

Zoom Telephonics, Inc.  
Form 10-K  
March 31, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-18672

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 02111  
(Address of Principal Executive Office) (Zip Code)

(617) 423-1072  
(Registrant's telephone number, including area code)

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

Securities Registered Pursuant to Section 12 (g) of the Act:  
Common Stock, \$0.01 Par Value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange

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Act. Yes  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock, \$0.01 par value, of the registrant held by non-affiliates of the registrant as of June 30, 2013, based upon the last sale price of such stock on that date as reported by the OTC Bulletin Board, was \$1,076,331.

The number of shares outstanding of the registrant's common stock, \$0.01 par value, as of February 28, 2014 was 7,982,704 shares.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive proxy statement for our 2014 annual meeting of stockholders, which is to be filed within 120 days after the end of the fiscal year ended December 31, 2013, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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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. All statements other than historical facts are “forward-looking statements” for purposes of these provisions, including any projections of earnings, revenues or other financial terms, any statements of plans or objectives of management for future operations, any statements concerning proposed new products or licensing or collaborative arrangements, any statements regarding future economic or performance, any statement of assumptions underlying any of the foregoing. 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:

the sufficiency of our capital resources;

the availability of debt and equity financing;

our ability to continue as a going concern;

potential costs and senior management distraction associated with patent-related legal proceedings;

product liability claims related to ZoomGuard could harm our competitive position, results of operation and financial condition;

market acceptance of our products and services;

our reliance on a limited number of customers for a large portion of our revenue;

our reliance on sole-sourced manufacturers and component producers for a substantial percentage of our products;

fluctuations in foreign currency exchange rates that may adversely affect our business;

the uncertainty in global economic conditions;

our reliance on an outsourcing partner in Mexico and their potential capacity constraints

the decline of the dial-up modem market;

our ability to succeed in broadband modem markets;

the development of new competitive technologies, products and services to meet customer demand;

our ability to succeed in markets outside the USA;

our ability to manage inventory levels and product returns;

the anticipated development and expansion of our existing technologies, markets and sales channels;

investment in resources for product design for foreign markets;

approvals, certifications and clearances for our products and services;

our ability to satisfy certain indemnification obligations;

business strategies;

general economic conditions; and

trends relating to our 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. Except as otherwise required by law, 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 7 below as well as those discussed elsewhere in this report. We qualify all of our forward-looking statements by these cautionary statements.

## PART I

### ITEM 1 – BUSINESS

#### Overview

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

Zoom Telephonics designs, produces, markets, sells, and supports broadband and dial-up modems, Wi-Fi® and Bluetooth® wireless products, and other communication-related products. Our primary objective is to build upon our position as a leading producer of Internet access devices sold through sales channels that include many of the largest US high-volume electronics retailers, and to take advantage of a number of trends in communications including higher data rates, increasing use of wireless technology for transmission of data, and increasing use of smartphones and tablets.

Broadband modems, especially cable modems, were Zoom’s highest revenue product category in 2012 and 2013. In response to demand for faster connection speeds and increased modem functionality, we have invested and continue to invest resources to advance our broadband modem product line.

Cable modems provide a high-bandwidth connection to the Internet through a cable-TV cable that connects to compatible equipment that is typically at or near the cable service provider. We began shipping cable modems during 2000. Our cable modem customers in the U.S., our largest market, are primarily retailers.

Our Asymmetric Digital Subscriber Line modems, known as ADSL modems or DSL modems, provide a high-bandwidth connection to the Internet through a telephone line that typically connects to compatible DSL equipment in or near the central telephone office. Through the years Zoom® has shipped a broad line of DSL modems. Zoom’s primary DSL product today includes a router, a four-port switch, a firewall, a wireless-N access point, and other enhanced features.

During the second half of 2009 Zoom began shipping mobile broadband products, which provide or distribute a high-speed connection to the Internet that uses a cellular phone service provider’s network. Zoom’s product line includes mobile broadband modems, mobile broadband routers, and mobile broadband modem/router combinations.

Our dial-up modems connect personal computers and other devices to the local telephone line for transmission of data, fax, voice, and other information. Our dial-up modems enable personal computers and other devices to connect to other computers and networks, including the Internet, at top data speeds up to 56,000 bits per second. Zoom's sales of dial-up modems, our largest source of revenues prior from the mid-eighties through 2010, are expected to continue their decline due to their relatively slow data speed. Dial-up modems accounted for 18% of Zoom's sales in 2013.

Zoom's product line also includes wireless products, including WiFi®-compatible wireless-N network products, Bluetooth® products, and wireless keyboards. These products typically provide communication between devices that are within a quarter mile or less of each other, depending on the specific product.

Zoom's product line also includes dialers, and Zoom authored and owns some dialer-related patents.

We are incorporated in Delaware under the name Zoom Telephonics, Inc. Zoom Telephonics, Inc. was originally incorporated in New York in 1977 and changed its state of incorporation to Delaware in 1993. Our principal executive offices are located at 207 South Street, Boston, MA 02111, and our telephone number is (617) 423-1072.

#### Available Information

Our Internet website address is [www.zoomtel.com](http://www.zoomtel.com). Through our website we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. These SEC reports can be accessed through the investor relations section of our website and at the SEC's web site.

#### Products

##### General

The vast majority of our products facilitate communication of data through the Internet. Our cable modems use the cable-TV cable and our DSL modems use the local telephone line to provide a high-speed link to the Internet. Our mobile broadband modems use a cellular service provider's network to provide a high-speed link to the network. Our dial-up modems link computers, point-of-purchase terminals, or other devices to each other through the traditional telephone network, sometimes using the Internet. Our wireless-N network products may communicate with a broadband modem for access to the Internet, and they may also be used for local area network communications. Our new ZoomGuard® product line uses the Internet to connect wireless sensors and controls to users through the Internet. Our modems and dialers typically connect to a single phone line in a home, office, or other location. We do have some products, however, that do not facilitate communication of data through the Internet, including some of our Bluetooth products.

##### Cable Modems

Each cable service provider has its own certification process, in which the cable service provider may require CableLabs® certification and may also require the service provider's own company test and approval. We have obtained CableLabs® certification for our currently marketed cable modems. These cable modems have also received a number of cable service provider company certifications. The approval process has been and continues to be a significant barrier to entry, as are the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Arris Systems, the Motorola Home division of Google, Cisco Systems, and others.

Zoom sells cable modems to electronics retailers and cable service providers. Sales through the retail channel have been handicapped by a number of factors, including the fact that most cable service providers offer cable modems with their service and the fact that some cable service providers do not provide much if any financial incentive to a customer who purchases his own modem rather than renting it from the cable service provider. However, Zoom has significant cable modem sales through retailers, often to end-users who want to eliminate a monthly cable modem rental charge from their service provider.

During 2013 Zoom shipped two primary types of cable modems, both supporting DOCSIS 3.0; and one of these products also includes a built-in wireless-N router. The DOCSIS 3.0 standard currently supports the highest cable modem speeds, and Comcast and some other large cable service providers are in the midst of a significant rollout of DOCSIS 3.0 modems and service. In early 2014 Zoom received CableLabs certification for a third type of cable modem/router, one that has two phone ports for making voice calls. Zoom intends to sell this product to cable service providers in North and Latin America, and Zoom may also sell this product through some U.S. retailers if Zoom

achieves appropriate service provider certifications. Zoom is also developing a high performance cable modem/router that includes 802.11ac wireless for high wireless speeds and good range.

#### DSL Modems

Our DSL modems incorporate the ADSL standards that are currently most popular worldwide, including ADSL2/2+, G.dmt, G.Lite, and ANSI T1.413 issue 2. In 2000 we designed and shipped our first DSL modems, an external USB model and an internal PCI model. Since then we have introduced many models, including our first model with a built-in wireless router in 2005. In 2006 Zoom began shipping a software Install Assistant with most of its DSL modems to simplify end-user installation. In 2009 Zoom introduced DSL models with TR.69 and Annex M capability, and began volume shipments of a DSL modem with a built-in wireless-G router and VoIP. In 2010 Zoom began shipping a line of DSL modems and modem/routers that use Broadcom IC technology to help achieve high performance per dollar of unit cost. Zoom currently sells one type of ADSL modem, which has an integrated wireless-N 4-port router using Broadcom IC technology.



### Mobile Broadband Modems and Routers

During the second half of 2009 Zoom began shipping its first mobile broadband products, mobile broadband modems and wireless-N routers. Zoom's mobile broadband modems currently support AT&T, T-Mobile, and the majority of cellular service providers worldwide who use the GSM standard for voice and data. The primary alternative standard is CDMA, which is used by Verizon, Sprint, and other cellular service providers worldwide. Zoom does not currently offer a modem for CDMA service providers. Zoom's mobile broadband wireless-N desk and travel routers allow someone to plug in a mobile broadband GSM or CDMA modem or phone for Internet access, and to share that Internet access with computers, phones, and other devices with wireless-G or wireless-N capability. In late 2010 Zoom expanded its mobile broadband line to include a modem with a top download speed of 14.4 Mbps, and to include the We3G portable modem/router. In 2012 Zoom began shipping a mobile broadband modem/router that includes a voice port into which someone can plug a telephone to make and receive voice calls.

### Dial-Up Modems

We have a broad line of dial-up modems with top data speeds up to 56,000 bps, available in external and internal models. Many of our external modems are designed to work with almost any terminal or computer, including Windows computers, the Apple Macintosh, Linux computers, and other computers. PC-oriented internal modems are designed primarily for installation in the PCI slot, PCI-E slot, or PC card slot of IBM PC-compatibles. Embedded internal modems are designed to be embedded in PCs dedicated to a specific application, such as point-of-purchase terminals, kiosks, and set-top boxes.

In 1999 we acquired substantially all of the modem product and trademark assets of Hayes Microcomputer Products, Inc., an early leader in the modem industry. In July 2000 we acquired the trademark and product rights to Global Village products. Global Village was a modem brand for products used with Apple Macintosh computers. We now sell and market dial-up modems under the Zoom® and Hayes® names, and also sell them unbranded or under a private-label brand specific to a particular high-volume account.

### Wireless Local Area Networking

In 2005 Zoom began shipping DSL modems with Wireless-G local area network capability. In 2009 Zoom began shipping products that incorporate the extended range and higher data rate associated with the 802.11n wireless standard. Those products currently include wireless-N adapters and routers, including the X7N which combines an ADSL modem and a wireless-N router. Two of the wireless-N routers work with certain mobile broadband USB modems and smartphones, and a third wireless-N router includes a mobile broadband modem. Our line also includes a mobile broadband modem/router combination with a voice port.

### Bluetooth® Modems and Adapters

In 2003 we began shipping a Bluetooth modem, a Bluetooth USB adapter, and a Bluetooth PC Card adapter. Bluetooth is a wire-elimination technology that is often used by mobile phone and computer products. In 2006 and later years we expanded our Bluetooth product line to include Bluetooth audio products and thumbnail-size USB adapters.

### Wireless Keyboards

In December 2009 Zoom shipped its first wireless keyboard. This keyboard model was designed to make it easy to use an HDTV for Internet access when the HDTV was connected to a Windows notebook or desktop computer. In late 2010 Zoom introduced two new wireless keyboard models, one for Apple and Android products and one for the

Xbox, PS3, and TV-connected Windows computers.

#### Dialers and Related Telephony Products

Zoom manufactures dialers that simplify the placing of a phone call by dialing digits automatically. We shipped our first telephone dialer, the Demon Dialer®, in 1981, and in 1983 began shipping the Hotshot™ dialer. As the dialer market diminished due to equal access, we focused on modems and other peripherals for the personal computer market. In 1996 we began shipping a new generation of dialers incorporating proprietary technology that is now covered by four issued U.S. patents. Some of these dialers are well-suited for routing appropriate calls through money-saving long-distance service providers, including prepaid phone card service providers.

#### ZoomGuardtm

Zoom is developing a new product line called ZoomGuard. The ZoomGuard product line includes wireless sensors and controls that can be monitored via the Internet by using a smartphone or Web browser. When a condition occurs such as an emergency, alerts can be sent via the Internet as a smartphone alert, text message, email, voice call, Facebook message, or Twitter message. Development of this product line is not complete. When it is complete, the ZoomGuard line is expected to include the ability to monitor water leaks, temperature, humidity, light levels, motion, door or window entry, dangerous gasses, and power consumption; and ZoomGuard will also allow remote control of power or temperature. Zoom believes that there is significant potential for this type of product, but that there will be significant competition and risk. Zoom hopes to sell to some of its existing customers and to new customers.

## Products for Markets outside North America

Products for countries outside the US often differ from a similar product for the US due to different regulatory requirements, country-specific phone jacks and AC power adapters, and language-related specifics. As a result, the introduction of new products into markets outside North America can be costly and time-consuming. In 1993 we introduced our first dial-up modem approved for selected Western European countries. Since then we have continued to expand our product offerings into markets outside North America. We have received regulatory approvals for, and are currently selling our products in a number of countries, including the USA, the UK, Spain, Canada, Vietnam, and some Latin American countries. We intend to continue to expand and enhance our product line for our existing markets and to seek approvals for the sale of our products in new countries.

