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, 2013

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.)*
207 South Street, Boston, Massachusetts	**02111**
(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 September 30, 2013, was 7,982,704 shares.

ZOOM TELEPHONICS, INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZOOM TELEPHONICS, INC.
Condensed Balance Sheets (Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets		
Cash and cash equivalents	$ 50,795	$ 195,704
Marketable securities	20,000	44,000
Accounts receivable, net of allowances of $557,259 at September 30, 2013 and $811,897 at December 31, 2012	1,395,758	1,966,334
Inventories	2,548,349	2,630,386
Prepaid expenses and other current assets	196,793	261,688
Total current assets	4,211,695	5,098,112
Equipment, net	51,812	26,045
Total assets	$ 4,263,507	$ 5,124,157
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank debt	$ 292,465	$ 910,807
Accounts payable	1,059,649	931,607
Accrued expenses	297,081	379,841
Total current liabilities	1,649,195	2,222,255
Total liabilities	1,649,195	2,222,255
Stockholders' equity		
Common stock, $0.01 par value:		
Authorized - 25,000,000 shares; issued – 7,982,704 shares at September 30, 2013 and 6,973,704 shares at December 31, 2012	79,827	69,737
Additional paid-in capital	34,172,186	33,904,003
Accumulated deficit	(31,707,119)	(31,170,788)
Accumulated other comprehensive income (loss)	69,418	98,950
Total stockholders' equity	2,614,312	2,901,902
Total liabilities and stockholders' equity	$ 4,263,507	$ 5,124,157

See accompanying notes.

ZOOM TELEPHONICS, INC.
Condensed Statements of Operations and
Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net sales	$ 2,547,028	$ 3,434,693	$ 8,363,646	$ 11,243,415
Cost of goods sold	1,907,052	2,575,397	5,985,468	8,475,112
Gross profit	639,976	859,296	2,378,178	2,768,303
Operating expenses:				
Selling	334,756	431,587	1,157,515	1,458,609
General and administrative	313,723	294,710	1,007,603	908,457
Research and development	225,820	266,783	697,938	848,788
	874,299	993,080	2,863,056	3,215,854
Operating profit (loss)	(234,323)	(133,784)	(484,878)	(447,551)
Other income (expense):				
Interest income	7	13	33	94
Other, net	(16,625)	(20,003)	(48,751)	(29,588)
Total other income (expense), net	(16,618)	(19,990)	(48,718)	(29,494)
Income (loss) before income taxes	(250,941)	(153,774)	(533,596)	(477,045)
Income taxes (benefit)	1,207	795	2,734	2,652
Net income (loss)	$ (252,148)	$ (154,569)	$ (536,330)	$ (479,697)
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,527	7,079	(5,532)	12,085
Unrealized gain (loss) for the period	(12,800)	(12,800)	(24,000)	(11,880)
Net comprehensive income (loss)	$ (262,421)	$ (160,290)	$ (565,862)	$ (479,492)
Basic and diluted net income (loss) per share	$ (0.03)	$ (0.02)	$ (0.07)	$ (0.07)
Weighted average common and common equivalent shares:				
Basic and diluted	7,517,012	6,973,704	7,155,472	6,973,704

See accompanying notes.

ZOOM TELEPHONICS, INC.
Condensed Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating activities:		
Net income (loss)	$ (536,330)	$ (479,697)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,464	4,218
Stock based compensation	29,595	34,107
Changes in operating assets and liabilities:		
Accounts receivable	567,372	(470,802)
Inventories	82,037	(418,941)
Prepaid expenses and other assets	63,178	16,613
Accounts payable and accrued expenses	43,265	67,456
Net cash provided by (used in) operating activities	256,581	(1,247,046)
Investing activities:		
Purchases of property, plant and equipment	(33,232)	(14,846)
Net cash provided by (used in) investing activities	(33,232)	(14,846)
Financing activities:		
Funds from bank debt	—	796,000
Net funds (to) from bank credit lines	(618,343)	—
Proceeds from stock rights offering(net of issuance costs)	248,678	—
Net cash provided by (used in) financing activities	(369,665)	796,000
Effect of exchange rate changes on cash	1,407	(152)
Net change in cash	(144,909)	(466,044)
Cash and cash equivalents at beginning of period	195,704	644,365
Cash and cash equivalents at end of period	$ 50,795	$ 178,321
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 51,610	$ 28,028
Income taxes	$ 2,734	$ 2,035

See accompanying notes.

