

Zoom Telephonics, Inc.
Form 10-Q
May 15, 2012

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 March 31, 2012

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
(State or Other Jurisdiction of
Incorporation or Organization)

04-2621506
(I.R.S. Employer Identification No.)

207 South Street, Boston, Massachusetts
(Address of Principal Executive Offices)

02111
(Zip Code)

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

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

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

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

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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	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer (do not check if a smaller reporting company)	<input type="radio"/>	Smaller Reporting Company	<input type="checkbox"/>

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 March 31, 2012, was 6,973,704 shares.

ZOOM TELEPHONICS, INC.

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PART I - FINANCIAL INFORMATION

ITEM FINANCIAL STATEMENTS

1.

ZOOM TELEPHONICS, INC.
Condensed Balance Sheets (Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 552,430	\$ 644,365
Marketable securities	90,400	82,280
Accounts receivable, net of allowances of \$707,705 at March 31, 2012 and \$624,481 at December 31, 2011	1,232,778	1,399,046
Inventories	2,972,976	2,722,783
Prepaid expenses and other current assets	219,075	185,348
Total current assets	5,067,659	5,033,822
Equipment, net	17,103	20,168
Total assets	\$ 5,084,762	\$ 5,053,990
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 1,198,580	\$ 1,058,942
Accrued expenses	348,048	373,394
Total current liabilities	1,546,628	1,432,336
Total liabilities	1,546,628	1,432,336
Stockholders' equity		
Common stock, \$0.01 par value:		
Authorized - 25,000,000 shares; issued – 6,973,704 shares at March 31, 2012 and December 31, 2011	69,737	69,737
Additional paid-in capital	33,880,875	33,864,793
Accumulated deficit	(30,552,714)	(30,438,446)
Accumulated other comprehensive income(loss)	140,236	125,570
Total stockholders' equity	3,538,134	3,621,654
Total liabilities and stockholders' equity	\$ 5,084,762	\$ 5,053,990

See accompanying notes.

ZOOM TELEPHONICS, INC.

Condensed Statement of Operations and
Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net sales	\$ 3,977,500	\$ 2,808,262
Cost of goods sold	2,988,538	2,000,083
Gross profit	988,962	808,179
Operating expenses:		
Selling	526,186	536,918
General and administrative	314,652	316,898
Research and development	260,410	237,559
	1,101,248	1,091,375
Operating profit (loss)	(112,286)	(283,196)
Other :		
Interest income	40	328
Other, net	(781)	(1,570)
Total other income (expense), net	(741)	(1,242)
Income (loss) before income taxes	(113,027)	(284,438)
Income taxes (benefit)	1,240	164
Net income (loss)	\$ (114,267)	\$ (284,602)
Other comprehensive income (loss):		
Foreign currency translation adjustments	6,546	8,706
Unrealized gain (loss) for the period	8,120	(77,358)
Net comprehensive income (loss)	\$ (99,601)	\$ (353,254)
Net income (loss) per share:		
Basic and Diluted	\$ (0.02)	\$ (0.05)
Weighted average common and common equivalent shares:		
Basic and Diluted	6,973,704	5,450,622

See accompanying notes.

ZOOM TELEPHONICS, INC.

Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2012	2011
Operating activities:		
Net income (loss)	\$ (114,267)	\$ (284,602)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,065	9,339
Stock based compensation	16,082	21,530
(Reversal of) provision for accounts receivable allowances	83,224	34,618
Changes in operating assets and liabilities:		
Accounts receivable	87,052	(220,272)
Inventories	(249,848)	394,376
Prepaid expenses and other assets	(32,924)	(73,133)
Accounts payable and accrued expenses	116,295	(36,368)
Net cash provided by (used in) operating activities	(91,321)	(154,512)
Investing activities:		
Proceeds from sale of Unity investment	—	5,381
Additions to property, plant and equipment	—	(2,812)
Net cash provided by (used in) investing activities	—	2,569
Effect of exchange rate changes on cash	(614)	(560)
Net change in cash	(91,935)	(152,503)
Cash and cash equivalents at beginning of period	644,365	1,009,996
Cash and cash equivalents at end of period	\$ 552,430	\$ 857,493
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ —	\$ —
Income taxes	\$ 1,240	\$ 164

See accompanying notes.

ZOOM TELEPHONICS, INC.