## Sales Channels

### General

We sell our products primarily through high-volume retailers and distributors, Internet service providers, telephone service providers, value-added resellers, PC system integrators, and original equipment manufacturers ("OEMs"). We support our 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 revenues. In 2013 three customers accounted for 69% of our total net sales, with our largest customer accounting for 51% of our net sales. At December 31, 2013, three customers accounted for 84% of our gross accounts receivable, with our largest customer representing 71% of our gross accounts receivable. During 2012 three customers accounted for 67% of the Company's total net sales with our largest customer accounting for 54% of our net sales. At December 31, 2012, three customers accounted for 85% of our gross accounts receivable, with our largest customer representing 79% of our gross accounts receivable.

### Distributors and Retailers outside North America

In markets outside North America we sell and ship our products primarily to distributors, retailers, and service providers. Our European high-volume retailers include Amazon, eBuyer, Media Markt, and others. We believe sales growth outside North America will continue to require substantial additional investments of resources for product design and testing, regulatory approvals, native-language instruction manuals and software, packaging, sales support, and technical support. We have made this investment in the past for many countries, and we expect to make this investment for many countries and products in the future. Areas of focus include the UK, Spain, and Latin America.

### North American High-volume Retailers and Distributors

In North America we reach the retail market primarily through high-volume retailers. Our North American retailers include Best Buy, Fry's Electronics, Micro Center, Staples, Wal-Mart, and many others including Amazon and other Web-focused retailers.

We sell significant quantities of our products through distributors, who often sell to corporate accounts, retailers, service providers, value-added resellers, equipment manufacturers, and other customers. Our North American distributors include customers D&H Distributing, Ingram Micro, and Tech Data.

### Internet and Telephone Service Providers

In past years our sales have included DSL modems sold to DSL service providers in the U.S. and in some other countries. We plan to continue selling and supporting these customers. In addition, we will continue to offer some of our cable modem and mobile broadband products to service providers.

#### System Integrators and Original Equipment Manufacturers

Our system integrator and OEM customers sell our products under their own name or incorporate our products as a component of their systems. We seek to be responsive to the needs of these customers by providing on-time delivery of high-quality, reliable, cost-effective products with strong engineering and sales support. We believe that some of these customers also appreciate the improvement in their products' image due to use of a Zoom or Hayes brand modem.

## Sales, Marketing and Support

Our sales, marketing, and support are primarily managed from our headquarters in Boston, Massachusetts. In North America we sell our Zoom, Hayes, and private-label dial-up modem products through Zoom's sales force and through commissioned independent sales representatives managed and supported by our own staff. Most service providers are serviced by Zoom's sales force. North American technical support is primarily handled from our Boston headquarters. We also maintain a small sales and logistics team in the United Kingdom for the UK and other European countries.

We believe that Zoom, Hayes, and Global Village are widely recognized brand names. We build upon our brand equity in a variety of ways, including cooperative advertising, product packaging, Web advertising, trade shows, and public relations.

We attempt to develop quality products that are user-friendly and require minimal support. We typically support our claims of quality with product warranties of one to two years, depending upon the product. To address the needs of end-users and resellers who require assistance, we have our own staff of technical support specialists. They currently provide telephone support five days per week in English and, at some times, Spanish. Our technical support specialists also maintain a significant Internet support facility that includes email, firmware and software downloads, and the SmartFacts™ Q&A search engine.

## Research and Development

Our research and development efforts are focused on developing new products, enhancing the capabilities of existing products, and reducing production costs. We have developed close collaborative relationships with certain of our ODM (Original Design Manufacturer) suppliers and component suppliers. We work with these partners and other sources to identify and respond to emerging technologies and market trends by developing products that address these trends. In addition, we purchase modems and other chipsets that incorporate sophisticated technology from third parties, thereby eliminating the need for us to develop this technology in-house. We also develop some products in-house, including some of our modems and our ZoomGuard product line. All of our ZoomGuard sensor/control hardware and most of ZoomGuard's firmware and user interface application software were developed in-house.

The Company's costs on research and development were \$1.2 million for 2012 and \$0.9 million for 2013. As of December 31, 2013 we had 8 employees engaged primarily in research and development. Our research and development team performs electronics hardware design and layout, mechanical design, prototype construction and testing, component specification, firmware and software development, product testing, foreign and domestic regulatory approval efforts, end-user and internal documentation, and third-party software selection and testing.

## Manufacturing and Suppliers

Our products are currently designed for high-volume automated assembly to help assure reduced costs, rapid market entry, short lead times, and reliability. High-volume assembly typically occurs in China or Taiwan. Our contract manufacturers and original design manufacturers typically obtain some or all of the material required to assemble the products based upon a Zoom Telephonics Approved Vendor List and Parts List. Our manufacturers typically insert parts onto the printed circuit board, with most parts automatically inserted by machine, solder the circuit board, and test the completed assemblies. Final packaging is sometimes performed by the contract manufacturer. For the United States and many other markets, packaging is often performed at our manufacturing facilities in North America, allowing us to tailor the packaging and its contents for our customers immediately before shipping. We also perform circuit design, circuit board layout, and strategic component sourcing at our Boston headquarters facility. Wherever the product is built, our quality systems are used to help assure that the product meets our specifications.

In late 2006 we moved our North American manufacturing facility from Boston, Massachusetts to Tijuana, Mexico. While we continue to experience certain challenges associated with the Tijuana facility, including challenges relating to bringing products across the border between the U.S. and Mexico, the Tijuana facility runs smoothly. We believe that this facility assists us in cost-effectively providing rapid response to the needs of our U.S. customers.

We usually use one primary manufacturer for a given design. We sometimes maintain back-up production tooling at a second manufacturer for our highest-volume products. Our manufacturers are normally adequate to meet reasonable and properly planned production needs; but a fire, natural calamity, strike, financial problem, or other significant event at an assembler's facility could adversely affect our shipments and revenues. Currently our business is distributed among a number of suppliers. However, in 2013 one supplier provided 84% of our purchased inventory. The loss of a key supplier, or a material adverse change in a key supplier's business or in our relationship with a key supplier, could materially and adversely harm our business. Should such an event occur, this supplier is replaceable.

Our products include a large number of parts, most of which are available from multiple sources with varying lead times. However, most of our products include a sole-sourced chipset as the most critical component of the product. The vast majority of our cable and DSL modem chipsets come exclusively from Broadcom. Our dial-up modem chipsets come exclusively from Conexant. Serious problems at Broadcom or Conexant, including long chipset lead-times, would significantly reduce Zoom's shipments.

We have experienced delays in receiving shipments of modem chipsets in the past, and we may experience such delays in the future. Moreover, we cannot assure that a chipset supplier will, in the future, sell chipsets to us in quantities sufficient to meet our needs or that we will purchase the specified dollar amount of products necessary to receive concessions and incentives from a chipset supplier. An interruption in a chipset supplier's ability to deliver chipsets, a failure of our suppliers to produce chipset enhancements or new chipsets on a timely basis and at competitive prices, a material increase in the price of the chipsets, our failure to purchase a specified dollar amount of products or any other adverse change in our relationship with modem component suppliers could have a material adverse effect on our results of operations.

We are also subject to price fluctuations in our cost of goods. Our costs may increase if component shortages develop, lead-times stretch out, or fuel costs continue to rise.

We are also subject to the RoHS and CEC rules discussed above, which affect component sourcing, product manufacturing, sales, and marketing.

#### Competition

The Internet access and networking industries are intensely competitive and characterized by aggressive pricing practices, continually changing customer demand patterns, rapid technological advances, and emerging industry standards. These characteristics result in frequent introductions of new products with added capabilities and features, and continuous improvements in the relative functionality and price of modems and other communications products. Our operating results and our ability to compete could be adversely affected if we are unable to:

successfully and accurately anticipate customer demand;

manage our product transitions, inventory levels, and manufacturing processes efficiently;

distribute or introduce our products quickly in response to customer demand and technological advances;

differentiate our products from those of our competitors; or

otherwise compete successfully in the markets for our products.

Some of our primary competitors by product group include the following:

Cable modem competitors: Arris Systems, Cisco Systems (Linksys and Scientific Atlanta divisions), D-Link, Hon Hai Network Systems (formerly Ambit Microsystems), Netgear, SMC Networks, Technicolor and Ubee Interactive.

Dial-up modem competitors: Best Data, Hiro, Lite-On, Trendnet and US Robotics.

DSL modem competitors: 2Wire, 3Com, Actiontec, Airties, Asus, Aztech, Best Data, Cisco Systems (Linksys division), D-Link, Huawei, Motorola Mobility division of Google, Netgear, Sagemcom (formerly Sagem), Siemens (formerly Efficient Networks), Technicolor, TP-Link, Westell, Xavi, and ZyXEL Communications.

Mobile broadband competitors: Cradlepoint, D-Link, Huawei, Netgear, Novatel Wireless, Sierra Wireless, and ZTE.

Networking competitors: Belkin, Buffalo, Cisco Systems (Linksys division), D-Link, Netgear, TP-Link and Trendnet.

Bluetooth competitors: Asus, Belkin, D-Link, IOGear, Jabra, Kensington, Logitech, Sitecom, Targus, Trendnet, and Trust.



Many of our competitors and potential competitors have more extensive financial, engineering, product development, manufacturing, and marketing resources than we do.

The principal competitive factors in our industry include the following:

- product performance, features, reliability and quality of service;
- price;
- brand image;
- product availability and lead times;
- size and stability of operations;
- breadth of product line and shelf space;
- sales and distribution capability;
- technical support and service;
- product documentation and product warranties;
- relationships with providers of broadband access services; and
- certifications evidencing compliance with various industry standards.

We believe we are able to provide a competitive mix of the above factors for our products, particularly when they are sold through retailers, computer product distributors, and small to medium sized Internet service providers, and system integrators. We are less successful in selling directly to large telephone companies and other large providers of broadband access services.

Cable, DSL, and mobile broadband modems transmit data at significantly faster speeds than dial-up modems. DSL and cable, however, typically require a more expensive Internet access service. In addition, the use of DSL and cable modems is currently impeded by a number of technical and infrastructure limitations. We began shipping both cable and DSL modems in the year 2000. We have had some success in selling to smaller phone companies and to Internet service providers, but we have not sold significant quantities to large phone companies or to large cable service providers.

Successfully penetrating the broadband modem market presents a number of challenges, including:

- The current limited retail market for broadband modems;

- The relatively small number of cable, telecommunications and Internet service providers that make up the majority of the market for broadband modems in the USA, our largest market;

- The significant bargaining power and market dominance of these large volume purchasers;

The time-consuming, expensive and uncertain approval processes of the various cable and DSL service providers; and

The strong relationships with service providers enjoyed by some incumbent equipment providers, including Motorola and Cisco Systems for cable modems and Huawei for DSL and mobile broadband modems.

#### Intellectual Property Rights

We rely primarily on a combination of copyrights, trademarks, trade secrets and patents to protect our proprietary rights. We have trademarks and copyrights for our firmware (software on a chip), printed circuit board artwork, instructions, packaging, and literature. We also have six active patents that expire between years 2015 and 2029. We cannot assure that any patent application will be granted or that any patent obtained will provide protection or be of commercial benefit to us, or that the validity of a patent will not be challenged. Moreover, we cannot assure that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop comparable or superior technologies.

We license certain technologies used in our products, typically rights to bundled software, on a non-exclusive basis. In addition we purchase chipsets that incorporate sophisticated technology. We have received, and may receive in the future, infringement claims from third parties relating to our products and technologies. We investigate the validity of these claims and, if we believe the claims have merit, we respond through licensing or other appropriate actions. Certain of these past claims have related to technology included in modem chipsets. We forwarded these claims to the appropriate vendor. If we or our component manufacturers were unable to license necessary technology on a cost-effective basis, we could be prohibited from marketing products containing that technology, incur substantial costs in redesigning products incorporating that technology, or incur substantial costs defending any legal action taken against it. Where possible we attempt to receive patent indemnification from chipset suppliers and other appropriate suppliers, but the extent of this coverage varies and enforcement of this indemnification may be difficult and costly.

#### Backlog

Our backlog on February 12, 2014 was \$0.4 million, and on February 6, 2013 was \$0.2 million. Many orders included in backlog may be canceled or rescheduled by customers without significant penalty. Backlog as of any particular date should not be relied upon as indicative of our net sales for any future period.

#### Employees

On December 31, 2013 we had a headcount of 28, including 25 full-time employees and 3 employees working less than 5 days per week, compared to 30 as of December 31, 2012. On December 31, 2013, Zoom had 2 consultants, one in information systems and one in sales that were not included in our headcount. As of February 28, 2014 we had 27 full-time and part-time employees and 1 part-time temporary employee. Of the 28 Zoom employees on February 28, 2014, 9 were engaged in research and development and quality control, 4 were involved in manufacturing oversight, purchasing, assembly, packaging and shipping, 9 were engaged in sales, marketing and technical support, and the remaining 6 performed accounting, administrative, management information systems, and executive functions. As of February 28, 2014, Zoom had 2 consultants, one in information systems and one in sales that were not included in our headcount. Zoom has implemented cost cutting measures including reducing our headcount and reducing the number of days that certain employees work. None of our employees are represented by a labor union. On February 28, 2014, Zoom had 19 dedicated manufacturing personnel in Mexico who are employees of our Mexican manufacturing service provider and 1 consultant in sales that was not included in our headcount.

