months of 2017 was 32.8%, up from our gross margin of 30.4% for the first 6 months of 2016.

Selling Expense. Selling expense was $3.53 million or 29.5% of net sales in the first half of 2017, up from $2.05 million or 30.6% of net sales in the first half of 2016. The increase of $1.48 million was primarily due to increased advertising and Motorola royalty payments.

General and Administrative Expense. General and administrative expense was $770 thousand or 6.4% for the first half of 2017, down from $882 thousand or 13.2 % for the first half of 2016. The decrease of $112 thousand was primarily due to lower personnel and legal expenses.

Research and Development Expense. Research and development expense was $910 thousand or 7.6% of net sales in the first half of 2017, up from $802 thousand or 12.0% of net sales in the first half of 2016. The increase of $108 thousand was due primarily to increased certification and outside consultant costs.

Other Income (Expense). Other expense for the first half of 2017 was $68 thousand and $3 thousand in the first half of 2016, the difference primarily due to interest expense incurred during the first six months of 2017 on our bank credit line.

Net Income (Loss). The net loss was $1.4 million for the first half of 2017, compared to a net loss of $1.7 million for the first half of 2016.

Liquidity and Capital Resources

The Company's cash and cash equivalents balance on June 30, 2017 was approximately $495 thousand, an increase of approximately $315 thousand from December 31, 2016. Major uses of cash were a $1.4 million loss for the six months ended June 30, 2017, an increase of approximately $333 thousand in inventory, an increase of approximately $156 thousand in prepaid expenses, and an increase of approximately $68 thousand in accounts receivable. These were offset by an increase of approximately $1.3 million in accounts payable and accrued expenses, an increase of approximately $644 thousand in bank debt, and a decrease of approximately $188 thousand in other assets.

On June 30, 2017 the Company had approximately $1.95 million in bank debt for a $3.0 million asset-based credit line and working capital of approximately $2.3 million, including approximately $495 thousand in cash and cash equivalents. On December 31, 2016 the Company had working capital of approximately $3.4 million including approximately $180 thousand in cash and cash equivalents. The Company's current ratio at June 30, 2017 was 1.4 compared to 1.7 at December 31, 2016.

On May 18, 2015, the Company announced licensing of the Motorola trademark for cable modems and gateways for the U.S. and Canada for five years starting January 2016. In order to support anticipated sales growth, the Company raised approximately $1.5 million in net proceeds from the private placement offering of 619,231 unregistered shares of the Company's common stock that closed on October 24, 2016.

The Company has experienced losses in the past, and is expected to continue to experience losses until sales grow significantly. The Company has experienced dramatic growth, with sales in 2016 up 65% over sales in 2015 and with sales in the first six months of 2017 up 79% over sales in the first six months of 2016. The Company expects year-over-year growth to continue due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the associated improved net income, and its Financing Agreement, 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 our quarterly filing of this Form 10-Q with the Securities Exchange Commission.

Commitments

During the six months ended June 30, 2017, 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, 2016.

Off-Balance Sheet Arrangements

During the six months ended June 30, 2017, 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, 2016.

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 June 30, 2017. 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, 2016, filed with the SEC on March 22, 2017, as well as those discussed in this report and in our other filings with the SEC.

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, 2016.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
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.

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: August 11, 2017

By: /s/ Frank B. Manning

Frank B. Manning, President, Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Principal Financial and Accounting Officer)

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