ZOOM TELEPHONICS, INC.
Notes to Condensed Financial Statements

(Unaudited)

(1) Summary of Significant Accounting Policies

The accompanying financial statements are unaudited. However, the condensed balance sheet as of December 31, 2012 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all adjustments to present fairly the financial position, results of operations and cash flows of the Company. 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, 2013 through the date of this filing and determined that there are no such events requiring recognition or disclosure in the financial statements.

The condensed financial statements of Zoom Telephonics, Inc. ("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, 2012 included in the Company's 2012 Annual Report on Form 10-K.

(2) Liquidity

Zoom's cash and cash equivalents balance on September 30, 2013 was $51 thousand, down $145 thousand from December 31, 2012, as a $619 thousand decrease in bank debt and a net loss of $536 thousand were partially offset by Zoom's $570 thousand decrease in net accounts receivable and $249 thousand in funds from the rights offering.

On September 30, 2013 the Company had working capital of $2.6 million including $51 thousand in cash and cash equivalents. On December 31, 2012 we had working capital of $2.9 million including $196 thousand in cash and cash equivalents. Our current ratio at September 30, 2013 was 2.6 compared to 2.3 at December 31, 2012.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On September 30, 2013 we had a headcount of 27 compared to 32 as of September 30, 2012. We plan to continue to assess our cost structure as it relates to our revenues and cash position, and we may make further reductions if the actions are deemed appropriate.

On April 10, 2012 Zoom entered into a Loan and Security Agreement with Silicon Valley Bank (the "Loan Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated April 13, 2012. The Loan Agreement provided for up to $1 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Loan Agreement. The Loan Agreement had a one year term which was set to expire April 9, 2013. Borrowings were secured by all of Zoom's assets including Zoom's intellectual property. Zoom terminated this loan with payment in full on December 19, 2012 in connection with a financing agreement with Rosenthal & Rosenthal, Inc.

On December 18, 2012, Zoom entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). This Financing Agreement was filed with the SEC in an 8-K dated December 21, 2012. The Financing Agreement provides for up to $1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of Zoom's assets including Zoom's intellectual property. The Financing Agreement contains several covenants, including a requirement that our tangible net worth and working capital each be not less than $2,500,000.

The Company is continuing to develop new products and to take other measures to increase sales. Increasing sales typically results in increased inventory and higher accounts receivable, both of which reduce cash. Zoom has two significant accounts who buy from Zoom on a consignment basis. Consigned inventory tends to result in slow payment to Zoom, since Zoom is only paid after the consigned inventory is sold by Zoom's customer.

The Company has had recurring net losses and continues to experience negative cash flows from operations. Management does not believe the Company has sufficient resources to fund its normal operations over the next 12 months unless sales or gross margin improves significantly or the Company raises capital. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available, the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales, there is substantial doubt as to its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(3) Inventories

Inventories consist of :	September 30, 2013	December 31, 2012
Raw materials	$ 628,778	$ 720,113
Work in process	134,264	—
Finished goods (including $339,900 and $489,400 held by customers at September 30, 2013 and December 31, 2012, respectively)	1,785,307	1,910,273
Total inventories	$ 2,548,349	$ 2,630,386