#### Our Executive Officers

The names and biographical information of our current executive officers are set forth below:

Name	Age	Position with Zoom
Frank B. Manning	65	Chief Executive Officer, President, Chairman of the Board & Acting Chief Financial Officer
Terry Manning	62	Vice President of Sales and Marketing
Deena Randall	60	Vice President of Operations

Frank B. Manning is a co-founder of our company. Mr. Manning has been our president, chief executive officer, and a Director since May 1977. He has served as our chairman of the board since 1986. He earned his BS, MS and PhD degrees in Electrical Engineering from the Massachusetts Institute of Technology, where he was a National Science Foundation Fellow. From 1998 through late 2006 Mr. Manning was also a director of the Massachusetts Technology Development Corporation, a public purpose venture capital firm that invests in seed and early-stage technology companies in Massachusetts. Mr. Manning is the brother of Terry Manning, our vice president of sales and marketing. From 1999 to 2005 Mr. Frank Manning was a Director of Intermute, a company that Zoom co-founded and that was

sold to Trend Micro Inc., a subsidiary of Trend Micro Japan. Mr. Manning was a Director of Unity Business Networks, a hosted VoIP service provider, from Zoom's investment in July 2007 until Unity's acquisition in October 2009. From its inception until November 2010 Mr. Manning was also a director of Zoom Technologies, Inc. Mr. Manning's extensive experience as our President and Chief Executive Officer, as well as his overall experience and professional skills in electronics and business, enable him to capably serve multiple roles at Zoom including President, Chief Executive Officer, Acting Chief Financial Officer and Chairman of Zoom's Board of Directors.

Terry J. Manning joined us in 1984 and served as corporate communications director from 1984 until 1989, when he became the director of our sales and marketing department. Terry Manning is Frank Manning's brother. Terry Manning earned his BA degree from Washington University in St. Louis in 1974 and his MPPA degree from the University of Missouri at St. Louis in 1977.

Deena Randall joined us in 1977 as our first employee. Ms. Randall has served in various senior positions within our organization and has directed our operations since 1989. Ms. Randall earned her BA degree from Eastern Nazarene College in 1975.

## ITEM 1A. – RISK FACTORS

The disclosure under the heading “Risk Factors” contained in Item 7 of this Annual Report on Form 10-K is incorporated by reference in this Item 1A.

## ITEM 1B. – UNRESOLVED STAFF COMMENTS

None.

## ITEM 2 – PROPERTIES

Since 1983 our headquarters has been near South Station in downtown Boston at 201 and 207 South Street. In December 2006, the Company sold its owned headquarters buildings in Boston, Massachusetts and leased back 25,200 square feet for two years expiring December 2008. In November 2008 the Company signed a lease amendment for its headquarters’ offices in Boston in the existing building to approximately 14,400 square feet for three years with a six month termination option starting July 1, 2010. 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 to 10,600 square feet effective June 1, 2012, with a corresponding decrease in lease expense.

In August 1996 we entered into a lease for a 77,428 square foot manufacturing and warehousing facility at 645 Summer Street, Boston, MA. The term of this lease expired in August 2006 and we began the planned move of our manufacturing and warehousing facility to Tijuana, Mexico. 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 another one-year extension starting in May 2008. In March 2009 we signed a one-year lease with one one-year option for a smaller facility for lower cost. In March 2011 we signed a one-year lease extension starting May 1, 2011, with three one-year renewal options thereafter. In April 2012 the Company exercised the first of three renewal options, with no change in lease cost. In February 2013 the Company exercised the second of three renewal options, with no increase in lease cost.

In September 2005 we entered into a two year office lease consisting of 2,400 square feet at 2 Kings Road, Fleet, Hants, U.K for our U.K. sales office. In September 2007 the lease was continued on a month-to-month basis with a 3 month cancellation notice required by Zoom or the landlord. In September 2008 the lease was replaced by a lower cost Managed Office Service Agreement at Centaur House Ancells Road, Fleet, Hants, UK. We cancelled our Office Service Agreement effective October 31, 2011. Zoom currently has one employee in the U.K. who works from home and a commissioned sales representative for the UK and Ireland.

## ITEM 3 – LEGAL PROCEEDINGS

On October 15, 2012 Telecomm Innovations LLC filed a complaint against Zoom Telephonics and at least 23 other companies including Dell Inc., various dial-up modem producers, and many fax machine producers. The complaint related to dial-up modems and alleged that Zoom infringed upon Telecomm Innovation patents. Zoom believed that it was licensed for these patents already through its modem chipset suppliers. On January 22, 2014, a Stipulation of Dismissal was filed for the case and the case has been closed pursuant to a resolution of the dispute between Zoom and Telecomm Innovations.

On February 6, 2013 Voice Integration Technologies filed a complaint against Zoom Telephonics alleging infringement of U.S. Patent No. 7,127,048 (the “048 Patent”), entitled “Systems and Methods for Integrating Analog

Voice Service and Derived POTS Voice Service in a Digital Subscriber Line Environment.” On July 1, 2013, this case was closed following the filing of a stipulation of dismissal with prejudice pursuant to a resolution of the dispute between Zoom and Voice Integration Technologies.

On November 6, 2013 Innovative Wireless Solutions, LLC (“IWS”) filed a complaint against Zoom Telephonics alleging infringement of U.S. Patents Nos. 5,912,895, 6,327,264, and 6,587,473 all entitled “Information Network Access Apparatus and Methods of Communicating Information packets via Telephone Links.” The Complaint asserts that Zoom sells products with “wireless access points and/or routers capable of connecting to an Ethernet network and an IEEE 802.11 wireless network to provide wireless Internet access.” The case is in its early stages and a Scheduling conference is currently set for May 22, 2014.

## ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5 – MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the OTC Bulletin Board under the symbol "ZMTP". The following table sets forth, for the periods indicated, the high and low sale prices per share of common stock, as reported by the OTC Bulletin Board.

Fiscal Year Ended December 31, 2013	High	Low
First Quarter	\$ 0.60	\$ 0.11
Second Quarter	\$ 0.38	\$ 0.14
Third Quarter	\$ 0.32	\$ 0.16
Fourth Quarter	\$ 0.32	\$ 0.11
Fiscal Year Ended December 31, 2012	High	Low
First Quarter	\$ 0.28	\$ 0.21
Second Quarter	\$ 0.28	\$ 0.05
Third Quarter	\$ 0.26	\$ 0.09
Fourth Quarter	\$ 0.25	\$ 0.05

As of February 14, 2014, there were 7,982,704 shares of our common stock outstanding and 151 holders of record of our common stock.

## Recent Sales of Unregistered Securities

We did not sell any unregistered securities during 2013.

## Dividend Policy

We have never declared or paid cash dividends on our capital stock and do not plan to pay any cash dividends in the foreseeable future. Our current policy is to retain all of our earnings to finance future growth.

## Repurchases by the Company

During 2013 we did not repurchase any shares of our common stock on our own behalf or for any affiliated purchaser.

## Equity Compensation Plan Information

The information required by this Item 5 regarding securities authorized for issuance under our equity compensation plans is set forth in Part III, Item 12 of this report.

## ITEM 6 – SELECTED FINANCIAL DATA

Not required.





## ITEM 7 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the financial statements included elsewhere in this report and the information described under the caption "Risk Factors" below. 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 broadband and dial-up modems and other communication products, 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 we have one employee located in the United Kingdom. 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 the Company's products in accordance with our specifications is typically done in China.

Since 1983 our headquarters has been near South Station in downtown Boston at 201 and 207 South Street. In December 2006, the Company sold its owned headquarters buildings in Boston, Massachusetts and leased back 25,200 square feet for two years expiring December 2008. In November 2008 the Company signed a lease amendment for its headquarters' offices in Boston in the existing building to approximately 14,400 square feet for three years with a six month termination option starting July 1, 2010. 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 to 10,600 square feet effective June 1, 2012, with a corresponding decrease in lease expense.

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. We moved most of our Summer Street operations to a dedicated 35,575 square foot facility in Tijuana, Mexico in October 2006. We moved these operations to a 10,800 square foot facility in Tijuana, Mexico in March 2009.

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. 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.

In 2013 our net sales were \$11.2 million, down 23.5% from 2012 net sales of \$14.7 million. The decrease in net sales was primarily due to decreases in broadband modem sales resulting from increased competition. Because of our significant customer concentration and our dependence on a small number of products for the majority of our sales, our net sales and operating results have fluctuated and in the future could continue to fluctuate significantly due to the loss, reduction of business, or less favorable terms for any of our significant customers, due to weakening demand for one or more of our most popular products, or due to changes in political or economic conditions.

In response to net losses, we have cut costs by reducing staffing and some overhead costs. Our total headcount of employees, including temporary workers, was reduced from 30 on December 31, 2012 to 28 on December 31, 2013. As of February 28, 2014 we had 27 full-time and part-time employees and 1 part-time temporary employee. Of the 28 Zoom employees on February 28, 2014, 9 were engaged in research and development and quality control, 4 were involved in manufacturing oversight, purchasing, assembly, packaging and shipping, 9 were engaged in sales, marketing and technical support, and the remaining 6 performed accounting, administrative, management information systems, and executive functions. As of February 28, 2014, Zoom had 2 consultants, one in information systems and one in sales that were not included in our headcount. Zoom has implemented cost cutting measures including reducing our headcount and reducing the number of days that certain employees work. None of our employees is represented by a labor union. On February 28, 2014, Zoom had 19 dedicated manufacturing personnel in Mexico who are employees of our Mexican manufacturing service provider and 1 consultant in sales that was not included in our headcount.

#### Critical Accounting Policies and Estimates

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

Revenue (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:

Internet access products retailers,

Internet access 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 13.6% and 15.7%, respectively, for 2012 and 2013.

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 2012 and 2013.

**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 \$0.2 million in 2012 and \$0.2 million in 2013.

**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 2012 and \$0.2 million in 2013.

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 for both 2012 and 2013.

**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 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. Additional charges related to obsolete and slow-moving products were negligible in both 2012 and 2013.

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

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

As of December 31, 2013 the Company had federal net operating loss carry forwards of approximately \$49,363,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2033. As of December 31, 2013 the Company had Massachusetts state net operating loss carry forwards of approximately \$8,069,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2014 through 2018.

**Valuation of Investments.** In October 2010 the Company entered into an agreement with Zoom Technologies, Inc. (Nasdaq: ZOOM) in which the Company transferred its rights to the zoom.com domain name and certain trademark rights in exchange for 80,000 shares of Zoom Technologies common stock. These shares had trading restrictions that expired on January 18, 2012. The Company valued the marketable securities at market value in the financial statements. In the fourth quarter of 2013, Zoom Technologies, Inc. announced a reverse merger resulting in a 10:1 split so that the 80,000 shares became 8,000 shares. In December 2013 the Company sold all 8,000 shares of Zoom Technologies, Inc. stock. The Company received proceeds of \$40 thousand and reported a realized loss of \$273 thousand in 2013.

## Results of Operations

Zoom's net sales of \$11.2 million for the fiscal year ended December 31, 2013 ("FY 2013") were down 23.5% from net sales of \$14.7 million for FY 2012. Zoom's net loss was \$1.1 million for FY 2013 compared to a net loss of \$0.7 million for FY 2012. The higher net loss for FY 2013 was primarily due to a drop in gross profit due to lower sales.

The following table sets forth certain financial data as a percentage of net sales for the periods indicated.

	Years Ended December 31,	
	2012	2013
Net sales	100.0%	100.0%
Cost of goods sold	75.3	72.4
Gross profit	24.7	27.6
Operating expense:		

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Selling	13.0	14.0
General and administration	8.5	11.7
Research and development	7.9	8.2
Total operating expenses	29.4	33.9
Operating profit (loss)	(4.6)	(6.3)
Other income (expense):		
Other, net	(0.3)	(3.2)
Total other income (expense)	(0.3)	(3.2)
Income (loss) before income taxes	(5.0)	(9.4)
Income taxes (benefit)	0.0	0.0
Net income (loss)	(5.0)%	(9.5)%

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

The following is a discussion of the major categories of our statement of operations, comparing the financial results for the year ended December 31, 2013 with the year ended December 31, 2012.

**Net Sales.** Our total net sales decreased year-over-year by \$3.5 million or 23.5%. In 2013 and 2012 we primarily generated our sales by selling dial-up and broadband modems via retailers, distributors, and Internet Service Providers. Zoom sales of dial-up modems decreased \$0.9 million or 30.8%. Our Broadband, Wireless and Other Products sales decreased year-over-year by \$2.6 million or 21.7%, primarily due to increased competition.

As a result of decreased sales, Zoom focused on maintaining appropriate inventory levels. That includes reducing or canceling purchase requests, and pushing current purchase commitments out. We have also reviewed our obsolete inventory reserves. Zoom determines its inventory reserves for obsolete and slow moving products by reviewing for each Zoom product its past and forecast sales, open sales orders, inventory levels, planned product changes, and anticipated price drops. Zoom takes a reserve if this data suggests that Zoom is likely to need to sell a product's inventory below its current inventory valuation in order to sell all of that product's inventory within the next 12 months.