Notes to Condensed Financial Statements
(Unaudited)

(1) Summary of Significant Accounting Policies

On January 28, 2009, Zoom Technologies, Inc. entered into a Share Exchange Agreement (the “Agreement”) with Tianjin Tong Guang Group Digital Communication Co., Ltd (“TCB Digital”), TCB Digital’s majority shareholder, Gold Lion Holding Limited (“Gold Lion”) and Lei Gu (“Gu”), a shareholder of Gold Lion. On May 12, 2009, the parties amended the Agreement to, among other actions, add Songtao Du (“Du”), a shareholder of Gold Lion, as a party to the Agreement. On September 22, 2009, pursuant to the Agreement, Zoom Technologies acquired all the outstanding shares of Gold Lion. In addition, as part of the transaction, Zoom Technologies spun off its then-current business, which consisted of its ownership of Zoom Telephonics, to its stockholders, by distributing and transferring its assets and liabilities to Zoom Telephonics and issuing a dividend of the Zoom Telephonics’ shares to its stockholders. Upon the completion of the spin-off, Zoom Telephonics became a separate publicly traded company.

As used in this Quarterly Report on Form 10-Q, the terms “we,” “us,” “our,” and the “Company” mean Zoom Telephonics Inc. (unless the context indicates a different meaning).

The condensed 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, 2011 included in the Company’s 2011 Annual Report on Form 10-K.

The accompanying financial statements are unaudited. However, the condensed balance sheet as of December 31, 2011 was derived from audited financial statements. In the opinion of management, the accompanying financial statements include all adjustments, normal recurring adjustments, necessary for a fair presentation. On April 10, 2012 Zoom Telephonics, Inc. (“Zoom”) entered into a Loan and Security Agreement with Silicon Valley Bank (the “Loan Agreement”). The Loan Agreement provides 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 has a one year term which expires April 9, 2013. Borrowings are secured by all of Zoom’s assets including Zoom’s intellectual property.

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 March 31, 2012 through the date of this filing and determined that there are no such events requiring recognition or disclosure in the financial statements except as described above.

(2) Liquidity

Zoom's cash balance on March 31, 2012 was \$0.6 million, down \$92 thousand from December 31, 2011. Zoom's \$0.1 million loss and \$0.3 million increase in inventory decreased cash, and Zoom's \$0.2 million decrease in accounts receivable increased cash.

On March 31, 2012 the Company had working capital of \$3.5 million including \$0.6 million in cash and cash equivalents. On December 31, 2011 we had working capital of \$3.6 million including \$0.6 million in cash and cash equivalents. Our current ratio at March 31, 2012 was 3.3 compared to 3.5 at December 31, 2011. Zoom had no long-term debt.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On March 31, 2012 our headcount was 31 including 27 full-time employees, 3 part-time employees and 1 contractor, compared to 37 as of March 31, 2011. As of May 2, 2012 we had 30 employees and 2 contractors. 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.

The Company is continuing to develop new products and to take other measures to increase sales. Increasing sales typically result 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 the slowest payment to Zoom, since Zoom is only paid after the consigned inventory is sold by Zoom's customer.

The Company has in the past increased its cash by offering fast-pay discounts to certain accounts. To reduce the need for fast-pay discounts and to give Zoom more operating flexibility, we recently established an asset-based bank line of credit of up to \$1 million. The amount actually available under the line of credit is contingent on Zoom meeting certain financial metrics and covenants.

The Company has had recurring net losses and continues to experience negative cash flows from operations. If these losses continue, management does not believe the Company has sufficient resources to fund its normal operations over the next 12 months. The Company may need to raise 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 :	March 31, 2012	December 31, 2011
Raw materials	\$ 1,169,742	\$ 815,357
Work in process	59,367	25,641
Finished goods (including \$696,000 and \$822,000 held by a customer at March 31, 2012 and December 31, 2011, respectively)	1,743,867	1,881,785
Total inventories	\$ 2,972,976	\$ 2,722,783

(4) Comprehensive Income (Loss)

Comprehensive income (loss) follows:

	Three Months Ended March 31,	
	2012	2011
Net income (loss)	\$ (114,267)	\$ (284,602)
Foreign currency translation adjustment	6,546	8,706
Unrealized gain (loss) on securities	8,120	(77,358)
Comprehensive income (loss)	\$ (99,601)	\$ (353,254)

(5) Contingencies

The Company is not currently party to any lawsuit, but lawsuits may occur 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.

(6) 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 March 31, 2012	% of Total		Three Months Ended March 31, 2011	% of Total	
North America	\$3,683,732	93	%	\$2,503,364	89	%
UK	129,321	3	%	172,427	6	%
All Other	164,447	4	%	132,471	5	%
Total	\$3,977,500	100	%	\$2,808,262	100	%

(7) Customer Concentrations

The Company sells its products primarily through high-volume distributors and retailers, Internet service providers, telephone service providers, value-added resellers, PC system integrators, and original equipment manufacturers ("OEMs"). The Company supports its major accounts in their efforts to discern strategic directions in the market, to maintain appropriate inventory levels, and to offer a balanced selection of attractive products.