(4) Contingencies

Zoom currently has one outstanding complaint against it. On October 15, 2012, Telecomm Innovations LLC filed a complaint against Zoom Telephonics and also filed complaints against many other companies including various dial-up modem producers and many fax machine producers. The only named Zoom product in the complaint was Zoom's Model 3095 dial-up modem, and we believe that this product has a license through Conexant for the two patents mentioned in the complaint. However, other Zoom dial-up modem products may be subject to the patents asserted in the complaint, and a small percentage of these did not use Conexant chipsets. Telecomm Innovations has recently discovered that there was a gap in the chain of title for the asserted patents and it may not have had standing at the time the complaint was filed. We expect Telecomm to dismiss the complaint and then refile the claim with a purported correction to the chain of title.

(5) Segment and Geographic Information

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

	Three Months Ended September 30, 2013	% of Total	Three Months Ended September 30, 2012	% of Total	Nine Months Ended September 30, 2013	% of Total	Nine Months Ended September 30, 2012	% of Total
North America	$2,426,296	95%	$3,127,784	91%	$7,761,524	93%	$10,225,466	91%
UK	48,714	2%	158,872	5%	271,518	3%	425,681	4%
All Other	72,018	3%	148,037	4%	330,604	4%	592,268	5%
Total	$2,547,028	100%	$3,434,693	100%	$8,363,646	100%	$11,243,415	100%

(6) Customer Concentrations

The Company sells its products primarily through high-volume retailers and distributors, Internet service providers, value-added resellers, 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 have accounted for a substantial portion of the Company's revenues. In the third quarter of 2013, three customers accounted for 68% of the Company's total net sales. In the third quarter of 2012, three customers accounted for 64% of the Company's total net sales. In the first nine months of 2013, three customers accounted for 67% of the Company's total net sales. In the first nine months of 2012, three customers accounted for 65% of the Company's total net sales.One customer accounted for 65% of net accounts receivable at September 30, 2013.

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.

(7) Valuation of Marketable Securities

In October 2010 Zoom Telephonics, Inc. entered into an agreement with Zoom Technologies, Inc. (Nasdaq: ZOOM) in which Zoom Telephonics transferred its rights to the zoom.com domain name and certain trademark rights in exchange for 80,000 shares of Zoom Technologies common stock. These shares had trading restrictions that ended January 18, 2012. The Company values the marketable securities at market value in the financial statements. The Company did not sell any Zoom Technologies shares in 2012 or the first nine months of 2013. The closing price of Zoom Technologies common stock decreased from $0.55 on December 31, 2012 to $0.25 on September 30, 2013.

(8) Bank Credit Lines

On April 10, 2012 Zoom entered into a Loan and Security Agreement with Silicon Valley Bank (the "Loan Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated April 13, 2012. The Loan Agreement provided for up to $1 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Loan Agreement. The Loan Agreement had a one year term which was set to expire April 9, 2013. Borrowings were secured by all of Zoom's assets including Zoom's intellectual property. Zoom terminated this loan with payment in full on December 19, 2012 in connection with a financing agreement with Rosenthal & Rosenthal, Inc.

On December 18, 2012, Zoom entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). This Financing Agreement was filed with the SEC in an 8-K dated December 21, 2012. The Financing Agreement provides for up to $1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of Zoom's assets including Zoom's intellectual property. The Financing Agreement contains several covenants, including a requirement that our tangible net worth and working capital each be not less than $2,500,000.

On September 30, 2013 Zoom was in compliance with the covenants of the Financing Agreement with Rosenthal & Rosenthal, Inc.