	Year 2012 Sales \$000	Year 2013 Sales \$000	Change \$000	Change %
dDial-up	\$ 2,924	\$ 2,025	\$ (899)	(30.8)%
Broadband, Wireless and Other Products	11,767	9,216	(2,551)	(21.7)%
Total Net Sales	\$ 14,691	\$ 11,241	\$ (3,450)	(23.5)%

As shown in the table below our net sales in North America decreased to \$10.5 million in 2013 from \$13.4 million in 2012. The sales in North America continue to reflect a shift in sales from dial-up modems to cable modems and other broadband products. Our net sales in the UK were \$0.3 million in 2013 compared to \$0.5 million in 2012, a 40.1% decrease. The sales decrease in the UK primarily reflects decreased sales of broadband products. Our net sales in all other countries were \$0.4 million in 2013 compared to \$0.7 million in 2012, a 47.7% decrease. Of the \$0.3 million decrease, \$0.2 million were decreases in DSL product in Latin America and Western Europe.

	Year 2012 Sales \$000	Year 2013 Sales \$000	Change \$000	Change %
NNorth America	\$ 13,428	\$ 10,542	\$ (2,886)	(21.5)%
UK	519	311	(208)	(40.1)%
All Other	744	389	(355)	(47.7)%
TTotal Net Sales	\$ 14,691	\$ 11,241	\$ (3,450)	(23.5)%

Relatively few customers have accounted for a substantial portion of the Company's revenues. In 2013 three customers accounted for 69% of our total net sales with our largest customer accounting for 51% of our net sales. At December 31, 2013, three customers accounted for 84% of our gross accounts receivable, with our largest customer representing 71% of our gross accounts receivable. During 2012 three customers accounted for 67% of the Company's total net sales with our largest customer accounting for 54% of our net sales. At December 31, 2012, three customers accounted for 85% of our gross accounts receivable, with our largest customer representing 79% of our gross accounts receivable.

Because of our customer concentration, our 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 our significant customers.

**Gross Profit.** Our gross profit was \$3.1 million in 2013 and \$3.6 million in 2012. Our gross profit percentage of net sales increased to 27.6% in 2013 from 24.7% in 2012. The primary reason for the gross profit percentage increase was due to improved pricing for some key product suppliers.



Operating Expense. Total operating expense decreased by \$505 thousand from \$4.3 million in 2012 to \$3.8 million in 2013. Total operating expense as a percentage of net sales increased from 29.4% in 2012 to 33.9% in 2013. The table below illustrates the change in operating expense.

	Year 2012	% Net	Year 2013	% Net	Change	%
Operating Expense	Sales \$000	Sales	Sales \$000	Sales	\$000	Change
Selling expense	\$ 1,907	13.0%	\$ 1,573	14.0%	\$ (334)	(17.5)%
General and administrative expense	1,253	8.5%	1,316	11.7%	64	5.1%
Research and development expense	1,155	7.9%	920	8.2%	(235)	(20.5)%
Total operating expense	\$ 4,314	29.4%	\$ 3,809	33.9%	\$ (505)	(11.7)%

Selling Expense. Selling expense decreased from \$1.9 million in 2012 to \$1.6 million in 2013. Selling expense as a percentage of net sales was 13.0% in 2012 and 14.0% in 2013. The \$0.3 million decrease in selling expense was due primarily to lower sales-related variable costs.

General and Administrative Expense. General and administrative expense was \$1.3 million 2012 and \$1.3 million in 2013. General and administrative expense as a percentage of net sales was 8.5% in 2012 and 11.7% in 2013.

Research and Development Expense. Research and development expense decreased from \$1.2 million in 2012 to \$0.9 million in 2013. Research and development expense as a percentage of net sales increased from 7.9% in 2012 to 8.2% in 2013. The \$0.2 million decrease in research and development expense was primarily due to significant decreases in consulting and certification costs.

Other Income (Expense). Other income (expense), net was \$(354) thousand in 2013, consisting of realized loss of \$(273) thousand on sale of 8,000 shares of Zoom Technologies, Inc. stock, \$(68) thousand in interest expense, and \$(13) thousand in miscellaneous other expense. Other income (expense), net was \$(49) thousand in 2012, substantially all interest expense on loan agreements.

Income Tax Expense (Benefit). We recorded income tax from our operations in Mexico, which was negligible in both 2012 and 2013.

#### Liquidity and Capital Resources

On December 31, 2013 we had working capital of \$2.3 million including \$55 thousand in cash and cash equivalents. On December 31, 2012 we had working capital of \$2.9 million including \$0.2 million in cash and cash equivalents. Our current ratio at December 31, 2013 was 2.8 compared to 2.3 at December 31, 2012. The primary reasons for the improved current ratio were Zoom's reduction in net inventory of \$0.9 million during 2013 and decrease in bank debt of \$0.6 million.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On December 31, 2013 we had a headcount of 28 compared to 30 as of December 31, 2012. As of February 28, 2014 we had 27 full-time and part-time employees, 1 part-time temporary employee and 2 consultants, one in sales and one in information systems that was not included in our headcount. We plan to continue to assess our cost structure as it relates to our revenues and cash position, and we may make further reductions if the actions are deemed necessary.

On April 10, 2012 we entered into a Loan and Security Agreement with Silicon Valley Bank (the “Loan Agreement”). The Loan Agreement provided for up to \$1 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Loan Agreement. The Loan Agreement had a one year term. Borrowings were secured by all of our assets including our intellectual property. The Loan Agreement contained several covenants, including a requirement that we maintain a tangible net worth of at least \$3.0 million. On December 19, 2012, the Loan Agreement with Silicon Valley Bank was terminated upon payment in full by us of all amounts owed under such agreement.

On December 18, 2012, we entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the “Financing Agreement”). The Financing Agreement provides for up to \$1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of our assets including our intellectual property. The Financing Agreement contains several covenants, including a requirement that we 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, we 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 such that we are required to maintain tangible net worth of not less than \$2.0 million and working capital of not less than \$1.75 million.

On December 19, 2012, we used a portion of the proceeds from the financing arrangement with Rosenthal & Rosenthal, Inc. to pay off our existing loan with Silicon Valley Bank.

The audit report issued by our independent registered public accounting firm for our financial statements for the fiscal year ended December 31, 2013 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, 2013 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.

#### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings or other relationships other than our operating leases. In 2006 the Company entered into a maquiladora agreement with North American Production Sharing, Inc (NAPS). This agreement provides that NAPS provide certain personnel and other services for a production facility in Mexico on our behalf. Any related assets, liabilities, or expenses are reported in the accompanying financial statements.

#### Risk Factors

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 \$1.25 million line of credit 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 as time passes; 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, 2013 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, 2013 to cover our operating and capital requirements for the next twelve-month period; and if in that case sufficient cash cannot be obtained, we would have to substantially alter, or possibly even discontinue, operations. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Many of our products incorporate patented technology. We attempt to license appropriate patents either directly or through our integrated circuit suppliers. However, we are subject to costs and senior management distractions due to patent-related litigation. On November 6, 2013 Innovative Wireless Solutions, LLC (“IWS”) filed a complaint against Zoom Telephonics alleging infringement of U.S. Patents Nos. 5,912,895, 6,327,264, and 6,587,473 all entitled “Information Network Access Apparatus and Methods of Communicating Information packets via Telephone Links.” The Complaint asserts that Zoom sells products with “wireless access points and/or routers capable of connecting to an Ethernet network and an IEEE 802.11 wireless network to provide wireless Internet access.” The case is in its early stages and a Scheduling conference is currently set for May 22, 2014. Patent litigation matters are complex and time consuming and expose Zoom to potentially material obligations. It is impossible to assess the potential cost and senior management distraction associated with patent litigation matters that are currently outstanding or may occur in the future.

Product liability claims related to ZoomGuard could harm our competitive position, results of operations and financial condition.

ZoomGuard may be used to monitor for threats such as fire, flooding, break-ins, medical emergencies, and other threats; to allow remote control of ZoomGuard products and attached electrical devices; and to cause actions including alerts and sirens in certain situations. If ZoomGuard fails to provide accurate and timely information or to operate as designed, our customers could assert claims against us for product liability. Litigation with respect to product liability claims, regardless of any outcome, could result in substantial cost to us, divert management’s attention from operations and decrease market acceptance of our products. While we intend to carry product liability insurance, we cannot give any assurance that our current or future insurance coverage will be sufficient to cover all possible liabilities. Further, we can give no assurance that adequate insurance will be available to us or that such insurance may be maintained at a reasonable cost to us. A successful claim brought against us, or any claim or product recall that results in negative publicity about us, could harm our competitive position, results of operations and financial condition.

The market for Internet access products and services has many competing technologies and the demand for certain of our products and services is declining.

Industry analysts believe that the market for our dial-up modems is likely to continue to decline. If we are unable to sustain or grow demand for and sales of our broadband modems, we may be unable to sustain or grow our business. The market for high-speed communications products and services has a number of competing technologies. For instance, Internet access can be achieved by using a standard telephone line with an appropriate modem and dial-up or DSL service; using a cable TV line with a cable modem and cable modem service; using a router and some type of modem to service the computers connected to a local area network; or other approaches, including mobile broadband links to the Internet.

We currently sell products that include all these technologies. The introduction of new products by competitors, market acceptance of competing products based on new or alternative technologies, or the emergence of new industry standards have in the past rendered and could continue to render our products less competitive or even obsolete. For example, these factors have caused the market for our dial-up modems to shrink dramatically. If we are unable to sustain or grow demand for our broadband modems, we may be unable to sustain or grow our business.

Our reliance on a small number of customers for a large portion of our revenues could materially harm our business and prospects.

Relatively few customers have accounted for a substantial portion of the Company's revenues. In 2013 three customers accounted for 69% of our total net sales with our largest customer accounting for 51% of our net sales. At December 31, 2013, three customers accounted for 84% of our gross accounts receivable, with our largest customer representing 71% of our gross accounts receivable. During 2012 three customers accounted for 67% of the Company's total net sales, with our largest customer accounting for 54% of our net sales. At December 31, 2012, three customers accounted for 85% of our gross accounts receivable, with our largest customer representing 79% of our gross accounts receivable. Our customers generally do not enter into long-term agreements obligating them to purchase our products. We may not continue to receive significant revenues from any of these or from other large customers. Because of our significant customer concentration, our net sales and operating income could fluctuate significantly due to changes in political or economic conditions or the loss of, reduction of business with, or less favorable terms for any of our significant customers. A reduction or delay in orders from any of our significant customers, or a delay or default in payment by any significant customer could materially harm our business, results of operation and liquidity.

We may be unable to produce sufficient quantities of our products because we obtain key components from, and depend on, sole or limited source suppliers.

We obtain certain key parts, components, and equipment from sole or limited sources of supply. For example, the vast majority of our broadband modems use Broadcom chipsets and the vast majority of our dial-up modems use Conexant chipsets. In the past we have experienced long lead-times and significant delays in receiving shipments of modem chipsets from our sole source suppliers. We may experience similar delays in the future. In addition, some products may have other components that are available from only one source. If we are unable to obtain a sufficient supply of components from our current sources, we would experience difficulties in obtaining alternative sources or in altering product designs to use alternative components. Resulting delays or reductions in product shipments could damage relationships with our customers, and our customers could decide to purchase products from our competitors. Inability to meet our customers' demand or a decision by one or more of our customers to purchase products from our competitors could harm our operating results.

Fluctuations in the foreign currency exchange rates in relation to the U.S. dollar could have a material adverse effect on our operating results.

Changes in currency exchange rates that increase the relative value of the U.S. dollar may make it more difficult for us to compete with foreign manufacturers on price, may reduce our foreign currency denominated sales when expressed in dollars, or may otherwise have a material adverse effect on our sales and operating results. A significant increase in our foreign currency denominated sales would increase our risk associated with foreign currency fluctuations. A weakness in the U.S. dollar relative to the Mexican peso and various Asian currencies, especially the Chinese renminbi, could increase our product costs. Fluctuations in the currency exchange rates have, and may continue to, adversely affect our operating results.

The current uncertainty in global economic conditions could negatively affect our business, results of operations, and financial condition.

The current uncertainty in global economic conditions have resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in credit, equity and fixed income markets. There could be a number of follow-on effects from these economic developments on our business, including unavailability of credit, insolvency of key suppliers resulting in product delays; customer insolvencies; rapid changes to the foreign currency exchange rates; decreased customer confidence; and decreased customer demand. Any of these events, or any other events caused by the recent financial crisis, may have a material adverse effect on our business, operating results, and financial condition.

Capacity constraints in our Mexican operations could reduce our sales and revenues and hurt customer relationships.

We rely on our Mexican operations to finish and ship most of the products we sell. Since moving our manufacturing operations to our Mexican facility we have experienced and may continue to experience constraints on our manufacturing capacity as we address challenges related to operating our new facility, such as hiring and training workers, creating the facility's infrastructure, developing new supplier relationships, complying with customs and border regulations, and resolving shipping and logistical issues. Our sales and revenues may be reduced and our customer relationships may be impaired if we continue to experience constraints on our manufacturing capacity. We are working to minimize capacity constraints in a cost-effective manner, but there can be no assurance that we will be able to adequately minimize capacity constraints.

Our reliance on a business processing outsourcing partner to conduct our operations in Mexico could materially harm our business and prospects.

