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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

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.)*
225 Franklin Street, Boston, Massachusetts	**02110**
(Address of Principal Executive Offices)	*(Zip Code)*

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

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

Securities Registered Pursuant to Section 12 (b) of the Act: None.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☑ NO ☐

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

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

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

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

The number of shares outstanding of the registrant's Common Stock, $.01 par value, as of August 12, 2019, was 20,812,636 shares.

ZOOM TELEPHONICS, INC.
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ZOOM TELEPHONICS, INC.
Condensed Consolidated Balance Sheets

ASSETS	June 30, 2019 (Unaudited)	December 31, 2018
Current assets		
Cash and cash equivalents	$ 1,790,822	$ 125,982
Accounts receivable, net	3,551,817	2,760,606
Inventories, net	6,752,494	7,927,678
Deposits on inventory purchases	1,394,283	723,639
Prepaid expenses and other current assets	237,943	194,946
Total current assets	13,727,359	11,732,851
Other assets	235,893	222,160
Operating lease right-of-use assets, net	151,722	—
Equipment, net	287,320	261,476
Total assets	$ 14,402,294	$ 12,216,487
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank debt	$ —	$ 1,741,272
Accounts payable	4,500,567	4,369,309
Operating lease liabilities	99,564	—
Accrued other expenses	2,529,664	2,229,561
Total current liabilities	7,129,795	8,340,142
Long-term operating lease liabilities	52,158	—
Total liabilities	$ 7,181,953	$ 8,340,142
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock: Authorized: 40,000,000 shares at $0.01 par value		
Issued and outstanding: 20,742,636 shares at June 30, 2019 and 16,124,681 shares at December 31, 2018	207,426	161,247
Additional paid-in capital	46,259,984	41,035,936
Accumulated deficit	(39,247,069)	(37,320,838)
Total stockholders' equity	7,220,341	3,876,345
Total liabilities and stockholders' equity	$ 14,402,294	$ 12,216,487

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Net sales	$ 8,158,723	$ 7,522,246	$ 16,168,812	$ 15,859,113
Cost of goods sold	5,390,335	4,789,651	10,982,107	9,845,128
Gross profit	2,768,388	2,732,595	5,186,705	6,013,985
Operating expenses:				
Selling	2,553,600	2,122,799	5,001,113	4,177,356
General and administrative	556,758	173,209	1,124,557	621,287
Research and development	437,876	368,334	920,279	778,592
	3,548,234	2,664,342	7,045,949	5,577,235
Operating income (loss)	(779,846)	68,253	(1,859,244)	436,750
Other income (expense):				
Interest income	3,967	87	4,001	191
Interest expense	(16,188)	(5,544)	(48,405)	(11,712)
Other, net	(156)	(108)	(1,905)	(65)
Total other income (expense)	(12,377)	(5,565)	(46,309)	(11,586)
Income (loss) before income taxes	(792,223)	62,688	(1,905,553)	425,164
Income taxes (benefit)	12,890	15,358	20,678	18,956
Net income (loss)	$ (805,113)	$ 47,330	$ (1,926,231)	$ 406,208
Net income (loss) per share:				
Basic	$ (0.04)	$ 0.00	$ (0.11)	$ 0.03
Diluted	$ (0.04)	$ 0.00	$ (0.11)	$ 0.02
Basic weighted average common and common equivalent shares	19,066,889	15,934,787	17,622,559	15,831,548
Diluted weighted average common and common equivalent shares	19,066,889	16,750,627	17,622,559	16,647,388

See accompanying notes to condensed consolidated financial statements.

ZOOM TELEPHONICS, INC.
Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

For the six month period ended June 30, 2019

	Common Stock				
	Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Total
Balance at December 31, 2018	16,124,681	$ 161,247	$ 41,035,936	$ (37,320,838)	$3,876,345
Net income (loss)	—	—	—	(1,121,118)	(1,121,118)
Stock option exercise	37,500	375	4,725	—	5,100
Stock based compensation	—	—	175,012	—	175,012
Balance at March 31, 2019	16,162,181	$ 161,622	$ 41,215,673	$ (38,441,956)	$2,935,339
Net income (loss)	—	—	—	(805,113)	(805,113)
Private investment offering, net of expenses of $57,391	4,545,455	45,454	4,897,155	—	4,942,609
Stock option exercise	35,000	350	8,400	—	8,750
Stock based compensation	—	—	138,756	—	138,756
Balance at June 30, 2019	20,742,636	$ 207,426	$ 46,259,984	$ (39,247,069)	$7,220,341

For the six month period ended June 30, 2018

	Common Stock				
	Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Total
Balance at December 31, 2017	15,286,540	$ 152,865	$ 40,265,282	$ (37,246,561)	$3,171,586
Net income (loss)	—	—	—	358,878	358,878
Stock option exercise	591,250	5,913	146,550	—	152,463
Stock based compensation	—	—	33,798	—	33,798
Balance at March 31, 2018	15,877,790	$ 158,778	$ 40,445,630	$ (36,887,683)	$3,716,725
Net income (loss)	—	—	—	47,330	47,330
Stock option exercise	128,891	1,289	197,356	—	198,645
Stock based compensation	—	—	22,229	—	22,229
Balance at June 30, 2018	16,006,681	$ 160,067	$ 40,665,215	$ (36,840,353)	$3,984,929

See accompanying notes to condensed consolidated financial statements.