(9) Stockholder's Equity

In June 2013, the Company distributed subscription rights to purchase shares of common stock at $0.28 per share. As a result of the offering, the Company received gross proceeds of $282,520 through the issuance of 1,009,000 shares of its Common Stock

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

The following discussion and analysis should be read in conjunction with the safe harbor statement and the risk factors contained in Item IA 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, 2012, filed with the SEC on March 29, 2013 and in our other filings with the SEC. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Overview

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

For many years we performed most of the final assembly, test, packaging, warehousing and distribution at a production and warehouse facility on Summer Street in Boston, Massachusetts, which had also engaged in firmware programming for some products. On June 30, 2006 we announced our plans to move most of our Summer Street operations to a dedicated facility in Tijuana, Mexico, and we then implemented that plan. In August 2006 we signed a lease for a 35,575 square foot manufacturing and warehousing facility in Tijuana, Mexico with an initial lease term from October 2006 to May 2007, with five two-year options thereafter. In February, 2007 we renegotiated the first renewal term and signed a one-year extension starting in May 2007, with five two-year options thereafter. We signed a one-year extension starting in May 2008. In March 2009 we signed a one-year lease with one one-year option for a smaller facility for lower cost. In March 2011 we signed a one-year lease extension starting May 1, 2011, with three one-year renewal options thereafter. In April 2012 we exercised the first lease renewal. In February 2013 we exercised the second lease renewal.

Since 1983 our headquarters has been near South Station in downtown Boston. Zoom historically owned two adjacent buildings which connect on most floors, and which house our entire Boston staff. In December 2006 we sold our headquarters buildings to a third party, with a two-year lease-back of approximately 25,000 square feet of the 62,000 square foot facility. Our net sale proceeds were approximately $7.7 million, of which approximately $3.6 million was repaid to our mortgage holder, eliminating the mortgage debt from our balance sheet. On January 1, 2009 we reduced our leased Boston space from 25,000 square feet to 14,400 square feet with an increase in rent per square foot, resulting in a savings in 2009 of $54,000. In May 2010 we signed a second lease amendment extending the term of the lease to April 30, 2016 with a six month termination option starting December 1, 2011. In December 2011 we signed a third lease amendment reducing our leased space by 3,800 square feet effective June 1, 2012, with an associated decrease in lease expense.

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

We continually seek to improve our product designs and manufacturing approach in order to improve product performance and reduce our costs. We pursue a strategy of outsourcing rather than internally developing our product chipsets, which are application-specific integrated circuits that form the technology base for our modems and some other products. By outsourcing the chipset technology, we are able to concentrate our research and development resources on performance and system design features, leverage the extensive research and development capabilities of our chipset suppliers, and reduce our development time and associated costs and risks. This approach has allowed us 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 approach to ZoomGuard is different and more engineering intensive though, since our ZoomGuard hardware designs employ a microprocessor that uses Zoom-developed firmware and that relies on Zoom-developed Web or smartphone software for setup, monitoring, and control.

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

Over the past several years our net sales have declined. In response to declining sales volume, we have cut costs by reducing staffing and some overhead costs. Our total headcount was reduced from 32 on September 30, 2012 to 27 on September 30, 2013. As of October 31, 2013, Zoom had 27 full-time and part-time employees. Of the 27 included in our headcount on October 31, 2013, 7 were engaged in research and development and quality control, 5 were involved in manufacturing oversight, purchasing, assembly, packaging and shipping, 9 were engaged in sales, marketing, technical support, and the remaining 6 performed accounting, administrative, management information systems, and executive functions. Zoom has implemented cost cutting measures including reducing our headcount and reducing the number of days that certain employees work. Our dedicated manufacturing personnel in Mexico are employees of our Mexican manufacturing service provider and not included in our headcount.

Zoom's cash and cash equivalents balance on September 30, 2013 was $51 thousand, down $145 thousand from December 31, 2012, as a result of a $619 thousand decrease in bank debt and a net loss of $536 thousand, partially offset by Zoom's $570 thousand decrease in net accounts receivable and $249 thousand in funds from the rights offering.

On September 30, 2013 the Company had working capital of $2.6 million including $51 thousand in cash and cash equivalents. On December 31, 2012 we had working capital of $2.9 million including $196 thousand in cash and cash equivalents. Our current ratio at September 30, 2013 was 2.6 compared to 2.3 at December 31, 2012.