In connection with the move of most of our North American manufacturing operations to Mexico, we rely on a business processing outsourcing partner to hire, subject to our oversight, the production team for our manufacturing operation, provide the selected facility described above, and coordinate many of the ongoing manufacturing logistics relating to our operations in Mexico. Our outsourcing partner's related functions include acquiring the necessary Mexican permits, providing the appropriate Mexican operating entity, assisting in customs clearances, and providing other general assistance and administrative services in connection with the ongoing operation of the Mexican facility. Our outsourcing partner's performance of these obligations efficiently and effectively is critical to the success of our operations in Mexico. Failure of our outsourcing partner to perform its obligations efficiently and effectively could result in delays, unanticipated costs or interruptions in production, delays in deliveries to our customers or other harm to our business, results of operation, and liquidity. Moreover, if our outsourcing arrangement is not successful, we cannot assure our ability to find an alternative production facility or outsourcing partner to assist in our operations in Mexico or our ability to operate successfully in Mexico without outsourcing or similar assistance.

Our net sales, operating results and liquidity have been and may in the future be adversely affected because of the decline in the retail market for dial-up modems.

The dial-up modem industry has been characterized by declining unit volumes due primarily to broadband as an alternative method for accessing the Internet. We expect that sales of dial-up modems will continue to decline. If we fail to replace declining revenue from the sales of dial-up modems with the sales of our other products, including our broadband modems, our business, results of operation and liquidity will be harmed.

We believe that our future success will depend in large part on our ability to more successfully penetrate the broadband modem markets, which have been challenging markets, with significant barriers to entry.

With the shrinking of the dial-up modem market, we believe that our future success will depend in large part on our ability to penetrate the broadband modem markets including cable, DSL, and mobile broadband. These markets have significant barriers to entry that have adversely affected our sales to these markets. Although some cable, DSL, and mobile broadband modems are sold at retail, the high volume purchasers of these modems are concentrated in a relatively few large cable, telephone, and mobile broadband service providers which offer broadband modem services to their customers. These customers, particularly cable and mobile broadband services providers, also have extensive and varied approval processes for modems to be approved for use on their network. These approvals are expensive, time consuming, and continue to evolve. Successfully penetrating the broadband modem market therefore presents a number of challenges including: the current limited retail market for broadband modems; the relatively small number of cable, telecommunications and Internet service provider customers that make up the bulk of the market for broadband modems in certain countries, including the United States; the significant bargaining power of these large volume purchasers; the time consuming, expensive, uncertain and varied approval process of the various cable service providers; and the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Motorola and Cisco.

If we fail to meet changing customer requirements and emerging industry standards, there would be an adverse impact on our ability to sell our products and services.

The market for Internet access products and services is characterized by aggressive pricing practices, continually changing customer demand patterns, rapid technological advances, emerging industry standards and short product life cycles. Some of our product and service developments and enhancements have taken longer than planned and have delayed the availability of our products and services, which adversely affected our sales and profitability in the past. Any significant delays in the future may adversely impact our ability to sell our products and services, and our results of operations and financial condition may be adversely affected. Our future success will depend in large part upon our ability to: identify and respond to emerging technological trends and industry standards in the market; develop and maintain competitive products that meet changing customer demands; enhance our products by adding innovative features that differentiate our products from those of our competitors; bring products to market on a timely basis; introduce products that have competitive prices; manage our product transitions, inventory levels and manufacturing processes efficiently; respond effectively to new technological changes or new product announcements by others; meet changing industry standards; distribute our products quickly in response to customer demand; and compete successfully in the markets for our new products. These factors could also have an adverse effective on our operating results.

Our product cycles tend to be short and we may incur significant non-recoverable expenses or devote significant resources to sales that do not occur when anticipated. Therefore, the resources we devote to product development, sales and marketing may not generate material net sales for us. In addition, short product cycles have resulted in and may in the future result in excess and obsolete inventory, which has had and may in the future have an adverse affect on our results of operations. In an effort to develop innovative products and technology, we have incurred and may in the future incur substantial development, sales, marketing, and inventory costs. If we are unable to recover these costs, our financial condition and operating results could be adversely affected. In addition, if we sell our products at reduced prices in anticipation of cost reductions and we still have higher cost products in inventory, our business would be harmed and our results of operations and financial condition would be adversely affected.

Our international operations are subject to a number of risks that could harm our business.



Currently our business is significantly dependent on our operations outside the United States, particularly sales and production of substantially all of our products. For the year 2013, sales outside North America were 6% of our net sales. In addition, almost all of our manufacturing operations are now located outside of the United States. The inherent risks of international operations could harm our business, results of operation, and liquidity. For instance, our manufacturing operations in Mexico are subject to the challenges and risks associated with international operations, including those related to integration of operations across different cultures and languages, currency risk, and economic, legal, political and regulatory risks. In addition, fluctuations in the currency exchange rates have had, and may continue to have, an adverse effect on our operating results. The types of risks faced in connection with international operations and sales include, among others: regulatory and communications requirements and policy changes; currency exchange rate fluctuations, including, as a result of the move of our manufacturing operations to Mexico, changes in value of the Mexican peso relative to the US dollar; favoritism toward local suppliers; delays in the rollout of broadband services by cable and DSL service providers outside of the United States; local language and technical support requirements; difficulties in inventory management, accounts receivable collection and the management of distributors or representatives; cultural differences; reduced control over staff and other difficulties in staffing and managing foreign operations; reduced protection for intellectual property rights in some countries; political and economic changes and disruptions; governmental currency controls; shipping costs; and import, export, and tariff regulations. Almost all of our products are built in mainland China or Taiwan, so these products are subject to numerous risks including currency risk and economic, legal, political and regulatory risks.

We may be subject to product returns resulting from defects or from overstocking of our products. Product returns could result in the failure to attain market acceptance of our products, which would harm our business.

If our products contain undetected defects, errors, or failures, we could face delays in the development of our products, numerous product returns, and other losses to us or to our customers or end users. Any of these occurrences could also result in the loss of or delay in market acceptance of our products, either of which would reduce our sales and harm our business. We are also exposed to the risk of product returns from our customers as a result of contractual stock rotation privileges and our practice of assisting some of our customers in balancing their inventories. Overstocking has in the past led and may in the future lead to higher than normal returns.

If we fail to effectively manage our inventory levels, there could be a material and adverse affect on our liquidity and our business.

Due to rapid technological change and changing markets we are required to manage our inventory levels carefully to both meet customer expectations regarding delivery times and to limit our excess inventory exposure. In the event we fail to effectively manage our inventory our liquidity may be adversely affected and we may face increased risk of inventory obsolescence, a decline in market value of the inventory, or losses from theft, fire, or other casualty.

We may be unable to produce sufficient quantities of our products because we depend on third party manufacturers. If these third party manufacturers fail to produce quality products in a timely manner, our ability to fulfill our customer orders would be adversely impacted.

We use contract manufacturers and original design manufacturers for electronics manufacturing of most of our products. We use these third party manufacturers to help ensure low costs, rapid market entry, and reliability. Any manufacturing disruption could impair our ability to fulfill orders, and failure to fulfill orders would adversely affect our sales. Although we currently use four electronics manufacturers for the bulk of our purchases, in some cases a given product is only provided by one of these companies. The loss of the services of any of our significant third party manufacturers or a material adverse change in the business of or our relationships with any of these manufacturers could harm our business. Since third parties manufacture our products and we expect this to continue in the future, our success will depend, in part, on the ability of third parties to manufacture our products cost effectively and in sufficient quantities to meet our customer demand.

We are subject to the following risks because of our reliance on third party manufacturers: reduced management and control of component purchases; reduced control over delivery schedules, quality assurance and manufacturing yields; lack of adequate capacity during periods of excess demand; limited warranties on products supplied to us; potential increases in prices; interruption of supplies from assemblers as a result of a fire, natural calamity, strike or other significant event; and misappropriation of our intellectual property.

Our cable modem sales may be significantly reduced due to long lead-times.

Zoom currently sells two types of Docsis 3.0 cable modems, including a model that includes a built-in wireless-N router. Our Docsis 3.0 cable modems are primarily sold through high-volume retailers. These products have experienced long lead-times due to certain component production lead-times of up to 20 weeks and due to manufacturer-related delays, and these long lead-times may significantly reduce our potential sales.

We face significant competition, which could result in decreased demand for our products or services.

We may be unable to compete successfully. A number of companies have developed, or are expected to develop, products that compete or will compete with our products. Furthermore, many of our current and potential competitors

have significantly greater resources than we do. Intense competition, rapid technological change and evolving industry standards could result in less favorable selling terms to our customers, decrease demand for our products or make our products obsolete. Our operating results and our ability to compete could be adversely affected if we are unable to: successfully and accurately anticipate customer demand; manage our product transitions, inventory levels, and manufacturing processes efficiently; distribute or introduce our products quickly in response to customer demand and technological advances; differentiate our products from those of our competitors; or otherwise compete successfully in the markets for our products.

Environmental regulations may increase our manufacturing costs and harm our business.

The State of California and other states have implemented regulations requiring the use of highly efficient power cubes. These requirements affect many of our products and typically result in an increase of \$0.20 to \$0.70 in our cost to produce those products that use U.S. power cubes. This reduces our gross margin for those products. Additional new state regulations or other environmental regulations, including European regulations, may also impact our product costs or restrict our ability to ship certain products into Europe.

Changes in current or future laws or governmental regulations and industry standards that negatively impact our products, services and technologies could harm our business.

The jurisdiction of the Federal Communications Commission, or the FCC, extends to the entire United States communications industry including our customers and their products and services that incorporate our products. Our products are also required to meet the regulatory requirements of other countries throughout the world where our products and services are sold. Obtaining government regulatory approvals is time-consuming and very costly. In the past, we have encountered delays in the introduction of our products, such as our cable modems, as a result of government certifications. We may face further delays if we are unable to comply with governmental regulations. Delays caused by the time it takes to comply with regulatory requirements may result in cancellations or postponements of product orders or purchases by our customers, which would harm our business.

In addition to reliability and quality standards, the market acceptance of certain products and services is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Standards are continuously being modified and replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. The failure of our products to comply, or delays in compliance, with various existing and evolving industry standards could delay or interrupt volume production of our products, which could harm our business.

Our future success will depend on the continued services of our executive officers and key product development personnel.

The loss of any of our executive officers or key product development personnel, the inability to attract or retain qualified personnel in the future, or delays in hiring skilled personnel could harm our business. Competition for skilled personnel is significant. We may be unable to attract and retain all the personnel necessary for the development of our business. In addition, the loss of Frank B. Manning, our president and chief executive officer, or some other member of the senior management team, a key engineer or salesperson, or other key contributors, could harm our relations with our customers, our ability to respond to technological change, and our business.

We may have difficulty protecting our intellectual property.

Our ability to compete is heavily affected by our ability to protect our intellectual property. We rely primarily on trade secret laws, confidentiality procedures, patents, copyrights, trademarks, and licensing arrangements to protect our intellectual property. The steps we take to protect our technology may be inadequate. Existing trade secret, trademark and copyright laws offer only limited protection. Our patents could be invalidated or circumvented. We have more intellectual property assets in some countries than we do in others. In addition, the laws of some foreign countries in which our products are or may be developed, manufactured or sold may not protect our products or intellectual property rights to the same extent as do the laws of the United States. This may make the possibility of piracy of our technology and products more likely. We cannot ensure that the steps that we have taken to protect our intellectual property will be adequate to prevent misappropriation of our technology.

We could infringe the intellectual property rights of others.

Particular aspects of our technology could be found to infringe on the intellectual property rights or patents of others. Other companies may hold or obtain patents on inventions or may otherwise claim proprietary rights to technology necessary to our business. We cannot predict the extent to which we may be required to seek licenses. We cannot assure that the terms of any licenses we may be required to seek will be reasonable. We are often indemnified by our suppliers relative to certain intellectual property rights; but these indemnifications do not cover all possible suits, and there is no guarantee that a relevant indemnification will be honored by the indemnifying party.

The market price of our common stock may be volatile and trading volume may be low.

The market price of our common stock could fluctuate significantly for many reasons, including, without limitation: as a result of the risk factors listed in this annual report on Form 10-K; actual or anticipated fluctuations in our operating results; regulatory changes that could impact our business; and general economic and industry conditions. Shares of our common stock are quoted on the Over-the-Counter Bulletin Board. The lack of an active market may impair the ability of holders of our common stock to sell their shares of common stock at the time they wish to sell them or at a price that they consider reasonable. The lack of an active market may also reduce the fair market value of the shares of our common stock.

We do not expect to pay any dividends in the foreseeable future.

We do not expect to declare dividends in the foreseeable future. We currently intend to retain cash to support our operations and to finance the growth and development of our business. There can be no assurance that we will have, at any time, sufficient surplus under Delaware law to be able to pay any dividends. If we do not pay dividends, the price of our common stock that you receive in the distribution must appreciate for you to receive a gain on your investment in Zoom Telephonics.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required.

ITEM 8 – FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ZOOM TELEPHONICS, INC.  
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	Page
Index to Financial Statements	F-1
Report of Independent Registered Public Accounting Firm (Marcum LLP)	F-2
Balance Sheets as of December 31, 2013 and 2012	F-3
Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2013 and 2012	F-4
Statements of Stockholders' Equity for the years ended December 31, 2013 and 2012	F-5
Statements of Cash Flows for the years ended December 31, 2013 and 2012	F-6
Notes to Financial Statements	F-7 – F-18

ITEM 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A – CONTROLS AND PROCEDURES

Management's Report on Disclosure Controls and Procedures

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

As of December 31, 2013 we carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Acting Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

## Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Judgments by management are also required in evaluating the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth in 1992 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework. Our management has concluded that as of December 31, 2013, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with US generally accepted accounting principles. Our management reviewed the results of their assessment with our Board of Directors.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to a permanent exemption from the internal control audit requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002.

