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, 2016

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, 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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (do not check if a smaller reporting company)	Smaller Reporting Company ☑

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

The number of shares outstanding of the registrant's Common Stock, $.01 par value, as of November 2, 2016, was 14,595,290 shares.

ZOOM TELEPHONICS, INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZOOM TELEPHONICS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

ASSETS	September 30, 2016 (Unaudited)	December 31, 2015
Current assets		
Cash and cash equivalents	$ 175,308	$ 1,846,704
Accounts receivable, net of allowances of $460,155 at September 30, 2016 and $483,349 at December 31, 2015	2,871,603	1,079,145
Inventories	4,229,070	2,784,610
Prepaid expenses and other current assets	574,450	381,205
Total current assets	7,850,431	6,091,664
Other assets	542,193	573,049
Equipment, net	173,804	205,132
Total assets	$ 8,566,428	$ 6,869,845
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank debt	$ 2,141,799	$ —
Accounts payable	1,851,778	1,423,503
Accrued expenses	948,709	292,756
Total liabilities	4,942,286	1,716,259
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock: Authorized: 25,000,000 shares at $0.01 par value		
Issued and outstanding: 13,976,059 shares at September 30, 2016 and 13,477,803 shares at December 31, 2015	139,761	134,778
Additional paid-in capital	38,374,431	37,965,230
Accumulated deficit	(34,890,050)	(32,946,422)
Total stockholders' equity	3,624,142	5,153,586
Total liabilities and stockholders' equity	$ 8,566,428	$ 6,869,845

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net sales	$ 5,990,432	$ 3,367,838	$ 12,688,142	$ 9,019,582
Cost of goods sold	4,064,834	2,267,235	8,727,755	6,110,159
Gross profit	1,925,598	1,100,603	3,960,387	2,909,423
Operating expenses:				
Selling	1,473,787	418,017	3,520,030	1,210,809
General and administrative	354,237	306,827	1,236,239	810,556
Research and development	352,849	354,252	1,154,789	918,014
	2,180,873	1,079,096	5,911,058	2,939,379
Operating profit (loss)	(255,275)	21,507	(1,950,671)	(29,956)
Other income (expense):				
Interest income	21	16	238	31
Interest expense	(27,778)	(27,347)	(32,115)	(72,360)
Other, net	41,482	(63)	42,232	(929)
Total other income (expense)	13,725	(27,394)	10,355	(73,258)
Income (loss) before income taxes	(241,550)	(5,887)	(1,940,316)	(103,214)
Income taxes	2,034	1,978	3,312	5,757
Net income (loss)	$ (243,584)	$ (7,865)	$ (1,943,628)	$ (108,971)
Net income (loss) per share:				
Basic and diluted	$ (0.02)	$ (0.00)	$ (0.14)	$ (0.01)
Basic and diluted weighted average common and common equivalent shares	13,877,407	8,519,051	13,722,680	8,167,187

See accompanying notes to condensed consolidated financial statements (unaudited).

ZOOM TELEPHONICS, INC.
Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2016	**2015**
Operating activities:		
Net income (loss)	$ (1,943,628)	$ (108,971)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	389,487	58,724
Stock based compensation	164,795	48,839
Provision for accounts receivable allowances	8,988	34
Provision for inventory reserves	10,450	22,913
Changes in operating assets and liabilities:		
Accounts receivable	(1,801,446)	(149,635)
Inventories	(1,454,910)	313,785
Prepaid expenses and other assets	(193,245)	(623,529)
Accounts payable and accrued expenses	1,084,228	32,970
Net cash provided by (used in) operating activities	(3,735,281)	(404,870)
Investing activities:		
Other assets	(295,000)	—
Additions to equipment	(32,303)	(45,314)
Net cash provided by (used in) investing activities	(327,303)	(45,314)
Financing activities:		
Net funds received from (to) bank credit lines	2,141,799	(840,585)
Proceeds from stock option exercises	249,389	19,425
Proceeds from private placement offering (net of issuance costs)	—	3,421,001
Proceeds from stock rights offering (net of issuance costs)	—	228,960
Net cash provided by (used in) financing activities	2,391,188	2,828,801
Net change in cash	(1,671,396)	2,378,617
Cash and cash equivalents at beginning of period	1,846,704	137,637
Cash and cash equivalents at end of period	$ 175,308	$ 2,516,254
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 32,115	$ 72,360
Income taxes	$ 3,312	$ 5,757

See accompanying notes to condensed consolidated financial statements (unaudited).

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 presentation of the condensed consolidated balance sheet as of December 31, 2015 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 September 30, 2016 through the date of this filing and other than the subscription agreements disclosed in Note 7, has 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, 2015 included in the Company's 2015 Annual Report on Form 10-K .