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 (Net Sales) Recognition. We primarily sell hardware products to our customers. The hardware products include dial-up modems, DSL modems, cable modems, voice over IP products, and wireless and wired networking equipment. We earn a small amount of royalty revenue that is included in our net sales, primarily from internet service providers. We generally do not sell software. We began selling services in 2004. We introduced our Global Village VoIP service in late 2004, but sales of those services to date have not been material.

We derive our net sales primarily from the sales of hardware products to four types of customers:

- computer peripherals retailers,
- computer product distributors,
- Internet service providers, and
- original equipment manufacturers (OEMs)

We recognize hardware net sales for our customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes from Zoom to the customer based on the contractual FOB point specified in signed contracts and purchase orders, which are both used extensively. Many of our customer contracts or purchase orders specify FOB destination. We verify the delivery date on all significant FOB destination shipments made during the last 10 business days of each quarter.

Our net sales of hardware include reductions resulting from certain events which are characteristic of the sales of hardware to retailers of computer peripherals. These events are product returns, certain sales and marketing incentives, price protection refunds, and consumer mail-in and in-store rebates. Each of these is accounted for as a reduction of net sales based on detailed management estimates, which are reconciled to actual customer or end-consumer credits on a monthly or quarterly basis.

When Zoom consigns inventory to a retailer, sales revenue for an item in that inventory is recognized when that item is sold by the retailer to a customer. The item remains in Zoom inventory when it is consigned, and moves out of Zoom inventory when the item is sold by the retailer.

Product Returns. Products are returned by retail stores and distributors for inventory balancing, contractual stock rotation privileges, and warranty repair or replacements. We estimate the sales and cost value of expected future product returns of previously sold products. Our estimates for product returns are based on recent historical trends plus estimates for returns prompted by, among other things, announced stock rotations and announced customer store closings. Management reviews historical returns, current economic trends, and changes in customer demand and acceptance of our products when estimating sales return allowances. The estimate for future returns is recorded as a reserve against accounts receivable, a reduction in our net sales, and the corresponding change to inventory reserves and cost of sales. Product returns as a percentage of total shipments were 17.3% and 15.9% for the third quarter of 2013 and 2012, respectively.

Price Protection Refunds. We have a policy of offering price protection to certain of our retailer and distributor customers for some or all of their inventory. Under the price protection policies, when we reduce our prices for a product, the customer receives a credit for the difference between the original purchase price and our reduced price for their unsold inventory of that product. Our estimates for price protection refunds are based on a detailed understanding and tracking by customer and by sales program. Estimated price protection refunds are recorded in the same period as the announcement of a pricing change. Information from customer inventory-on-hand reports or from direct communications with the customers is used to estimate the refund, which is recorded as a reduction of net sales and a reserve against accounts receivable. Reductions in our net sales due to price protection were negligible in both the third quarter of 2013 and the third quarter of 2012.

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 and were $50 thousand in the third quarter of 2013 and $66 thousand in the third quarter of 2012.

Consumer Mail-In and In-Store Rebates. Our estimates for consumer mail-in and in-store rebates are based on a detailed understanding and tracking by customer and sales program, supported by actual rebate claims processed by the rebate redemption centers plus an accrual for an estimated lag in processing at the redemption centers. The estimate for mail-in and in-store rebates is recorded as a reserve against accounts receivable and a reduction of net sales in the same period that the rebate obligation was triggered. Reductions in our net sales due to the consumer rebates were $52 thousand in the third quarter of 2013 and negligible in the third quarter of 2012.

To ensure that the sales, discounts, and marketing incentives are recorded in the proper period, we perform extensive tracking and documenting by customer, by period, and by type of marketing event. This tracking includes reconciliation to the accounts receivable records for deductions taken by our customers for these discounts and incentives.