### Inherent limitations on effectiveness of controls

Internal control over financial reporting has inherent limitations which include but are not limited to the use of independent professionals for advice and guidance, interpretation of existing and/or changing rules and principles, segregation of management duties, scale of organization, and personnel factors. Internal control over financial reporting is a process which involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis, however these inherent limitations are known features of the financial reporting process and it is possible to design into the process safeguards to reduce, though not eliminate, this risk. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls over financial reporting that occurred during the fiscal quarter ended December 31, 2013 that have materially or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B – OTHER INFORMATION

On March 25, 2014, we entered into an amendment to the Financing Agreement with Rosenthal & Rosenthal, Inc., (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 such that we are required to maintain tangible net worth of not less than \$2.0 million and working capital of



not less than \$1.75 million. We would not have been in compliance with the financial covenants as of December 31, 2013 had the amendment not been completed.

### PART III

#### ITEM 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item appears under the caption "Our Executive Officers" in Part 1, Item 1 -- Business, and under the captions "Election of Directors", "Board of Directors", "Code of Ethics" and "Section 16(a) Beneficial Ownership Compliance" in our definitive proxy statement for our 2014 annual meeting of stockholders which will be filed with the SEC within 120 days after the close of our fiscal year, and is incorporated herein by reference.

#### ITEM 11 - EXECUTIVE COMPENSATION

Information required by this item appears under the captions "Executive Compensation," and "Directors' Compensation", in our definitive proxy statement for our 2014 annual meeting of stockholders which will be filed with the SEC within 120 days after the close of our fiscal year, and is incorporated herein by reference.

#### ITEM 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We maintain a number of equity compensation plans for employees, officers, directors and others whose efforts contribute to our success. The table below sets forth certain information as of our fiscal year ended December 31, 2013 regarding the shares of our common stock available for grant or granted under stock option plans that (i) were approved by our stockholders, and (ii) were not approved by our stockholders.

## Equity Compensation Plan Information.

Plan Category	Number Of	Weighted-Average	Number Of
	Securities		Securities
	To Be Issued	Exercise Price Of	Remaining
	Upon Exercise Of	Outstanding	Available For
	Outstanding	Options	Future
	Options		Issuance
	(a)	(b)	Under Equity
			Compensation
			Plans
			(excluding
			securities
			reflected in
			column (a))
			(c)
Equity compensation plans approved by security holders(1)	2,585,000	\$ 0.35	3,615,000
Equity compensation plans not approved by security holders	---	---	---
Total:	2,585,000	\$ 0.35	3,615,000

- (1) Includes the 2009 Stock Option Plan and the 2009 Directors Stock Option Plan. These plans were approved by the shareholders at the 2010 annual meeting. At the 2013 annual meeting, shareholders approved an increase to the total number of shares available for issuance for the 2009 Stock Option Plan. The new number of shares is 5,500,000. At the 2013 annual meeting, shareholders approved an increase to the total number of shares available for issuance for the 2009 Directors Stock Option Plan. The new number of shares is 700,000. The purposes of the 2009 Stock Option Plan are to attract and retain employees and provide an incentive for them to assist us in achieving our long-range performance goals, and to enable such employees to participate in our long-term growth. The purposes of the 2009 Directors Stock Option Plan is to attract and retain non-employee directors and to enable such directors to participate in our long-term growth. The 2009 Stock Option Plan and the 2009 Directors Stock Option Plan are administered by the Compensation Committee of the Board of Directors. All stock options granted under the 2009 Stock Option Plan and the 2009 Directors Stock Option Plan have been granted with an exercise price equal to at least the fair market value of the common stock on the date of grant.

The additional information required by this Item 12 of Form 10-K is hereby incorporated by reference to the information in our Definitive Proxy Statement for our 2014 annual meeting of Stockholders to be filed with the SEC within 120 days after the close of our fiscal year and is incorporated herein by reference.

## ITEM 13 – CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Any information required by this item may appear under the caption "Certain Relationships and Related Transactions" and "Board of Directors" in our Definitive Proxy Statement for our 2013 annual meeting of Stockholders to be filed with the SEC within 120 days after the close of our fiscal year and is incorporated herein by reference.

## ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The firm of Marcum LLP served as our independent registered public accounting firm for fiscal years 2012 and 2013. The table below shows the aggregate fees that the Company paid or accrued for the audit and other services provided by Marcum LLP for the fiscal years ended December 31, 2012 and December 31, 2013:

FEE CATEGORY	2012	2013
Audit fees (1)	\$ 114,000	\$ 114,000
Audit-related fees (2)	—	9,881
Tax fees (3)	—	—
Total fees	\$ 114,000	\$ 123,881

(1) Audit Fees. Consists of fees billed for professional services rendered for the audit of Zoom's financial statements and review of the interim financial statements included in quarterly reports and services that are normally provided in connection with statutory filings and engagements.

(2) Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Zoom's financial statements and are not reported under "Audit Fees". For 2013, fees are related to a stock rights offering.

(3) Tax Fees. Consists of fees billed for professional services for tax compliance, tax advice and tax planning. Marcum LLP has not performed tax services for the Company.

All services rendered by Marcum LLP for fiscal years 2012 and 2013 were permissible under applicable laws and regulations, and were pre-approved by the Audit Committee.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES \*

- (a) Financial Statements, Schedules and Exhibits:
- (1),(2) The financial statements and required schedules are indexed on page F-1.
- (3) Exhibits required by the Exhibit Table of Item 601 of SEC Regulation S-K. (Exhibit numbers refer to numbers in the Exhibit Table of Item 601.)
- 2.1 Separation and Distribution Agreement by and between Zoom Technologies, Inc. and Zoom Telephonics, Inc. (incorporated by reference to annex B of the preliminary proxy statement filed by Zoom Technologies, Inc. May 13, 2009).\*
- 3.1 Form of Amended and Restated Certificate of Incorporation of Zoom Telephonics, Inc. (incorporated by referenced to Exhibit 3.1 to Zoom Telephonics, Inc. Registration Statement on Form 10, filed with the Commission on September 4, 2009). \*
- 3.2 By-Laws of Zoom Telephonics, Inc. (incorporated by referenced to Exhibit 3.2 to Zoom Telephonics, Inc. Registration Statement on Form 10 filed with the Commission on September 4, 2009).\*
- 10.1 Share Exchange Agreement dated January 28, 2009 by and among Zoom Technologies, Inc., Zoom Telephonics, Inc., Lei Gu, Gold Lion Holding Limited and Tianjin Ton Guang Group Digital Communications Co., Ltd. (previously filed as exhibit 2.1 to the Form 8-K dated February 3, 2009 by Zoom Technologies, Inc.).\*
- 10.2 License Agreement between Zoom Telephonics, Inc. and Ton Guang Group Digital Communications Co., Ltd. (previously filed as exhibit 10.2 to the Form 8-K dated February 3, 2009 by Zoom Technologies, Inc.)\*
- 10.3 Amendment to Share Exchange Agreement by and among Zoom Technologies, Inc., Zoom Telephonics, Inc., Lei Gu, Songtao Du, Gold Lion Holding Limited and Tianjin Ton Guang Group Digital Communications Co., Ltd. dated May 12, 2009 (incorporated by reference to annex A-1 of the preliminary proxy statement filed by Zoom Technologies, Inc. May 13, 2009)\*
- 10.4 Zoom Telephonics, Inc. 2009 Stock Option Plan (incorporated by reference to Appendix B to the Definitive Proxy Statement filed with the Commission on April 30, 2013).\* \*\*
- 10.5 Zoom Telephonics, Inc. 2009 Directors Stock Option Plan (incorporated by reference to Appendix C to the Definitive Proxy Statement filed with the Commission on April 30, 2013).\* \*\*
- 10.6 Form of director option grant pursuant to Zoom Telephonics, Inc. 2009 Directors Stock Option Plan (incorporated by reference to Exhibit 4.3 to the Form 8-K dated December 16, 2009).\* \*\*

10.7 Form of incentive stock option grant pursuant to Zoom Telephonics, Inc. 2009 Stock Option Plan (incorporated by reference to Exhibit 4.4 to the Form 8-K dated December 16, 2009).\*  
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10.8 Form of non-qualified stock option grant pursuant to Zoom Telephonics, Inc. 2009 Stock Option Plan (incorporated by reference to Exhibit 4.5 to the Form 8-K dated December 16, 2009).\*

10.9 Standard lease by and between 201-207 South Street LLC and Zoom Telephonics, Inc. on December 22, 2006 to lease space for 24 months for headquarters offices (incorporated by reference to Exhibit 10.18 to Zoom Technologies, Inc.'s Annual Report on Form 10-K on March 30, 2007)\*

- 10.10 First Amendment to Lease, Surrender and Extension Agreement dated November 11, 2008 between 201-207 South Street LLC and Zoom Telephonics, Inc. (incorporated by reference to Exhibit 10.29 to Zoom Technologies, Inc.'s Annual Report on Form 10-K on March 12, 2009)\*
- 10.11 Binding Lease Amendment dated May 24, 2010 (incorporated by reference to Exhibit 10.1 to the 10-Q filed on August 13, 2010)\*
- 10.12 Third Amendment to Lease and Surrender Agreement, dated as of December 1, 2011, between 201-207 South Street LLC and Zoom Telephonics, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 13, 2012)\*
- 10.13 Severance Agreement between Zoom Telephonics, Inc. and Frank B. Manning (incorporated by reference to Exhibit 10.1 to the 10-Q filed on May 14, 2010)\* \*\*
- 10.14 Severance Agreement between Zoom Telephonics, Inc. and Deena Randall (incorporated by reference to Exhibit 10.3 to the 10-Q filed on May 14, 2010)\* \*\*
- 10.15 Severance Agreement between Zoom Telephonics, Inc. and Terry Manning (incorporated by reference to Exhibit 10.4 to the 10-Q filed on May 14, 2010)\* \*\*
- 10.16 Binding Letter Agreement by and between Jiangsu Leimone Electronics Co., Ltd., Zoom Technologies, Inc., Zoom Telephonics, Inc., Tianjin Tong Guang Group Digital Communication Co. Ltd, dated as of October 18, 2010 (incorporated by reference to Exhibit 10.1 to the 8-K dated October 22, 2010)\*
- 10.17 License Agreement by and between Zoom Telephonics, Inc. and Jiangsu Leimone Electronics Co., Ltd., dated as of October 18, 2010 (incorporated by reference to Exhibit 10.1 to the 8-K dated October 22, 2010)\*
- 10.18 Domain Assignment and Transfer Agreement by and between Zoom Telephonics, Inc. and Jiangsu Leimone Electronics Co., Ltd., dated as of October 18, 2010 (incorporated by reference to Exhibit 10.1 to the 8-K dated October 22, 2010)\*
- 10.19 Trademark Purchase and Assignment Agreement by and between Zoom Telephonics, Inc. and Jiangsu Leimone Electronics Co., Ltd., dated as of October 18, 2010 (incorporated by reference to Exhibit 10.1 to the 8-K dated October 22, 2010)\*
- 10.20 License Back Agreement in the Peoples Republic of China by and between Jiangsu Leimone Electronics Co., Ltd. and Zoom Telephonics, Inc., dated as of October 18, 2010 (incorporated by reference to Exhibit 10.1 to the 8-K dated October 22, 2010)\*

10.21	Loan and Security Agreement, dated April 10, 2012, between Zoom Telephonics, Inc. and Silicon Valley Bank (incorporated by reference to Exhibit 10.1 to the Form 8-K dated April 13, 2012)*
10.22	Intellectual Property Security Agreement, dated April 10, 2012, between Zoom Telephonics, Inc. and Silicon Valley Bank (incorporated by reference to Exhibit 10.2 to the Form 8-K dated April 13, 2012)*
10.23	Financing Agreement, dated December 18, 2012, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K dated December 21, 2012)*
10.24	Intellectual Property Security Agreement, dated December 18, 2012, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.2 to the Form 8-K dated December 21, 2012)*
<u>10.25</u>	Amendment dated March 25, 2014, effective January 1, 2013, to Financing Agreement, dated December 18, 2012, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc.
<u>21.1</u>	Subsidiaries
<u>23.1</u>	Independent Registered Public Accounting Firm's Consent
<u>31.1</u>	CEO and CFO Certification, Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	CEO and CFO Certification, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

\*\* Compensation Plan or Arrangement.