Relatively few customers have accounted for a substantial portion of the Company's net sales. In the first quarter of 2012, three customers accounted for 70% of our total net sales. In the first quarter of 2011, three customers accounted for 58% of the Company's total net sales.

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.

(8) Investments

During the quarter ended September 30, 2007 the Company purchased all the Series A Preferred Shares (the Series A Shares) of Unity Business Networks, LLC (Unity) for cash of \$1.2 million, including transaction costs. The Series A Shares were convertible at any time at the Company's option into 15% of Unity's common stock on a fully-diluted basis. In addition, the Company had an option to purchase all the outstanding common stock of Unity based on a specified multiple of Unity's 2008 revenues, as defined.

On September 30, 2009 the Company received a cash payment of \$766,950 in connection with Telesphere Networks' purchase of the VoIP services business of Unity, including Zoom's preferred stock investment described above. The transaction called for additional periodic payments totaling \$43,050 over 24 months beginning in October 2009 and a final payment of \$150,000 on September 30, 2011, or \$960,000 in total. As of December 31, 2011, all payments had been received with regard to this transaction.

(9) 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. The Company did not sell any Zoom Technologies shares during the first quarter of 2012. The closing price of Zoom Technologies common stock declined from \$4.47 on December 31, 2010 to \$1.13 on March 31, 2012.

ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
2. 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, 2011, filed with the SEC on March 30, 2012 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 dial-up modems, fixed and mobile broadband products, 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 and our sales office in the United Kingdom. We are experienced in electronics hardware, firmware, and software design and test, 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.

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 commencing approximately September 1, 2006, and we have since 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.

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 most 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, 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, both 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 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.

Generally our gross margin for a given product depends on a number of factors including the type of customer to whom we are selling. Gross margin for dial-up modems is typically significantly higher than gross margin for broadband modems. 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 37 on March 31, 2011 to 31 on March 31, 2012. As of May 2, 2012, Zoom had 30 full-time and part-time employees and 2 contractors. Of the 32 included in our headcount on May 2, 2012, 8 were engaged in research and development and quality control, 5 were involved in manufacturing oversight, purchasing, assembly, packaging and shipping, 12 were engaged in sales, marketing, technical support, and the remaining 7 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. As a result, Zoom currently has 27 full-time employees and 3 employees working less than 5 days per week. Our dedicated manufacturing personnel in Mexico are employees of our Mexican manufacturing service provider and not included in our headcount.

Zoom's cash balance on March 31, 2012 was \$0.6 million, down \$92 thousand from December 31, 2011. Zoom's \$0.1 million loss and \$0.3 million increase in inventory decreased cash, and Zoom's \$0.2 million decrease in accounts receivable increased cash.

On March 31, 2012 the Company had working capital of \$3.5 million including \$0.6 million in cash and cash equivalents. On December 31, 2011 we had working capital of \$3.6 million including \$0.6 million in cash and cash equivalents. Our current ratio at March 31, 2012 was 3.3 compared to 3.5 at December 31, 2011. Zoom had no long-term debt.

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.

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 12.2% and 7.9% for the first quarter of 2012 and 2011, respectively.

Price Protection Refunds. We have a policy of offering price protection to certain of our retailer and distributor customers for some or all their inventory. Under the price protection policies, when we reduce our prices for a product, the customer receives a credit for the difference between the original purchase price and our reduced price for their unsold inventory of that product. Our estimates for price protection refunds are based on a detailed understanding and tracking by customer and by sales program. Estimated price protection refunds are recorded in the same period as the announcement of a pricing change. Information from customer inventory-on-hand reports or from direct communications with the customers is used to estimate the refund, which is recorded as a reduction of net sales and a reserve against accounts receivable. Reductions in our net sales due to price protection were negligible in both the first quarter of 2012 and the first quarter of 2011.

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 \$81 thousand in the first quarter of 2012 and \$160 thousand in the first quarter of 2011.

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 negligible in both the first quarter of 2012 and the first quarter of 2011.

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 first quarter of 2012 and the first quarter of 2011.

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 first quarter of 2012 and the first quarter of 2011.

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.

As of December 31, 2011 the Company had federal net operating loss carry forwards of approximately \$47,017,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2031. As of December 31, 2011, the Company had Massachusetts state net operating loss carry forwards of approximately \$15,797,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2012 through 2031.

Valuation of Investments. 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. The Company did not sell any Zoom Technologies shares during the first quarter of 2012. The closing price of Zoom Technologies common stock declined from \$4.47 on December 31, 2010 to \$1.13 on March 31, 2012.