Accounts Receivable Valuation. We establish accounts receivable valuation allowances equal to the above-discussed net sales adjustments for estimates of product returns, price protection refunds, consumer rebates, and general bad debt reserves. These allowances are reduced as actual credits are issued to the customer's accounts. Our bad-debt write-offs were negligible in both the third quarter of 2013 and the third quarter of 2012.

Inventory Valuation and Cost of Goods Sold. Inventory is valued at the lower of cost, determined by the first-in, first-out method, or market. We review inventories for obsolete slow moving products each quarter and make provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. Additional charges to inventory reserves related to obsolete and slow-moving products were negligible in both the third quarter of 2013 and the third quarter of 2012.

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 of the 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.

As of December 31, 2012 the Company had federal net operating loss carry forwards of approximately $47,537,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2032. As of December 31, 2012, the Company had Massachusetts state net operating loss carry forwards of approximately $15,798,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2013 through 2017.

Valuation of Investments In October 2010 Zoom entered into an agreement with Zoom Technologies, Inc. (Nasdaq: ZOOM) in which Zoom Telephonics transferred its rights to the zoom.com domain name and certain trademark rights in exchange for 80,000 shares of Zoom Technologies common stock. These shares had trading restrictions that ended January 18, 2012. The Company values the marketable securities at market value in the financial statements. The Company did not sell any Zoom Technologies shares in 2012 or the first half of 2013. The closing price of Zoom Technologies common stock decreased from $0.55 on December 31, 2012 to $0.25 on September 30, 2013.

Results of Operations

Summary. Net sales were $2.5 million for the third quarter ended September 30, 2013 (“Q3 2013”), down 25.8% from $3.4 million for the third quarter of 2012 (“Q3 2012”). Zoom reported a net loss of $252 thousand or $0.03 per share for the third quarter of 2013 compared to a net loss of $155 thousand or $0.02 per share for the third quarter of 2012. Net sales were $8.4 million for the nine months ended September 30, 2013, down 25.6% from $11.2 million for the nine months ended September 30, 2012. We had a net loss of $536 thousand for the nine months ended September 30, 2013 compared to a net loss of $480 thousand for the nine months ended September 30, 2012. Loss per diluted share was $0.07 in the nine months ended September 30, 2013 compared to $0.07 for the nine months ended September 30, 2012.

Net Sales. Our total net sales for the third quarter of 2013 decreased $0.9 million or 25.8% from the third quarter of 2012, primarily due to continued decline in the dial-up modem market, increased cable modem competition in North America, and disappointing international sales.

Our total net sales for the first nine months of 2013 decreased $2.9 million or 25.6% from the first nine months of 2012, primarily due to increased cable modem competition in North America, continued decline in the dial-up modem market, and disappointing sales in the UK and international markets.

Geographically, our North American sales continued their dominant share of our overall sales, going from 91% of our net sales in the third quarter of 2012 to 95% in the third quarter of 2013. Our second largest market, the UK, experienced a decline from 5% of our net sales in the third quarter of 2012 to 2% in the third quarter of 2013. International sales outside the UK also declined from 4% of our net sales in the third quarter of 2012 to 3% of our net sales in the third quarter of 2013.

In the quarter ended September 30, 2013 three customers accounted for 68% of total net sales. In the first nine months of 2013, three customers accounted for 67% of the Company's total net sales. Our net sales and operating income have fluctuated; and they could in the future fluctuate significantly due to changes in political or economic conditions or the loss, reduction of business, or less favorable terms for any of our significant customers.

Gross Profit. Gross profit was $640 thousand or 25.1% of net sales in the third quarter of 2013, down from $859 thousand or 25.0% of net sales in the third quarter of 2012.

Gross profit was $2.38 million for the first nine months of 2013, down $390 thousand from gross profit of $2.77 million for the first nine months of 2012. Our gross margin for the first nine months of 2013 was 28.4%, up from our gross margin of 24.6% for the first nine months of 2012, due primarily to lower standard costs for some of Zoom's products.