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, "Presentation of Financial Statements — Going Concern." This standard requires management to evaluate for each annual and interim reporting period whether it is probable that the reporting entity will not be able to meet its obligations as they become due within one year after the date that the financial statements are issued. If the entity is in such a position, the standard provides for certain disclosures depending on whether or not the entity will be able to successfully mitigate its going concern status. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The Company does not expect a material impact to the Company’s financial condition, results from operations, or cash flows from the adoption of this guidance.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory.” Currently, all inventory is measured at the lower of cost or market. ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The standard is effective for annual reporting periods beginning after December 15, 2015, which for the Company commenced with the year beginning January 1, 2016. Prospective application is required. The Company does not believe the implementation of this standard has a material impact on the Company’s consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14 “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” The amendments in this update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is assessing the impact to the Company's financial condition, results of operations or cash flows from the adoption of this guidance.

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 its balance sheet, 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 adoption of this standard is not expected to have a material impact on the Company’s consolidated financial condition, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation.” 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. Some of the simplified areas apply only to nonpublic entities. ASU 2016-09 is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. If an entity early adopts ASU 2016-09 in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Methods of adoption vary according to each of the amendment provisions. The Company is currently evaluating the potential impact that the adoption of ASU 2016-09 may have on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers — Identifying Performance Obligations and Licensing." ASU 2016-10 does not change the core principle of the guidance, rather it clarifies the identification of performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. ASU 2016-10 clarifies the guidance in ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. The effective date and transition requirements for ASU 2016-10 are the same as for ASU 2014-09, which was deferred by one year by ASU No.2015-14, "Revenue from Contracts with Customers — Deferral of the Effective Date." Public business entities should adopt the new revenue recognition standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. The Company is currently evaluating the potential impact that the adoption of ASU 2016-10 may have on its consolidated financial statements.

In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers — Narrow- Scope Improvements and Practical Expedients." ASU 2016-12 does not change the core principle of the guidance, rather it affects only certain narrow aspects of Topic 606, including assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. ASU 2016-12 affects the guidance in ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. The effective date and transition requirements for ASU 2016-12 are the same as for ASU 2014-09, which was deferred by one year by ASU No. 2015-14, "Revenue from Contracts with Customers — Deferral of the Effective Date." Public business entities should adopt the new revenue recognition standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. The Company is currently evaluating the potential impact that the adoption of ASU 2016-12 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, however, it does not expect it to have a material effect.

(2) Liquidity

The Company’s cash and cash equivalents balance at September 30, 2016 was approximately $175 thousand, a decrease of $1.7 million from December 31, 2015. Major uses of cash were attributed to a $1.9 million loss for the nine months ended September 30, 2016, an increase of approximately $1.8 million in accounts receivable, an increase of approximately $1.4 million in inventory, and an increase of approximately $0.2 million in prepaid expense. These were partially offset by increases of approximately $2.1 million in bank debt, approximately $0.7 million in accrued expenses, and approximately $0.4 million in accounts payable.

On September 30, 2016 the Company had approximately $2.1 million in bank debt of a $3.0 million credit line, working capital of approximately $2.9 million including approximately $175 thousand in cash and cash equivalents. The Company raised $3.65 million from a $3.42 million private placement in September 2015 and a $229 thousand rights offering in July 2015. On December 31, 2015 the Company had working capital of approximately $4.4 million including approximately $1.8 million in cash and cash equivalents. The Company's current ratio at September 30, 2016 was 1.6 compared to 3.6 at December 31, 2015.

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 $3.65 million as described above. The Company believes that its existing financial resources, supplemented by net proceeds of approximately $1.5 million from the private placement offering that occurred subsequent to September 30, 2016, along with its existing line of credit and recent increase to the credit limit, will be sufficient to fund operations for at least the next twelve months.

(3) Inventories

Inventories consist of :	September 30, 2016	December 31, 2015
Materials	$ 1,166,501	$ 477,929
Work in process	162,539	—
Finished goods	2,900,030	2,306,681
Total	$ 4,229,070	$ 2,784,610

Finished goods includes consigned inventory held by our customers of $402,963 at September 30, 2016 and $119,100 at December 31, 2015. 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 in both the first nine months of 2016 and 2015.

(4) Commitments and 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 January 30, 2015, Wetro LAN LLC ("Wetro LAN") 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. 6,795,918 ("the '918 patent") entitled "Service Level Computer Security." Wetro LAN alleged that the Company's wireless routers, including its Model 4501 Wireless-N Router, infringe the '918 patent. "In its complaint, Wetro LAN sought unspecified compensatory damages." The case was resolved on May 18, 2016 with the entry by the Judge of an Order of Dismissal with Prejudice.