Results of Operations

Summary. Net sales were \$4.0 million for our first quarter ended March 31, 2012, up 41.6% from \$2.8 million in the first quarter of 2011. Zoom reported a net loss of \$114 thousand or \$0.02 per share for the first quarter of 2012 (“Q1 2012”), an improvement over Zoom’s net loss of \$285 thousand or \$0.05 per share for the first quarter of 2011 (“Q1 2011”).

Net Sales. Our total net sales for the first quarter of 2012 increased \$1.2 million or 41.6% from the first quarter of 2011, primarily due to increased sales of cable modems. Dial-up modem sales declined significantly from Q1 2011 to Q1 2012, and dial-up modems shrunk to 22% of Zoom’s net sales in Q1 2012.

Geographically, our North American sales increased their dominant share of our overall sales, going from 89.1% of our net sales in Q1 2011 to 92.6% in Q1 2012. Our second largest market, the UK, experienced a decline from 6.1% of our net sales in Q1 2011 to 3.3% in Q1 2012.

In the quarter ended March 31, 2012 three customers accounted for 70% of total net sales. Because of our significant customer concentration, our net sales and operating income has fluctuated and 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 \$989 thousand or 24.9% of net sales in Q1 2012, an increase from \$808 thousand in Q1 2011 despite a decrease in gross margin from 28.8% of net sales in Q1 2011. Gross profit increased due to higher sales, and gross margin decreased primarily because a lower percentage of our sales came from dial-up modems, which typically enjoy a higher margin than cable modems.

Selling Expense. Selling expense was \$526 thousand or 13.2% of net sales in the first quarter of 2012 compared to \$537 thousand or 19.1% of net sales in the first quarter of 2011. Variable selling expenses increased due to increased revenues in Q1 2012 compared to Q1 2011, but this increase was offset by a decrease in Web-related advertising.

General and Administrative Expense. General and administrative expense was \$315 thousand or 7.9% of net sales in the first quarter of 2012, down from \$317 thousand or 11.3% of net sales in the first quarter of 2011. This small decrease was primarily due to lower personnel costs.

Research and Development Expense. Research and development expense was \$260 thousand or 6.5% of net sales in the first quarter of 2012 and \$237 thousand or 8.5% of net sales in the first quarter of 2011. The increase was primarily due to increased costs relating to development of Zoom's ZoomGuardtm product line.

Other Income (Expense). Other income (expense) was negligible in both the first quarter of 2012 and the first quarter of 2011.

Liquidity and Capital Resources

Zoom's cash balance on March 31, 2012 was \$0.6 million, down \$92 thousand from December 31, 2011. Zoom's \$0.1 million loss and \$0.3 million increase in inventory decreased cash, and Zoom's \$0.2 million decrease in accounts receivable increased cash.

On March 31, 2012 the Company had working capital of \$3.5 million including \$0.6 million in cash and cash equivalents. On December 31, 2011 we had working capital of \$3.6 million including \$0.6 million in cash and cash equivalents. Our current ratio at March 31, 2012 was 3.3 compared to 3.5 at December 31, 2011. Zoom had no long-term debt.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On March 31, 2012 our headcount was 31 including 27 full-time employees, 3 part-time employees and 1 contractor, compared to 37 as of March 31, 2011. As of May 2, 2012 we had 30 employees and 2 contractors. 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.

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

The Company has in the past increased its cash by offering fast-pay discounts to certain customers. To reduce the need for fast-pay discounts and to give Zoom more operating flexibility, we recently established an asset-based bank line of credit of up to \$1 million. The amount actually available under the line of credit is contingent on Zoom meeting certain financial metrics and covenants.

The Company has had recurring net losses and continues to experience negative cash flows from operations. If these losses continue, management does not believe the Company has sufficient resources to fund its normal operations over the next 12 months unless sales improve significantly or it 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.

Commitments

During the three months ended March 31, 2012, 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, 2011.

"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, 2011, filed with the SEC on March 30, 2012 and in our other filings with the SEC.

ITEM QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

3.

Not Required.

ITEM CONTROLS AND PROCEDURES

4.

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 March 31, 2012 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 RISK FACTORS

1A.

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, 2011, filed with the SEC on March 30, 2012, as well as those discussed in this report and in our other filings with the SEC.

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

Over the next twelve months we may require additional funding if, for instance, we experience losses. We currently have a line of credit of up to \$1 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, 2011 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, 2011 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.

ITEMEXHIBITS

6.

Exhibit No. Exhibit Description

31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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: May 15, 2012

By: /s/ Frank B. Manning
Frank B. Manning, President, Chief
Executive Officer and
Acting Chief Financial Officer
(Principal Executive Officer and
Principal Financial Officer)

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