(b) Exhibits - See Item 15 (a) (3) above for a list of Exhibits incorporated herein by reference or filed with this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ZOOM TELEPHONICS, INC.  
(Registrant)

Date: March 31, 2014

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Frank B. Manning Frank B. Manning	Principal Executive Officer, Principal Financial Officer and Chairman of the Board	March 31, 2014
/s/ Peter R. Kramer Peter R. Kramer	Director	March 31, 2014
/s/ Bernard Furman Bernard Furman	Director	March 31, 2014
/s/ Robert Crowley Robert Crowley	Director	March 31, 2014
/s/ Joseph Donovan Joseph Donovan	Director	March 31, 2014



ZOOM TELEPHONICS, INC.  
INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

	Page
Report of Independent Registered Public Accounting Firm (Marcum LLP)	F-2
Balance Sheets as of December 31, 2012 and 2013	F-3
Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2012, and 2013	F-4
Statements of Stockholders' Equity for the years ended December 31, 2012 and 2013	F-5
Statements of Cash Flows for the years ended December 31, 2012 and 2013	F-6
Notes to Financial Statements	F-7 – F-18

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors and Stockholders of  
Zoom Telephonics, Inc:

We have audited the accompanying balance sheets of Zoom Telephonics, Inc. (the "Company") as of December 31, 2013 and 2012, and the related statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Zoom Telephonics, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Notes 1 and 3 to the financial statements, the Company has had recurring net losses and continues to experience negative cash flows from operations. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Notes 1 and 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

MARCUM LLP  
Boston, Massachusetts  
March 31, 2014

ZOOM TELEPHONICS, INC.  
BALANCE SHEETS

	December 31,	
	2012	2013
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 195,704	\$ 55,393
Marketable securities	44,000	—
Accounts receivable, net of allowances of \$811,897 at December 31, 2012 and \$640,456 at December 31, 2013	1,966,334	1,674,812
Inventories	2,630,386	1,714,081
Prepaid expenses and other current assets	261,688	225,152
<b>Total current assets</b>	<b>5,098,112</b>	<b>3,669,438</b>
Equipment, net	26,045	51,025
<b>Total assets</b>	<b>\$ 5,124,157</b>	<b>\$ 3,720,463</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Bank debt	\$ 910,807	\$ 318,318
Accounts payable	931,607	693,546
Accrued expenses	379,841	322,410
<b>Total current liabilities</b>	<b>2,222,255</b>	<b>1,334,274</b>
<b>Total liabilities</b>	<b>2,222,255</b>	<b>1,334,274</b>
Commitments and Contingencies (Note 6)		
Stockholders' equity		
Common stock, \$0.01 par value:		
Authorized - 25,000,000 shares; issued and outstanding – 6,973,704 shares at December 31, 2012 and 7,982,704 shares at December 31, 2013	69,737	79,827
Additional paid-in capital	33,904,003	34,177,779
Accumulated deficit	(31,170,788)	(32,235,772)
Accumulated other comprehensive income (loss)	98,950	364,355
<b>Total stockholders' equity</b>	<b>2,901,902</b>	<b>2,386,189</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 5,124,157</b>	<b>\$ 3,720,463</b>

See accompanying notes.

ZOOM TELEPHONICS, INC.  
 STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
 Years Ended December 31, 2012 and 2013

	2012	2013
Net sales	\$ 14,691,186	\$ 11,241,164
Cost of goods sold	11,056,893	8,139,084
Gross profit	3,634,293	3,102,080
Operating expenses:		
S Selling	1,906,711	1,572,632
General and administrative	1,252,654	1,316,402
Research and development	1,154,810	919,722
	4,314,175	3,808,756
Operating profit (loss)	(679,882)	(706,676)
Other:		
I Interest income	112	39
Other income (expense), net	(49,180)	(354,403)
Total other income (expense), net	(49,068)	(354,364)
Income (loss) before income taxes	(728,950)	(1,061,040)
I Income taxes (benefit)	3,392	3,944
Net income (loss)	\$ (732,342)	\$ (1,064,984)
Other comprehensive income (loss):		
Foreign currency translation adjustments	11,660	(7,504)
Unrealized gain (loss) for the period	(38,280)	272,909
Total comprehensive income (loss)	\$ (758,962)	\$ (799,579)
Basic and diluted net income (loss) per share	\$ (0.11)	\$ (0.14)
Weighted average common and common equivalent shares:		
Basic and Diluted	6,973,704	7,363,482

See accompanying notes.

ZOOM TELEPHONICS, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock				Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount	Additional Paid In Capital	Accumulated Deficit		
Balance at January 1, 2012	6,973,704	\$69,737	\$33,864,793	\$(30,438,446)	\$ 125,570	\$3,621,654
Net income (loss)	—	—	—	(732,342 )	—	(732,342 )
Total other comprehensive income (loss)	—	—	—	—	(26,620 )	(26,620 )
Stock based compensation	—	—	39,210	—	—	39,210
Balance at December 31, 2012	6,973,704	\$69,737	\$33,904,003	\$(31,170,788)	\$ 98,950	\$2,901,902
Net income (loss)	—	—	—	(1,064,984 )	—	(1,064,984)
Total other comprehensive income (loss)	—	—	—	—	265,405	265,405
Stock rights offering (net of issuance costs of \$33,843)	1,009,000	10,090	238,587	—	—	248,677
Stock based compensation	—	—	35,189	—	—	35,189
Balance at December 31, 2013	7,982,704	\$79,827	\$34,177,779	\$(32,235,772)	\$ 364,355	\$2,386,189

See accompanying notes.

ZOOM TELEPHONICS, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2012 and 2013

	2012	2013
Operating activities:		
Net income (loss)	\$ (732,342)	\$ (1,064,984)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation	39,210	35,189
Depreciation and amortization	14,082	9,777
Provision for accounts receivable allowances	19,154	11,211
Provision for inventory reserves	(155,223)	(390,140)
Reclassification out of Accumulated Other Comprehensive Income (Loss)	—	272,909
Changes in operating assets and liabilities:		
Accounts receivable	(580,500)	277,754
I Inventories	247,621	1,306,445
P Prepaid expense and other current assets	(73,771)	35,105
Accounts payable and accrued expenses	(117,458)	(297,325)
Net cash provided by (used in) operating activities	(1,339,227)	195,941
I Investing activities:		
P Purchases of property, plant and equipment	(19,959)	(34,757)
Proceeds from sale of marketable securities	—	39,983
Net cash provided by (used in) investing activities	(19,959)	5,226
Financing activities:		
Proceeds from stock rights offering (net of issuance costs)	—	248,677
Net funds (to) from bank credit lines	910,807	(592,489)
Net cash provided by (used in) financing activities	910,807	(343,812)
Effect of exchange rate changes on cash	(282)	2,334
Net change in cash	(448,661)	(140,311)
Cash and cash equivalents at beginning of year	644,365	195,704
Cash and cash equivalents at end of year	\$ 195,704	\$ 55,393
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
I Interest	\$ 49,358	\$ 68,128
I Income taxes	\$ 3,392	\$ 3,944

See accompanying notes.

F-6

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ZOOM TELEPHONICS, INC.  
Notes to Financial Statements  
Years Ended December 31, 2012 and 2013

(1) NATURE OF OPERATIONS

Zoom Telephonics, Inc. (the "Company") designs, produces, and markets broadband and dial-up modems and other communication-related products.

The Company has had recurring net losses and continues to experience negative cash flows from operations. As described further in Note 3, to conserve cash and manage liquidity, the Company has implemented cost cutting initiatives including the reduction of employee headcount and overhead costs; however, 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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results may differ from those estimates. Significant estimates made by the Company include: 1) allowance for doubtful accounts for accounts receivable (collectability and sales returns) and asset valuation allowance for deferred income tax assets; 2) write-downs of inventory for slow-moving and obsolete items, and market valuations; and 3) stock based compensation.

(b) Cash and Cash Equivalents

All highly liquid investments with original maturities of less than 90 days from the date of purchase are classified as cash equivalents. Cash equivalents consist exclusively of money market funds. The Company has deposits at a limited number of financial institutions with federally insured limits. Balances of cash and cash equivalents at these institutions are normally in excess of the insured limits. However, the Company believes that the institutions are financially sound and there is only nominal risk of loss.

(c) Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Consigned inventory is held at third-party locations. The Company retains title to the inventory until purchased by the third-party. Consigned inventory, consisting of finished goods, was approximately \$305,000 and \$489,000 at December 31, 2013



and 2012, respectively.

(d) Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost, less accumulated depreciation and amortization. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is provided using the straight-line method over the estimated useful lives of the improvement or lease term, whichever is shorter.

F-7

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## (e) Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to undiscounted future net cash flows expected to be generated by the asset or asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

## (f) Income Taxes

Deferred income taxes are provided on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and on net operating loss and tax credit carry forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided for that portion of deferred tax assets not expected to be realized.

## (g) Earnings (Loss) Per Common Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares outstanding during the period. 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 common shares at the average market price during the period. A summary of the denominators used to compute basic and diluted earnings (loss) per share follow:

	2012	2013
Weighted average shares outstanding – used to compute basic earnings (loss) per share	6,973,704	7,363,482
Net effect of dilutive potential common shares outstanding, based on the treasury stock method	—	—
Weighted average shares outstanding – used to compute diluted earnings (loss) per share	6,973,704	7,363,482

Potential common shares for which inclusion would have the effect of increasing diluted earnings per share (i.e., anti-dilutive) are excluded from the computation. Options to purchase 2,585,000 shares of common stock at December 31, 2013 and 1,083,750 shares of common stock as of December 31, 2012 were outstanding, but not included in the computation of diluted earnings per share as their effect would be anti-dilutive.

## (h) Revenue Recognition

The Company primarily sells hardware products to its customers. The hardware products include dial-up modems, DSL modems, cable modems, embedded modems, ISDN modems, telephone dialers, and wireless and wired networking equipment. The Company generally does not sell software.

The Company derives its net sales primarily from the sales of hardware products to computer peripherals retailers, computer product distributors, and original equipment manufacturers (OEMs). The Company sells an immaterial amount of its hardware products to direct consumers or to any customers via the internet.

The Company recognizes net hardware sales for all four types of customers at the point when the customers take legal ownership of the delivered products. Legal ownership passes to the customer based on the contractual FOB point specified in signed contracts and purchase orders, which are both used extensively. Many customer contracts or purchase orders specify FOB destination.

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

The Company's net sales of hardware are reduced by 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 and in-store mail-in rebates. Each of these is accounted for as a reduction of net sales based on management estimates, which are reconciled to actual customer or end-consumer credits on a monthly or quarterly basis.

The estimates for product returns are based on recent historical trends plus estimates for returns prompted by announced stock rotations, announced customer store closings, etc. Management analyzes historical returns, current economic trends, and changes in customer demand and acceptance of the Company's products when evaluating the adequacy of sales return allowances. The Company's estimates for price protection refunds require a detailed understanding and tracking by customer, 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 reserve against accounts receivable and a reduction of current period revenue. The Company's estimates for consumer mail-in rebates are comprised of actual rebate claims processed by the rebate redemption centers plus an accrual for an estimated lag in processing. The Company's estimates for store rebates are comprised of actual credit requests from the eligible customers.

The Company accounts for point-of-sale taxes on a net basis.

(i) Fair Value of Financial Instruments

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities. The Company has the ability to access.

Level 2 - Inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 - Inputs include unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

Financial instruments consist of cash and cash equivalents, marketable securities, accounts receivable, bank debt, accounts payable, and accrued expenses. Due to the short term nature and payment terms associated with these instruments, except the marketable securities, their carrying amounts approximate fair value. The fair value of the marketable securities is based on observable inputs that reflect quoted prices in an active market and is classified under Level 1 of the fair value hierarchy described above at December 31, 2013 and 2012. Unrealized gains or losses resulting from changes in the fair value of marketable securities were charged or credited to "accumulated other comprehensive income," until sale of these marketable securities in 2013.

(j) Stock-Based Compensation

Compensation cost for awards is generally recognized over the required service period based on the estimated fair value of the awards on their grant date. Fair value is determined using the Black-Scholes option-pricing model.

(k) Advertising Costs

Advertising costs are expensed as incurred and reported in selling expense in the accompanying statements of operations and comprehensive income (loss), and include costs of advertising, production, trade shows, and other activities designed to enhance demand for the Company's products. There are no deferred advertising costs in the accompanying balance sheets. The Company reported advertising costs of \$300.5 thousand in 2012 and \$247.5 thousand in 2013.

F-9

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(l) Foreign Currencies

The Company generates a portion of its revenues in markets outside North America principally in transactions denominated in foreign currencies, which exposes the Company to risks of foreign currency fluctuations. Foreign currency transaction gains and losses are reflected in operations and were not material for any period presented. The Company does not use derivative financial instruments.

The Company considers the local currency to be the functional currency for its U.K. branch. Assets and liabilities denominated in foreign currencies are translated using the exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the year. Translation adjustments resulting from this process are charged or credited to “accumulated other comprehensive income.”

(m) Warranty Costs

The Company provides for the estimated costs that may be incurred under its standard warranty obligations, based on actual historical repair costs. The reserve for the provision for warranty costs was \$52,683 and \$38,098 at December 31, 2012 and 2013, respectively.

(n) Shipping and Freight Costs

The Company records the expense associated with customer-delivery shipping and freight costs in selling expense. The Company reported shipping and freight costs of \$234.6 thousand in 2012 and \$191.7 thousand in 2013.

(o) Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update on the reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting. These reclassifications present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income-but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This standard update is effective for reporting periods beginning after December 15, 2012. As this guidance only revises the presentation and disclosures related to the reclassification of items out of accumulated other comprehensive income (loss), the Company’s adoption of this guidance did not affect its financial position, results of operations or cash flows. See Note (15) – Reclassifications Out of Accumulated Other Comprehensive Income (Loss), which presents the disclosures required by this update.

(p) Reclassifications

Certain reclassifications have been made to the prior year’s financial statements to conform to the 2013 presentation. The reclassifications relate to the presentation of changes in accounts receivable and inventory on the statements of cash flows.