ZOOM TELEPHONICS, INC.
Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cash flows from operating activities:		
Net income (loss)	$ (1,926,231)	$ 406,208
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	185,821	181,136
Amortization of right-of-use assets	243,843	—
Stock based compensation	313,768	56,027
Provision for (recovery of) accounts receivable allowances	3,207	(1,750)
Provision for inventory reserves	23,957	—
Changes in operating assets and liabilities:		
Accounts receivable	(794,418)	(416,640)
Inventories	1,151,227	(1,744,632)
Prepaid expenses and other current assets	(713,641)	(170,551)
Operating lease liabilities	(269,177)	—
Accounts payable and accrued expenses	456,695	1,185,928
Net cash provided by (used in) operating activities	(1,324,949)	(504,274)
Cash flows from investing activities:		
Cost of other assets	(135,000)	(5,560)
Purchases of plant and equipment	(90,398)	(53,796)
Net cash provided by (used in) investing activities	(225,398)	(59,356)
Cash flows from financing activities:		
Net proceeds from (payments to) bank credit lines	(1,741,272)	100,804
Net proceeds from private placement offering	4,942,609	—
Proceeds from stock option exercises	13,850	351,108
Net cash provided by (used in) financing activities	3,215,187	451,912
Net change in cash	1,664,840	(111,718)
Cash and cash equivalents at beginning of period	125,982	229,218
Cash and cash equivalents at end of period	$ 1,790,822	$ 117,500
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 48,405	$ 11,712
Income taxes	$ 20,677	$ 18,956

See accompanying notes to condensed consolidated financial statements.

ZOOM TELEPHONICS, INC.
Notes to Condensed Consolidated Financial Statements

(Unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements ("financial statements") are unaudited. However, the condensed consolidated balance sheet as of December 31, 2018 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all necessary adjustments to present fairly the condensed consolidated financial position, results of operations and cash flows of Zoom Telephonics, Inc. (the "Company" or "Zoom"). The adjustments are of a normal, recurring nature.

The results of operations for the periods presented are not necessarily indicative of the results to be expected for the entire year.

The 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, 2018 included in the Company's 2018 Annual Report on Form 10-K for the year ended December 31, 2018.

Subsequent Events

The Company filed a Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company which increased the number of authorized common shares from 25,000,000 to 40,000,000.

Other than noted above, the Company has evaluated subsequent events from June 30, 2019 through the date of this filing and has determined that there are no such events requiring recognition or disclosure in the financial statements.

Sales Tax

The Company has a state sales tax liability stemming from the Company's 'Fulfilled By Amazon' sales agreement which allows Amazon to warehouse the Company's inventory throughout a number of states. During 2018 the Company put policies and procedures in place to collect and remit sales tax for Amazon sales in states where the Company believes it has nexus and is required to charge sales tax. Sales tax is now collected by the Company in states where the Company is required to collect and the Company has registered with the state. Sales and Use Tax filings are completed and filed and tax remitted back to the states consistent with the individual state filing requirements. Changes to state sales tax regulations are monitored to stay current with the law. As of June 30, 2019, approximately $59 thousand of the original state sales tax liability remains open. The additional liability of approximately $112.6 thousand relates to sales tax that has been collected and not yet remitted to the respective states.

Revenue Recognition

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

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

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

● *Identification of the performance obligations in the contract* — performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are distinct, whereby the customer can benefit from the goods on their own or together with other resources that are readily available from third parties or from us.

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

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

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

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

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

Other considerations of Topic 606 include the following:

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

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

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

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

Accounts receivable, net:

	June 30, 2019	December 31, 2018
Gross accounts receivable	$ 3,569,036	$ 2,774,619
Allowance for doubtful accounts	(17,219)	(14,013)
Total accounts receivable, net	$ 3,551,817	$ 2,760,606

Accrued other expenses:

	June 30, 2019	December 31, 2018
Audit, legal, payroll	$ 196,874	$ 234,119
Royalty costs	1,125,000	875,000
Sales and use tax	171,563	219,286
Sales allowances *	809,698	611,719
Other	226,529	289,437
Total accrued other expenses	$ 2,529,664	$ 2,229,561

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* Upon adoption of ASC 606 on January 1, 2018, certain sales allowances (warranties, returned goods, price protection, volume rebates, and promotion programs) were reclassified as accrued other expenses.