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 5354 (N300, N600, AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case is in its early stages and the Court entered an Amended Docket Control Order on October 12, 2016. If the case is not otherwise resolved, trial is scheduled to commence on November 6, 2017.

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 amended License Agreement, the Company has committed to spend a certain percentage of its Motorola revenues 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,	
2016:	$2,000,000
2017:	$3,000,000
2018:	$3,500,000
2019:	$4,000,000
2020:	$4,500,000

Royalty expense under the License Agreement amounted to $583,333 for the third quarter of 2016 and $1,416,666 for the first nine months of 2016, and is included in selling expense on the accompanying condensed consolidated statements of operations. The balance of the committed royalty expense for 2016 amounts to $583,334 for the remaining quarter of 2016.

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 amounted to $99,876 for the third quarter of 2016 and $302,935 for the first nine months of 2016.

(5) Customer Concentrations

The Company sells its products primarily through high-volume retailers and distributors, Internet service providers, value-added resellers, personal computer 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 have accounted for a substantial portion of the Company's revenues. In the third quarter of 2016, three customers accounted for 86% of the Company's net sales with the Company's largest customer accounting for 32% of its net sales. In the first nine months of 2016, three customers accounted for 81% of the Company's total net sales with the Company's largest customer accounting for 30% of its net sales. At September 30, 2016 three customers accounted for 88% of the Company's accounts receivable, with the Company's largest customer representing 48% of its accounts receivable. In the third quarter of 2015, three customers accounted for 79% of the Company's total net sales with the Company's largest customer accounting for 48% of its net sales. In the first nine months of 2015, three customers accounted for 77% of the Company's total net sales with the Company's largest customer accounting for 46% of its net sales. At September 30, 2015, three customers accounted for 90% of the Company's accounts receivable, with the Company's largest customer representing 61% of its 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 (loss) 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 September 30, 2016, the Company was in compliance with both its working capital and tangible net worth covenants. At September 30, 2016, the Company’s tangible net worth was approximately $3.1 million, while the Company’s working capital was approximately $2.9 million.

(7) Subsequent Events

On October 24, 2016, Zoom entered into stock subscription agreements with investors in connection with a non-brokered private placement of 619,231 unregistered shares of the Company’s common stock, which raised approximately $1.5 million net proceeds.

Management of the Company has reviewed subsequent events from September 30, 2016 through the date of filing and has concluded that, except as noted above, there were no subsequent events requiring adjustment to or disclosure in these consolidated financial statements.

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, 2015, filed with the Securities and Exchange Commission on March 15, 2016 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 but one 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.

Since 1983 our headquarters have been near South Station in downtown Boston. We recently 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 with early access granted as of December 1, 2015.

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; conversely, 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 September 30, 2016 we had 30 employees, 25 working full-time and 5 working less than five days per week. Ten 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 consumer 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. As of September 30, 2016, we had one consultant in sales and one consultant in information systems, neither of whom is 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 were 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, 2015 the Company had federal net operating loss carry forwards of approximately $50.7 million that are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2035. As of December 31, 2015, the Company had Massachusetts state net operating loss carry forwards of approximately $5.1 million that are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2035.

Results of Operations

Comparison of the three months ended September 30, 2016 to the three months ended September 30, 2015

Summary. Net sales were $5.99 million for the third quarter ended September 30, 2016 ("Q3 2016"), up 77.9%% from $3.37 million for Q3 2015. Zoom reported a net loss of $244 thousand for Q3 2016 compared to a net loss of $8 thousand for Q3 2015.

Net Sales. Our total net sales for Q3 2016 increased $2.62 million or 77.9% from Q3 2015, primarily due to continued expansion of Motorola branded products.

Concentration. In Q3 2016, three customers accounted for 86% of the Company's net sales with the Company's largest customer accounting for 32% of its net sales. In Q3 2015, three customers accounted for 79% of the Company's total net sales with the Company's largest customer accounting for 48% of its net sales.

Gross Profit. Gross profit was $1.93 million or 32.1% of net sales in Q3 2016, up from $1.10 million or 32.7% of net sales in Q3 2015. Improvement in gross profit was primarily due to increased sales.

Selling Expense. Selling expense was $1.47 million or 24.6% of net sales in Q3 2016, up from $0.42 million or 12.4% of net sales in Q3 2015. The increase of $1.06 million was primarily due to Motorola brand royalty payments, and increased marketing and advertising costs.

General and Administrative Expense. General and administrative expense was $354 thousand or 5.9% of net sales in Q3 2016, up 15.5% from $307 thousand or 9.1% of net sales in Q3 2015. The increase of $47 thousand was primarily due to increased personnel and related costs, and increased legal expenses.

Research and Development Expense. Research and development expense was $353 thousand or 5.9% of net sales in Q3 2016, down slightly from $354 thousand or 10.5% of net sales in Q3 2015. Increased engineering personnel costs were offset by decreases in outside engineering expenses.