Selling Expense. Selling expense was $335 thousand or 13.1% of net sales in the third quarter of 2013, down from $432 thousand or 12.6% of net sales in the third quarter of 2012. The decrease of $97 thousand was primarily due to reductions in retailer advertising costs, salaries, and commissions. Selling expense was $1.16 million or 13.8% of net sales in the first nine months of 2013, down 20.6% from $1.46 million or 13.0% of net sales in the first nine months of 2012. The decrease of $302 thousand was primarily due to lower sales commissions, retailer advertising costs, freight, and salaries.

General and Administrative Expense. General and administrative expense was $314 thousand or 12.3% of net sales in the third quarter of 2013, up from $295 thousand or 8.6% of net sales in the third quarter of 2012. The increase of $19 thousand was primarily due to increases in legal costs relating to patents and trademarks. General and administrative expense was $1.01 million or 12.0% for the first nine months of 2013, up from $0.91 million or 8.1% for the first nine months of 2012. The increase of $99 thousand was primarily due to increased legal costs relating to patents and trademarks.

Research and Development Expense. Research and development expense was $226 thousand or 8.9% of net sales in the third quarter of 2013, down from $267 thousand or 7.8% of net sales in the third quarter of 2012. The $41 thousand reduction in research and development expenses was due primarily to decreased firmware consulting costs. Research and development expense was $698 thousand or 8.3% of net sales in the first nine months of 2013, down 17.8% from $849 thousand or 7.5% of net sales in the first nine months of 2012, due to decreased certification and firmware consulting costs.

Other Income (Expense). Other expense was $17 thousand in the third quarter of 2013 and was $20 thousand in the third quarter of 2012, primarily due to interest expense related to our bank credit line.

Net Income (Loss). The net loss was $252 thousand for the third quarter of 2013, compared to the net loss of $155 thousand for the third quarter of 2012. The net loss was $536 thousand for the first nine months of 2013, compared to the net loss of $480 thousand for the first nine months of 2012.

Liquidity and Capital Resources

Zoom's cash and cash equivalents balance on September 30, 2013 was $51 thousand, down $145 thousand from December 31, 2012, as a result of a $619 thousand decrease in bank debt and net loss of $536 thousand, partially offset by Zoom's $570 thousand decrease in net accounts receivable and $249 thousand in funds from the rights offering.

On September 30, 2013 the Company had working capital of $2.6 million including $51 thousand in cash and cash equivalents. On December 31, 2012 we had working capital of $2.9 million including $196 thousand in cash and cash equivalents. Our current ratio at September 30, 2013 was 2.6 compared to 2.3 at December 31, 2012.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On September 30, 2013 we had a headcount of 27 compared to 32 as of September 30, 2012. We plan to continue to assess our cost structure as it relates to our revenues and cash position, and we may make further reductions if the actions are deemed necessary.

On April 10, 2012 Zoom entered into a Loan and Security Agreement with Silicon Valley Bank (the "Loan Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated April 13, 2012. The Loan Agreement provided for up to $1 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Loan Agreement. The Loan Agreement had a one year term which was set to expire April 9, 2013. Borrowings were secured by all of Zoom's assets including Zoom's intellectual property. Zoom terminated this loan with payment in full on December 19, 2012 in connection with a financing agreement with Rosenthal & Rosenthal, Inc.

On December 18, 2012, Zoom entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the “Financing Agreement”). This Financing Agreement was filed with the SEC in an 8-K dated December 21, 2012. The Financing Agreement provides for up to $1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of Zoom’s assets including Zoom’s intellectual property. The Financing Agreement contains several covenants, including a requirement that our tangible net worth and working capital each be not less than $2,500,000.

On September 30, 2013 Zoom was in compliance with the covenants of the Financing Agreement with Rosenthal & Rosenthal, Inc.