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

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

Disaggregated revenue by distribution channel:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Retailers	$ 7,433,925	$ 6,814,007	$ 14,672,980	$ 14,747,227
Distributors	443,833	517,847	965,042	702,913
Other	280,965	190,392	530,790	408,973
Total	$ 8,158,723	$ 7,522,246	$ 16,168,812	$ 15,859,113

Disaggregated revenue by product:

	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Cable Modems & gateways	$ 7,213,549	$ 6,794,232	$ 14,286,826	$ 14,620,396
Other	945,174	728,014	1,881,986	1,238,717
Total	$ 8,158,723	$ 7,522,246	$ 16,168,812	$ 15,859,113

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

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting standards Update ("ASU") 2016-02, "*Leases (Topic 842)*", which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019 using the alternative transition approach, which required the Company to apply the new lease standard to (i) all new lease contracts entered into after January 1, 2019 and (ii) all existing lease contracts as of January 1, 2018 through a cumulative adjustment to retained earnings.

Adoption of this standard resulted in the recognition of operating lease right-of-use assets and corresponding lease liabilities of $396 thousand and $421 thousand, respectively, on the consolidated balance sheet as of January 1, 2019. The standard did not materially impact operating results or liquidity. Disclosures related to the amount, timing and uncertainty of cash flows arising from leases are included in Note 5, *Leases*.

Recently Issued Accounting Standards

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

(2) Liquidity

On June 30, 2019 the Company had no bank debt on a $3.0 million asset-based credit line, approximately $1.79 million in cash and cash equivalents, and working capital of approximately $6.6 million. The Company's credit line has a maturity date of November 2019, and automatically renews from year to year unless cancelled under the terms of agreement.

The Company closed on a $5 million private placement and issued an aggregate of 4,545,455 shares on May 3, 2019 and soon after the closing of the offering, Jeremy Hitchcock and Jonathan Seelig joined Zoom's Board of Directors. Other major sources of cash during the first six months of 2019 were decreases of approximately $1.2 million in inventory, and increases in accounts payable and accrued expenses of approximated $431 thousand. Major decreases in cash were a loss of approximately $1.9 million, a reduction in debt of approximately $1.7 million, an accounts receivable increase of approximately $791 thousand, and increase in prepaid expenses of approximately $714 thousand.

The Company's ability to maintain adequate levels of liquidity is dependent upon our ability to sell inventory on hand and collect related receivables. The Company was profitable for the first nine months of 2018. Starting in the fourth quarter of 2018, the first full quarter with significant China-related tariffs, the Company experienced losses that reduced liquidity. Although the Company has recently experienced losses, it has continued to experience sales growth. The Company expects year-over-year growth to continue for an unpredictable number of years due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the strength of its balance sheet, and its unused line of credit, the Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of the Company's Quarterly filing of this Form 10-Q with the Securities Exchange Commission.

(3) Inventories

Inventories consist of :	June 30, 2019	December 31, 2018
Materials	$ 810,253	$ 2,043,843
Work in process	267,522	121,624
Finished goods	5,674,719	5,762,211
Total	$ 6,752,494	$ 7,927,678

Finished goods includes consigned inventory of $1,443,100 at June 30, 2019 and $1,537,300 at December 31, 2018. The Company reviews inventory for obsolete and slow-moving products each quarter and makes provisions based on its estimate of the probability that the material will not be consumed or that it will be sold below cost. The provision for inventory reserves was negligible for both the three and six months ended June 30, 2019 and 2018, respectively.

(4) Commitments and Contingencies

(a) Contingencies

From time to time the Company is party to various lawsuits and administrative proceedings arising in the ordinary course of business. The Company evaluates such lawsuits and proceedings on a case-by-case basis, and its policy is to vigorously contest any such claims that it believes are without merit. The Company's management believes that the ultimate resolution of such matters will not materially and adversely affect the Company's business, financial position, or results of operations.

The Company does not currently have any pending or outstanding legal proceedings.

(b) Commitments

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

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

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

In connection with the License Agreement, the Company has committed to reserve a certain percentage of wholesale sales 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,	
2019:	$4,500,000
2020:	$5,100,000

Royalty expense under the License Agreement was $1,125,000 for the second quarter of 2019 and $875,000 for the second quarter of 2018, and is included in selling expense on the accompanying condensed consolidated statements of operations. The balance of the committed royalty expense for 2019 amounts to $2,250,000.