Other Income (Expense). Other income was $14 thousand in Q3 2016, driven by a one-time favorable settlement on a class action lawsuit for approximately $41 thousand, reduced by loan interest costs of approximately $27 thousand. Other expense was $27 thousand in Q3 2015 due to interest expense related to our bank credit line.

Net Income (Loss). The net loss was $244 thousand for Q3 2016, compared to a net loss of $8 thousand for Q3 2015.

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

Summary. Net sales of $12.69 million for the first nine months of 2016 were up 40.7% from net sales of $9.02 million for the first nine months of 2015. Zoom's net loss was $1.94 million for the first nine months of 2016, up from a net loss of $109 thousand for the first nine months of 2015. Loss per diluted share was $0.14 in the nine months ended September 30, 2016 compared to $0.01 for the nine months ended September 30, 2015.

Net Sales. Our total net sales for the first nine months of 2016 increased $3.67 million or 40.7% from the first nine months of 2015 primarily due to continued expansion of Motorola branded products.

Concentration. In the first nine months of 2016, three customers accounted for 81% of the Company's total net sales with the Company's largest customer accounting for 30% of its net sales. In the first nine months of 2015, three customers accounted for 77% of the Company's total net sales with the Company's largest customer accounting for 46% of its net sales.

Gross Profit. Gross profit was $3.96 million for the first nine months of 2016, up $1.05 million or 36.1% from gross profit of $2.91 million for the first nine months of 2015. Improvement in gross profit was primarily due to increased sales.

Selling Expense. Selling expense was $3.52 million or 27.7% of net sales in the first nine months of 2016, up from $1.21 million or 13.4% of net sales in the first nine months of 2015. The increase of $2.31 million was primarily due to Motorola brand royalty payments, and increased marketing and advertising costs.

General and Administrative Expense. General and administrative expense was $1.24 million or 9.7% of net sales for the first nine months of 2016, up 52.5% from $0.81 million or 9.0% of net sales for the first nine months of 2015. The increase of $426 thousand was primarily due to increased personnel costs, stock option expenses, audit and legal costs, and increased investor relations services.

Research and Development Expense. Research and development expense was $1.15 million or 9.1% of net sales in the first nine months of 2016, up 25.8% from $0.92 million or 10.2% of net sales in the first nine months of 2015. The increase of $237 thousand was due primarily to increased personnel and related costs, and increased product certification and testing expenses.

Other Income (Expense). Other income was $10 thousand in the first nine months of 2016, driven by a one-time favorable settlement on a class action lawsuit for approximately $41 thousand, reduced by loan interest costs of approximately $32 thousand. Other expense was $73 thousand in the first nine months quarter of 2015 due to interest expense on our bank credit line.

Net Income (Loss). The net loss was $1.94 million for the first nine months of 2016, compared to the net loss of $109 thousand for the first nine months of 2015.

Liquidity and Capital Resources

The Company's cash and cash equivalents balance on September 30, 2016 was approximately $175 thousand, a decrease of $1.7 million from December 31, 2015. Major uses of cash were attributed to a $1.9 million loss for the nine months ended September 30, 2016, an increase of approximately $1.8 million in accounts receivable, an increase of approximately $1.4 million in inventory, and an increase of approximately $0.2 million in prepaid expense. These were partially offset by increases of approximately $2.1 million in bank debt, approximately $0.7 million in accrued expenses, and approximately $0.4 million in accounts payable.

On September 30, 2016 the Company had approximately $2.1 million in bank debt of a $3.0 million credit line and working capital of approximately $2.9 million including approximately $175 thousand in cash and cash equivalents. The Company raised $3.65 million from a $3.42 million private placement in September 2015 and a $229 thousand rights offering in July 2015. On December 31, 2015 the Company had working capital of approximately $4.4 million including approximately $1.8 million in cash and cash equivalents. The Company's current ratio at September 30, 2016 was 1.6 compared to 3.6 at December 31, 2015.

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 $3.65 million as described above. The Company believes that its existing financial resources supplemented by the net proceeds of approximately $1.5 million raised in the recent private placement offering, along with its existing line of credit and recent increase to the credit limit, will be sufficient to fund operations for at least the next twelve months.

Commitments

During the nine months ended September 30, 2016, 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, 2015.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements as of September 30, 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 September 30, 2016. 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, "Commitments and Contingencies" of the Notes to Condensed Consolidated 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, 2015, filed with the SEC on March 15, 2016, 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, 2015.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
10.1	Amendment to Financing Agreement, dated July 19, 2016, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on July 25, 2016).
10.2	Amendment to Financing Agreement, dated September 1, 2016, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on September 8, 2016).
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)	Certification 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 14, 2016

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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