The Company is continuing to develop new products and to take other measures to increase sales. Increasing sales typically results in increased inventory and higher accounts receivable, both of which reduce cash. Zoom has two significant accounts who buy from Zoom on a consignment basis. Consigned inventory tends to result in slow payment to Zoom, since Zoom is only paid after the consigned inventory is sold by Zoom’s customer.

The Company has had recurring net losses and continues to experience negative cash flows from operations. To conserve cash and manage liquidity, the Company has implemented cost cutting initiatives. However, management does not believe the Company has sufficient resources to fund its normal operations over the next 12 months unless sales or gross margin improves significantly or the Company raises capital. Additional financing may not be available on terms favorable to the Company, or at all. If these funds are not available, the Company may not be able to execute its business plan or take advantage of business opportunities. The ability of the Company to obtain such additional financing and to achieve its operating goals is uncertain. In the event that the Company does not obtain additional capital or is not able to increase cash flow through the increase of sales or gross margin, there is substantial doubt as to its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty

Commitments

During the nine months ended September 30, 2013, 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, 2012.

"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 below as well as those discussed elsewhere in this report, in our Annual Report on Form 10-K for the year ended December 31, 2012, filed with the SEC on March 29, 2013 and in our other filings with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Required.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer 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.

As of September 30, 2013 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 Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On February 6, 2013, Voice Integration Technologies filed a complaint against Zoom Telephonics alleging infringement of U.S. Patent No. 7,127,048 (the "048 Patent"), entitled "Systems and Methods for Integrating Analog Voice Service and Derived POTS Voice Service in a Digital Subscriber Line Environment." On July 1, 2013, this case was closed following the filing of a Stipulation of Dismissal with prejudice pursuant to a resolution of the dispute between Zoom and Voice Intergration Technololgies.

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, 2012, filed with the SEC on March 29, 2013, as well as those discussed in this report and in our other filings with the SEC.

Other than as set forth below, 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 2012.

We will probably require additional funding, which may be difficult to obtain on favorable terms, if at all.

Over the next twelve months we will probably require additional funding. We currently have a line of credit of up to $1.75 million from which we can borrow, and this line is subject to covenants that must be met. It is not certain whether all or part of this line of credit will be available to us in the future; and other sources of financing may not be available to us on a timely basis if at all, or on terms acceptable to us. If we fail to obtain acceptable additional financing when needed, we may not have sufficient resources to fund our normal operations; and this would have a material adverse effect on our business.

Our auditors have expressed substantial doubt about our ability to continue as a going concern.

The audit report issued by our independent registered public accounting firm for our financial statements for the fiscal year ended December 31, 2012 states that the auditing firm has substantial doubt in our ability to continue as a going concern due to the risk that we may not have sufficient cash and liquid assets at December 31, 2012 to cover our operating and capital requirements for the next twelve-month period; and if in that case sufficient cash cannot be obtained, we would have to substantially alter, or possibly even discontinue, operations. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We may experience costs and senior management distractions due to patent-related matters.

We make many products and they typically use patented technology. We attempt to license appropriate patents either directly or through our integrated circuit suppliers. However, we are subject to costs and senior management distractions due to patent matters. On October 15, 2012, Telecomm Innovations LLC filed a complaint against Zoom Telephonics and also filed complaints against many other companies including various dial-up modem producers and many fax machine producers. The only named Zoom product in the complaint was Zoom's Model 3095 dial-up modem, and we believe that this product has a license through Conexant for the two patents mentioned in the complaint. However, other Zoom dial-up modem products may be subject to the patents asserted in the complaint, and a small percentage of these did not use Conexant chipsets. Telecomm Innovations has recently discovered that there was a gap in the chain of title for the asserted patents and it may not have had standing at the time the complaint was filed. We expect Telecomm to dismiss the complaint and then refile the claim with a purported correction to the chain of title.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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, 2013 By:/s/ FRANK B. MANNING

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

EXHIBIT INDEX

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