(5) Leases

In September 2015 the Company agreed with North American Production Sharing, Inc. ("NAPS") to extend the Company's Tijuana facility's lease in connection with the Production Sharing Agreement ("PSA") entered into between the Company and NAPS. That extension went through November 30, 2018 and also facilitated the Company's contracting with Mexican personnel to work in our Tijuana facility. The Company currently has signed a lease extension to stay in the existing facilities through at least November 30, 2020. Rent expense was $26.6 thousand for both the second quarter of 2019 and the second quarter of 2018. Rent expense was $53.1 thousand for both the first six months of 2019 and the first six months of 2018.

The Company had a lease for 11,480 square feet at 99 High Street, Boston, MA that expired on June 29, 2019. The Company signed a twelve month lease agreement for offices at 225 Franklin Street, Boston, MA and completed the move to this location on June 28, 2019. The lease has an automatic renewal option provision and renews unless cancelled under the terms of the agreement. The Company has elected to apply the short-term lease exception under ASC 842 which does not require the recognition of an operating lease liability or right-of-use asset on the condensed consolidated balance sheet in relation to the lease at 225 Franklin Street. Rent expense was $98.6 thousand for the second quarter of 2019 and $104.6 thousand for the second quarter of 2018. Rent expense was $207.8 thousand for the first six months of 2019 and $214.4 thousand for the first six months of 2018.

At inception of a lease the Company determines whether that lease meets the classification criteria of a finance or operating lease. Some of the Company's lease arrangements contain lease components (e.g. minimum rent payments) and non-lease components (e.g. maintenance, labor charges, etc.). The Company generally accounts for each component separately based on the estimated standalone price of each component.

Operating Leases

Operating leases are included in operating lease right-of-use assets, operating lease liabilities, and long-term operating lease liabilities on the condensed consolidated balance sheets. These assets and liabilities are recognized at the commencement date based on the present value of remaining lease payments over the lease term using the Company's secured incremental borrowing rates or implicit rates, when readily determinable. The Company used 10% as its secured incremental borrowing rate when calculating the present value of remaining lease payments over the lease term. Short-term operating leases, which have an initial term of 12 months or less, are not recorded on the balance sheet.

Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense is included in general and administrative expenses on the condensed consolidated statements of operations.

The following table presents information about the amount and timing of the Company's operating leases as of June 30, 2019.

	June 30, 2019
Maturity of Lease Liabilities	Lease Payments
2019 (remaining)	$ 53,113
2020	106,226
Total undiscounted operating lease payments	$ 159,339
Less: Imputed interest	(7,617)
Present value of operating lease liabilities	**$ 151,722**
Balance Sheet Classification	
Operating lease liabilities	$ 99,564
Long-term operating lease liabilities	52,158
Total operating lease liabilities	**$ 151,722**
Other Information	
Weighted-average remaining lease term for operating leases	1.50
Weighted-average discount rate for operating leases	10.0%

Cash Flows

Upon adoption of the new lease standard, the Company recorded a lease liability in the amount of $420,899, right-of-use assets of $399,565, and reclassified deferred rent of $25,334 as a reduction of the right-of-use assets. During the six months ended June 30, 2019, the operating lease liability was reduced by $269,177 and we recorded amortization of our right-of-use assets of $243,843.

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	Six Months Ended June 30,	
	2019	2018
Operating cash flow information:		
Amounts included in measurement of lease liabilities	$ 271,333	$ —
Non-cash activities:		
Right-of-use assets obtained in exchange for lease obligations	$ 395,565	$ —

(6) Customer and Vendor Concentrations

The Company sells its products primarily through high-volume retailers and distributors, Internet service providers, value-added resellers, 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 companies account for a substantial portion of the Company’s revenues. In the second quarter of 2019 two companies accounted for 10% or greater individually, and 83% in the aggregate of the Company’s total net sales. In the first six months of 2019 two companies accounted for 10% or greater individually, and 82% in the aggregate of the Company’s total net sales. At June 30, 2019 three companies with an accounts receivable balance of 10% or greater individually accounted for a combined 81% of the Company’s accounts receivable. In the second quarter of 2018 two companies accounted for 10% or greater individually, and 75% in the aggregate of the Company’s total net sales. In the first six months of 2018 two companies accounted for 10% or greater individually, and 79% in the aggregate of the Company’s total net sales. At June 30, 2018, three companies with an accounts receivable balance of 10% or greater individually accounted for a combined 78% of the Company’s accounts receivable.

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

The Company participates in the PC peripherals industry, which is characterized by aggressive pricing practices, continually changing customer demand patterns and rapid technological developments. The Company's operating results could be adversely affected should the Company be unable to successfully anticipate customer demand accurately; manage its product transitions, inventory levels and manufacturing process efficiently; distribute its products quickly in response to customer demand; differentiate its products from those of its competitors or compete successfully in the markets for its new products.

The Company depends on many third-party suppliers for key components contained in its product offerings. For some of these components, the Company may only use a single source supplier, in part due to the lack of alternative sources of supply. During the second quarter of 2019, the Company had one supplier that provided 93% of the Company's purchased inventory. During the second quarter of 2018, the Company had one supplier that provided 99% of the Company's purchased inventory. During the first six months of 2019, the Company had one supplier that provided 96% of the Company's purchased inventory. During the first six months of 2018, the Company had one supplier that provided 99% of the Company's purchased inventory.

(7) 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.

On November 2, 2018, the Company entered into a fifth amendment to the Financing Agreement. The Amendment reduced the effective interest rate by 1 percentage point and reduced the annual facility fee by 0.25 percent.

The Company is required to calculate its loan covenant compliance on a quarterly basis. At June 30, 2019, the Company was in compliance with both its working capital and tangible net worth covenants. At June 30, 2019, the Company's tangible net worth was approximately $6.9 million, above the $2 million requirement; and the Company's working capital was approximately $6.6 million, above the $1.75 million requirement. Loan availability is based on eligible receivables less offsets, if any. Approximately $2.5 million was available on this line on June 30, 2019, consisting of $2.6 million as 75% of eligible receivables less an offset of $54 thousand for state tax liabilities. The sales tax offset will be reduced as the sales tax liability is paid down.

(8) Earnings (Loss) Per Share

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

Basic and diluted loss per common share for the three-month period ended June 30, 2019 was $0.04, and diluted loss per common share excludes the effects of 471,199 common share equivalents, since such inclusion would be anti-dilutive. Basic earnings per common share for the three-month period ended June 30, 2018 was $0.00. Diluted earnings per common share for the three-month period ended June 30, 2018 was $0.00, and includes the dilutive effects of 815,840 common share equivalents. Basic and diluted loss per common share for the six-month period ended June 30, 2019 was $0.11, and diluted loss per common share excludes the effects of 471,199 common share equivalents, since such inclusion would be anti-dilutive. Diluted earnings per common share for the six-month period ended June 30, 2018 was $0.02, and includes the dilutive effects of 815,840 common share equivalents. The common share equivalents consist of common shares issuable upon exercise of outstanding stock options.

(9) Private Placement

On May 3, 2019, the Company entered into a Stock Purchase Agreement with certain accredited investors, including some independent investment funds, some members of Zoom management and Zoom's Board of Directors, and some co-founders of Zoom, in a private placement pursuant to which the Company sold an aggregate of 4,545,455 shares of common stock, par value $0.01 per share, at a purchase price of $1.10 per share. In connection with the Stock Purchase Agreement the Company incurred $57,391 of expenses which has been recorded as a reduction of additional paid in capital as presented in the condensed consolidated statements of stockholders' equity. The net proceeds to the Company at the closing of the private placement was $4.94 million.

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

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995.

Some of the statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements involve known and unknown risks, uncertainties and other factors which may cause our or our industry's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to statements regarding: Zoom's plans, expectations and intentions, including statements relating to Zoom's prospects and plans relating to sales of and markets for its products; and Zoom's financial condition or results of operations.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by such forward-looking statements. Given these uncertainties you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained in this report to reflect any change in our expectations or any change in events, conditions or circumstances on which any of our forward-looking statements are based. Factors that could cause or contribute to differences in our future financial results include those discussed in the risk factors set forth in Item 1A of Part II of this Quarterly Report on Form 10-Q, in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the Securities and Exchange Commission on April 1, 2019 and in our other filings with the Securities and Exchange Commission. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Overview

We derive our net sales primarily from sales of Internet access and other communications-related products including cable modems and cable modem/routers, Digital Subscriber Line ("DSL") modems and modem/routers, routers and other local area network products, cellular modems, and dial-up modems through retailers, distributors, and other customers. We sell our products through a direct sales force and through independent sales agents. All of our employees work at our headquarters in Boston, Massachusetts. We are experienced in electronics hardware, firmware, and software design and test, regulatory certifications, product documentation, and packaging; and we use that experience in developing each product in-house or in partnership with suppliers who are typically based in Asia. Electronic assembly and testing of our products in accordance with our specifications is typically done in Asia, and we do further testing, warehousing, and shipping in our Tijuana facility.

In July 2016 Zoom headquarters moved from our long-time location at 207 South Street to 99 High Street in Boston. The lease for this location terminated June 29, 2019. The Company signed a twelve-month lease agreement for offices at 225 Franklin Street, Boston, MA and completed the move to this location on June 28, 2019. We also lease a test/warehouse/ship facility in Tijuana, Mexico. In November 2014 we signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility in Tijuana, Mexico. In September 2015, we extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, we also signed a new lease for additional space in the adjacent building, which doubled the existing capacity. The term of the lease was from March 1, 2016 through November 30, 2018. The Company currently has signed a lease extension to stay in the existing facilities through at least November 30, 2020.

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 tariffs and the type of customer to whom we are selling. The gross margin for sales through retailers tends to be higher than for some of our other customers; but the sales, support, returns, and overhead costs associated with retailers tend to be higher.

As of June 30, 2019 we had thirty-three full-time and part-time employees. Eleven employees were engaged in research and development and quality control. Five employees were involved in operations, which manages production, inventory, purchasing, warehousing, freight, invoicing, shipping, collections, and returns. Eleven employees were engaged in sales, marketing, and customer support. The remaining six employees performed executive, accounting, administrative, and management information systems functions. We currently have thirty full-time employees and three employees working less than 5 days per week, typically 4 days per week. Our dedicated personnel in Tijuana, Mexico are employees of our Mexican service provider and not included in our headcount. As of June 30, 2019, we had two consultants, one in sales and one in information systems, neither of which is included in our employee headcount.

Critical Accounting Policies and Estimates

Following is a discussion of what we view as our more significant accounting policies and estimates. As described below, management judgments and estimates must be made and used in connection with the preparation of our financial statements. We have identified areas where material differences could result in the amount and timing of our net sales, costs, and expenses for any period if we had made different judgments or used different estimates.

Leases. We adopted ASU 2016-02, "*Leases (Topic 842)*", which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019 using the alternative transition approach, which required the Company to apply the new lease standard to (i) all new lease contracts entered into after January 1, 2019 and (ii) all existing lease contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. See Footnote 1 and 5 to the accompanying condensed consolidated financial statements for additional disclosure.

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

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

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

- *Identification of the performance obligations in the contract* — performance obligations promised in a contract are identified based on the goods that will be transferred to the customer that are distinct, whereby the customer can benefit from the goods on their own or together with other resources that are readily available from third parties or from us.

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

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

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

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

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

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

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

- Computer peripherals retailers;
- Computer product distributors;
- Internet service providers; and
- Original equipment manufacturers

We recognize hardware net sales for our customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes from us to the customer based on the contractual Free on Board ("FOB") point specified in signed contracts and purchase orders, which are both used extensively. Many of our customer contracts or purchase orders specify FOB destination, which means that title and risk remain with the seller until it has delivered the goods to the location specified in the contract. We verify the delivery date on all significant FOB destination shipments made during the last 10 business days of each quarter.

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

Product Returns. Products are returned by retail stores and distributors for inventory balancing, contractual stock rotation privileges, and warranty repair or replacements. We estimate the sales and cost value of expected future product returns of previously sold products. Our estimates for product returns are based on recent historical trends plus estimates for returns prompted by, among other things, announced stock rotations and announced customer store closings. Management reviews historical returns, current economic trends, and changes in customer demand and acceptance of our products when estimating sales return allowances. Product returns are variable and under Topic 606 are estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). Under implementation of Topic 606, the Company monitors pending authorized returns of goods and, if deemed appropriate, record the right of return asset accordingly.

Price Protection Refunds. We have a policy of offering price protection to certain of our retailer and distributor customers for some or all their inventory. Under the price protection policies, when we reduce our prices for a product, the customer receives a credit for the difference between the original purchase price and our reduced price for their unsold inventory of that product. Our estimates for price protection refunds are based on a detailed understanding and tracking by customer and by sales program. Information from customer inventory-on-hand reports or from direct communications with the customers is used to estimate the refund. Price protection refunds are variable and under Topic 606 are estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to price protection are historically not material.

Sales and Marketing Incentives. Many of our retailer customers require sales and marketing support funding, which is an expense item in selling expense, unless the funding is a function of sales activity and therefore variable. Under Topic 606, sales and marketing incentives are estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to sales and marketing incentives are historically not material.

Rebates and Promotions. Our rebates are based on a detailed understanding and tracking by customer and sales program. Rebates and promotions are variable and under Topic 606 are estimated and recognized as a reduction of revenue as performance obligations are satisfied (e.g. upon shipment of goods). The estimates due to rebates and promotions are historically not material.

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 and are issued to the customer's accounts.

Inventory Valuation and Cost of Goods Sold. Inventory is valued at the lower of cost, determined by the first-in, first-out method, or its net realizable value. We review inventories for obsolete and slow-moving products each quarter and make provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. Additionally, material product certification costs on new products are capitalized and amortized over the expected period of value of the respective products.

Valuation and Impairment of Deferred Tax Assets. As part of the process of preparing our financial statements we estimate our income tax expense and deferred income tax position. This process involves the estimation of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our balance sheet. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income. To the extent we believe that recovery is not likely, we establish a valuation allowance. Changes in the valuation allowance are reflected in the statement of operations.

Significant management judgment is required in determining our provision for income taxes and any valuation allowances. We have recorded a 100% valuation allowance against our deferred income tax assets. It is management's estimate that, after considering all available objective evidence, historical and prospective, with greater weight given to historical evidence, it is more likely than not that these assets will not be realized. If we establish a record of continuing profitability, at some point we will be required to reduce the valuation allowance and recognize an equal income tax benefit which will increase net income in that period(s).

As of December 31, 2018 we had federal net operating loss carry forwards of approximately $55.0 million which are available to offset future taxable income. They are due to expire in varying amounts from 2019 to 2038. As of December 31, 2018, we had state net operating loss carry forwards of approximately $9.7 million which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2038. A valuation allowance has been established for the full amount of deferred income tax assets as management has concluded that it is more-likely than-not that the benefits from such assets will not be realized.

Results of Operations

Comparison of the three months ended June 30, 2019 to the three months ended June 30, 2018

Summary. Net sales were $8.16 million for the second quarter ended June 30, 2019 (“Q2 2019”), up 8.5% from $7.52 million for the second quarter of 2018 (“Q2 2018”). We reported a net loss of $805 thousand or $0.04 per share for Q2 2019 compared to net income of $47 thousand or $0.00 per share for Q2 2018.

Net Sales. Our total net sales for Q2 2019 increased $0.6 million or 8.5% from Q2 2018. Most of this growth was driven by increases in cable modem and cable modem/routers, DSL products, and local area network products.

Concentration. In Q2 2019 two companies accounted for 10% or greater individually, and 83% in the aggregate of our total net sales. In Q2 2018 two companies accounted for 10% or greater individually, and 75% in the aggregate of our total net sales.

Gross Profit. Gross profit was $2.8 million or 33.9% of net sales in Q2 2019, a small dollar increase from $2.7 million or 36.3% of net sales in Q2 2018. China tariff expense of approximately $416 thousand in Q2 2019 reduced gross margin by 5.1% of net revenues, and there was no China tariff in Q2 2018.

Selling Expense. Selling expense was $2.6 million or 31.3% of net sales in Q2 2019, up from $2.1 million or 28.2% of net sales in Q2 2018. The increase of $0.4 million was primarily due to increases in Motorola trademark royalty costs and retailer-focused marketing expenses.

General and Administrative Expense. General and administrative expense was $557 thousand or 6.8% of net sales in Q2 2019, up from $173 thousand or 2.3% of net sales in Q2 2018. The increase of $384 thousand was due to a $203 thousand reduction in expense in Q2 2018 from reassessment of sales tax liabilities, increases in salary and stock option costs, and Q2 2019 moving expenses as Zoom headquarters moved to a new location in downtown Boston.

Research and Development Expense. Research and development expense was $438 thousand or 5.4% of net sales in Q2 2019, up from $368 thousand or 4.9% of net sales in Q2 2018. The increase of $70 thousand was primarily due to increased salary and fringe benefit costs.

Other Income (Expense). Other expense was $12 thousand in Q2 2019 and $6 thousand in Q2 2018, and related to interest costs on our line of credit.

Net Income (Loss). Net loss was $805 thousand for Q2 2019, compared to net income of $47 thousand for Q2 2018, primarily due to a tariff-related reduction of gross profit and increased operating expenses.

Comparison of the six months ended June 30, 2019 to the six months ended June 30, 2018

Summary. Net sales were $16.2 million for the six months ended June 30, 2019, up 2.0% from $15.9 million for the six months ended June 30, 2018. We reported a net loss of $1.9 million for the six months ended June 30, 2019 compared to net income of $0.41 million for the six months ended June 30, 2018. Loss per diluted share was $0.11 for the six months ended June 30, 2019 compared to a loss per diluted share of $0.02 for the six months ended June 30, 2018.

Net Sales. Our total net sales for the six months ended June 30, 2019 increased $0.3 million or 2.0% from the six months ended June 30, 2018, primarily due to Motorola brand products' continued revenue growth and the introduction of new products. Geographically, our North American sales continued their dominant share of our overall sales, representing 97% and 98% of our net sales through six months ended June 30, 2019 and 2018 respectively.

Concentration. In the six months ended June 30, 2019, two companies accounted for 10% or greater individually, and 82% in the aggregate of our total net sales. In the six months ended June 30, 2018, two companies accounted for 10% or greater individually, and 79% in the aggregate of our total net sales.

Gross Profit. Gross profit was $5.2 million for the six months ended June 30, 2019, down from gross profit of $6.0 million for the six months ended June 30, 2018. Our gross margin for the first six months of 2019 was 32.1%, down from our gross margin of 37.9% for the six months ended June 30, 2018, primarily due to China tariffs increasing cost of goods by approximately $861 thousand or 5.3% of net revenues.

Selling Expense. Selling expense was $5.0 million or 30.9% of net sales in the six months ended June 30, 2019, up from $4.18 million or 26.3% of net sales in the six months ended June 30, 2018. The increase of $824 thousand was primarily due to increased Motorola trademark royalty costs and retailer-focused marketing expenses.

General and Administrative Expense. General and administrative expense was $1.1 million or 7.0% of net sales for the six months ended June 30,2019, up from $621 thousand or 3.9% of net sales for the six months ended June 30, 2018. The increase of $503 thousand was primarily due to a $203 thousand reduction in expense in Q2 2018 from reassessment of sales tax liabilities, increases in salary and stock option costs, and Q2 2019 moving expenses as Zoom headquarters moved to a new location in downtown Boston.

Research and Development Expense. Research and development expense was $920 thousand or 5.7% of net sales in the six months ended June 30, 2019, up from $779 thousand or 4.9% of net sales in the six months ended June 30, 2018. The increase of $142 thousand was due primarily to increased salary and fringe benefit costs, partly reduced by lower certification expenses.

Other Income (Expense). Other expense for the six months ended June 30, 2019 was $46 thousand versus $12 thousand in the six months ended June 30, 2018. The difference is primarily due to increased interest expense incurred on our bank credit line.

Net Income (Loss). Net loss was $1.9 million for the six months ended June 30, 2019, compared to a net income of $0.4 million for six months ended June 30, 2018.

Liquidity and Capital Resources

On June 30, 2019 the Company had no bank debt on a $3.0 million asset-based credit line, approximately $1.79 million in cash and cash equivalents, and working capital of approximately $6.6 million. The Company's credit line has a maturity date of November 2019, and automatically renews from year to year unless cancelled under the terms of the agreement.

The Company closed on a $5 million private placement and issued an aggregate of 4,545,455 shares on May 3, 2019 and soon after the closing of the offering, Jeremy Hitchcock and Jonathan Seelig joined Zoom's Board of Directors. Other major sources of cash during the first six months of 2019 were decreases of approximately $1.2 million in inventory, and increases in accounts payable and accrued expenses of approximated $431 thousand. Major decreases in cash were a loss of approximately $1.9 million, a reduction in debt of approximately $1.7 million, an accounts receivable increase of approximately $791 thousand, and increase in prepaid expenses of approximately $714 thousand.

The Company's ability to maintain adequate levels of liquidity is dependent upon our ability to sell inventory on hand and collect related receivables. The Company was profitable for the first nine months of 2018. Starting in the fourth quarter of 2018, the first full quarter with significant China-related tariffs, the Company experienced losses that reduced liquidity. Although the Company has recently experienced losses, it has continued to experience sales growth. The Company expects year-over-year growth to continue for an unpredictable number of years due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the strength of its balance sheet, and its unused line of credit, the Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of the Company's Quarterly filing of this Form 10-Q with the Securities Exchange Commission.

Commitments

During the six months ended June 30, 2019, 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, 2018.

Off-Balance Sheet Arrangements

We did not have any material off-balance sheet arrangements as of June 30, 2019. With the adoption of ASU 2016-02, "*Leases (Topic 842)"*, which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability, effective January 1, 2019, off-balance sheet lease arrangements are now reported on the Company balance sheet. See Footnote 5 to the accompanying condensed consolidated financial statements for additional disclosure.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Required.

ITEM 4. CONTROLS AND PROCEDURES

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

In connection with the preparation of this Quarterly Report on the Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of June 30, 2019. 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 has been a change in our internal controls over financial reporting during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting. Effective January 1, 2019, we adopted ASU 2016-02, "*Leases (Topic 842)"*, which requires management to make significant judgement and estimates. As a result, we implemented changes to our internal controls related to lease evaluation for the six months ended June 30, 2019. These changes include updated accounting policies affected by ASC Topic 842 as well as redesigned internal controls over financial reporting related to ASC Topic 842 implementation. Additionally, management has expanded data gathering procedures to comply with the additional disclosure requirements and ongoing contract review requirements.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

This report contains forward-looking statements that involve risks and uncertainties, such as statements of our objectives, expectations and intentions. The cautionary statements made in this report are applicable to all forward-looking statements wherever they appear in this report. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include the risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on April 1, 2019, 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, 2018.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
3.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on July 30, 2019).
10.1	Stock Purchase Agreement, dated May 3, 2019, by and between Zoom Telephonics, Inc. and the Investors listed therein (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 6, 2019).
31.1	Certification of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 (1)	Certifications of Chief Executive Officer and Acting Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

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

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZOOM TELEPHONICS, INC.
(Registrant)

Date: August 14, 2019

By: /s/ Frank B. Manning

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

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