(q) Contingencies

The Company reviews the status of its legal proceedings and records a provision for a liability when it is considered probable that both a liability has been incurred and the amount of the loss can be reasonably estimated. This review is updated periodically as additional information becomes available. If either or both of the criteria are not met, the Company reassesses whether there is at least a reasonable possibility that a loss, or additional losses, may be incurred. If there is a reasonable possibility that a loss may be incurred, the Company discloses the estimate of the amount of the loss or range of losses, that the amount is not material, or that an estimate of loss cannot be made. The Company

expenses its legal fees as incurred.

In assessing potential loss contingencies, the Company considers a number of factors, including those listed in the FASB's Accounting Standards Codifications 450-20, Contingencies – Loss Contingencies, regarding assessing the probability of a loss and assessing whether a loss is reasonably estimable.

(3) LIQUIDITY

On December 31, 2013 we had working capital of \$2.3 million including \$55 thousand in cash and cash equivalents. On December 31, 2012 we had working capital of \$2.9 million including \$0.2 million in cash and cash equivalents. Our current ratio at December 31, 2013 was 2.8 compared to 2.3 at December 31, 2012.

In 2013, the Company's operating activities used \$0.1 million in cash, primarily due to a net loss of \$1.1 million, offset by a \$0.9 million decrease in inventory. In 2012, the Company's operating activities used \$1.3 million in cash, primarily to fund an increase of \$0.7 million in gross receivables and a net loss of \$0.7 million. In 2013, the Company's net cash was used in financing activities to reduce bank debt by \$0.6 million. Also in 2013, the Company increased net cash in financing activities by \$0.2 million from the net proceeds of a rights offering completed in August 2013. Under the rights offering, existing shareholders of the Company's common stock were granted rights to purchase, at an offering price of \$0.28 per share, one share of stock for each share held. The rights offering resulted in the issuance of 1,009,000 shares of common stock. In 2012, the Company's net cash provided by financing activities was \$0.9 million resulting from an increase in bank debt.

To conserve cash and manage our liquidity, we have implemented cost-cutting initiatives including the reduction of employee headcount and overhead costs. On December 31, 2013 we had a headcount of 28 compared to 30 as of December 31, 2012. As of February 28, 2014 we had 27 full-time and part-time employees, 1 part-time temporary employee and 2 consultants, one in sales and one in IT that were not included in our headcount. We plan to continue to assess our cost structure as it relates to our revenues and cash position, and we may make further reductions if the actions are deemed necessary.

On April 10, 2012 Zoom Telephonics, Inc. entered into a Loan and Security Agreement with Silicon Valley Bank (the "Loan Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated April 13, 2012. The Loan Agreement provided for up to \$1 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Loan Agreement. The Loan Agreement had a one year term which was set to expire April 9, 2013. Borrowings were secured by all of Zoom's assets including Zoom's intellectual property. We used a portion of the proceeds from the financing arrangement with Rosenthal & Rosenthal, Inc., as described below, to pay off our existing loan of \$879,047 with Silicon Valley Bank. On December 19, 2012, the Loan Agreement with Silicon Valley Bank was terminated upon payment in full by us of all amounts owed under such agreement.

On December 18, 2012, Zoom Telephonics, Inc. ("Zoom") entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated December 21, 2012. The Financing Agreement provides for up to \$1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of Zoom's assets including Zoom's intellectual property. The Loan Agreement contained several covenants, including a requirement that we maintain a tangible net worth not less than \$2.5 million and working capital not less than \$2.5 million. On March 25, 2014, we 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 such that we are required to maintain tangible net worth of not less than \$2.0 million and working capital of not less than \$1.75 million.

There is 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, 2013 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.

At December 31, 2013 the Company's total current assets were \$3.7 million and current liabilities were \$1.3 million, which included \$0.3 million in bank debt. The Company did not have any long-term debt at December 31, 2013.

#### (4) INVENTORIES

Inventories, net of reserves, consist of the following at December 31:

	2012	2013
Materials	\$ 720,113	\$ 440,723
Finished goods (including \$489,400 and \$304,500 held by customers at December 31, 2012 and 2013, respectively)	1,910,273	1,273,358
Total	\$ 2,630,386	\$ 1,714,081

The Company reviews inventory for obsolete and slow moving products each quarter and makes provisions based on our estimate of the probability that the material will not be consumed or that it will be sold below cost. The reserve for the provision for slow moving and obsolete inventory was \$750,764 and \$360,624 at December 31, 2012 and 2013,



respectively.

F-11

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## (5) EQUIPMENT

Equipment consists of the following at December 31:

	2012	2013	Estimated Useful lives in years
Computer hardware and software	\$ 190,339	\$ 194,528	3
Machinery and equipment	254,533	254,533	5
Molds, tools and dies	42,460	78,257	5
Office furniture and fixtures	44,138	38,938	5
	531,470	566,256	
Accumulated depreciation and amortization	(505,425)	(515,231)	
Equipment and leasehold improvements, net	\$ 26,045	\$ 51,025	
Depreciation expense for year ended	\$ 14,082	\$ 9,777	

## (6) COMMITMENTS AND CONTINGENCIES

## (a) Lease Obligations

Since 1983 the Company's headquarters has been near South Station in downtown Boston at 201 and 207 South Street. In December 2006, the Company sold its owned headquarters buildings in Boston, Massachusetts and leased back 25,200 square feet for two years expiring December 2008. In November 2008 the Company signed a lease amendment for its headquarters' offices in Boston in the existing building for approximately 14,400 square feet for three years with a six month termination option starting July 1, 2010. In May 2010 the Company 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 the Company signed a third lease amendment reducing the Company lease space by 3,800 square feet effective June 1, 2012, with a proportionate decrease in lease expense.

In August 1996 the Company entered into a lease for a 77,428 square feet manufacturing and warehousing facility at 645 Summer Street, Boston, MA. The term of this lease expired in August 2006 and the Company began the planned move of its manufacturing and warehousing facility to Tijuana, Mexico. In August 2006 the Company 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 the Company renegotiated the first renewal term and signed a one-year extension starting in May 2007, with five two-year options thereafter. The Company signed another one-year extension starting in May 2008. In March 2009 the Company signed a one-year lease with one one-year option for a smaller facility for lower cost. In March 2011 the Company signed a one-year lease extension starting May 1, 2011, with three one-year renewal options thereafter. In April 2012 the Company exercised the first of three renewal options, with no change in lease cost. In February 2013 the Company exercised the second of three renewal options, with no increase in lease cost.

In September 2005 the Company entered into a two year office lease consisting of 2,400 square feet at 2 Kings Road, Fleet, Hants, U.K. for its U.K. sales office. In September 2007 the lease was continued on a month-to-month basis with a 3 month cancellation notice required by the Company or the landlord. In September 2008 the Company signed an Office Service Agreement, which is an office rental agreement, rather than a lease. The rent is paid monthly, with a three month cancellation notice period. The Company cancelled its Office Service Agreement effective October 31, 2011. The Company has one U.K. employee that works from home.



Rent expense for all of the Company's leases was \$295.8 thousand in 2012 and \$277.2 thousand in 2013.

As of December 31, 2013, the Company's estimated future minimum committed rental payments, excluding executory costs, under the operating leases described above to their expiration or the earliest possible termination date, whichever is sooner, are \$187.9 thousand for 2014. There are no future minimum committed rental payments that extend beyond 2014.

(b) Contingencies

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 which 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, results of operations or cash flows.

On October 15, 2012 Telecom innovations LLC files a complaint against Zoom Telephonics and at least 23 other companies including Dell Inc., various dial-up modem producers, and many fax machine produces. The complaint related to dial-up modems and alleged that Zoom infringed upon Telecomm Innovation patents. Zoom believed that it was licensed for these patents already through its modem chipset suppliers. On January 22, 2014, a Stipulation of Dismissal was filed for the case and the case has been closed pursuant to a resolution of the dispute between Zoom and Telecomm Innovations.

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

On November 6, 2013 Innovative Wireless Solutions, LLC ("IWS") filed a complaint against Zoom Telephonics alleging infringement of U.S. Patents Nos. 5,912,895, 6,327,264, and 6,587,473 all entitled "Information Network Access Apparatus and Methods of Communicating Information packets via Telephone Links." The Complaint asserts that Zoom sells products with "wireless access points and/or routers capable of connecting to an Ethernet network and an IEEE 802.11 wireless network to provide wireless Internet access." The case is in its early stages and a Scheduling conference is currently set for May 22, 2014. Management is unable to reasonably estimate any potential outcome at this time.

(7) STOCK OPTION PLANS

On December 10, 2009, the Company established two stock option plans. The Board of Directors approved the two plans called the 2009 Stock Option Plan and the 2009 Directors Stock Option Plan and these plans received shareholder approval at the Company's 2010 annual meeting. In 2013, these plans received shareholder approval to increase the number of shares available for issuance in each plan. The new number of authorized shares available for issuance is indicated below. Further, these plans are described below.

2009 Stock Option Plan

The 2009 Stock Option Plan is for officers and certain full-time and part-time employees of the Company. Non-employee directors of the Company are not entitled to participate under this plan. The 2009 Stock Option Plan provides for 5,500,000 shares of common stock for issuance upon the exercise of stock options granted under the plan.

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Under this plan, stock options are granted at the discretion of the Compensation Committee of the Board of Directors at an option price not less than the fair market value of the stock on the date of grant. The options are exercisable in accordance with terms specified by the Compensation Committee not to exceed ten years from the date of grant.

Option activity under this plan follows.

	Number of shares	Weighted average exercise price
Balance as of January 1, 2012	970,000	\$ 0.51
Granted	—	—
Exercised	—	—
Expired	—	—
Balance as of December 31, 2012	970,000	\$ 0.51
Granted	1,505,000	\$ 0.25
Exercised	—	—
Expired	(160,000)	0.25
Balance as of December 31, 2013	2,315,000	\$ 0.35

There were no options granted in 2012. The weighted average grant date fair value of options granted was \$0.03 in 2013. The aggregate intrinsic value of options outstanding was zero at December 31, 2013. The aggregate intrinsic fair value of exercisable options was zero at December 31, 2013.

The following table summarizes information about fixed stock options under the 2009 Stock Option Plan outstanding on December 31, 2013.

Exercise Prices	Number Outstanding	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price
\$ 0.53	555,000	.11	\$ 0.53	555,000	\$ 0.53	
\$ 0.48	365,000	1.30	\$ 0.48	365,000	\$ 0.48	
\$ 0.25	1,395,000	4.10	\$ 0.25	348,750	\$ 0.25	
0.25 to						
\$ 0.53	2,315,000	2.70	\$ 0.35	1,268,750	\$ 0.44	

#### 2009 Director Stock Option Plan

On December 10, 2009 the Company established the 2009 Director Stock Option Plan (the "Directors Plan"). The Directors Plan was established for all directors of the Company except for any director who is a full-time employee or full-time officer of the Company. The option price is the fair market value of the common stock on the date the option is granted. There are 700,000 shares authorized for issuance under the Directors Plan. Each option expires five years from the grant date. Option activity under this plan follows.

	Number of shares	Weighted average exercise price
Balance as of January 1, 2012	150,000	0.38
Granted	60,000	0.26
Exercised	—	—
Expired	—	—
Balance as of December 31, 2012	210,000	0.35
Granted	60,000	0.18
Exercised	—	—
Expired	—	—
Balance as of December 31, 2013	270,000	\$ 0.31

The weighted average grant date fair value of options granted was \$0.12 in 2012 and \$0.06 in 2013. The aggregate intrinsic value of options outstanding was zero at December 31, 2013. The aggregate intrinsic fair value of exercisable options was zero at December 31, 2013.

The following table summarizes information about fixed stock options under the Directors Plan on December 31, 2013.

Exercise Prices	Number Outstanding	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
		Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable	Weighted Average Exercise Price
\$ 0.16-0.20	60,000	4.40	\$ 0.18	60,000	\$ 0.18	

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\$	0.25-0.26	60,000	3.40	\$	0.26	60,000	\$	0.26
\$	0.27-0.41	60,000	1.40	\$	0.34	60,000	\$	0.34
\$	0.35-0.36	60,000	2.40	\$	0.36	60,000	\$	0.36
\$	0.53	30,000	1.00	\$	0.53	30,000	\$	0.53
\$	0.16-0.53	270,000	2.7	\$	0.35	270,000	\$	0.31

F-14

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The Black-Scholes range of assumptions for the Zoom Telephonics' options for 2013 and 2012 are shown below:

Assumptions	2009 Stock Option Plan and the 2009 Directors Stock Option Plan
Expected life	2.75 (yrs) - 3.5 (yrs)
Expected volatility	49.23% - 67.08%
Risk-free interest rate	0.35% - 1.88%
Expected dividend yield	0.00%

The unrecognized stock based compensation expense related to non-vested stock awards was approximately \$11 thousand as of December 31, 2013. This amount will be recognized through the first quarter of 2015.

#### (8) INCOME TAXES

Income tax expense (benefit) consists of:

	Current	Deferred	Total
Year Ended December 31, 2012:			
US federal	\$ —	\$ —	\$ —
S State and local	—	—	—
F Foreign	3,392	—	3,392
	\$ 3,392	\$ —	\$ 3,392
Year Ended December 31, 2013:			
US federal	\$ —	\$ —	\$ —
S State and local	—	—	—
F Foreign	3,944	—	3,944
	\$ 3,944	\$ —	\$ 3,944

A reconciliation of the expected income tax expense or benefit to actual follows:

	2012	2013
Computed "expected" US tax (benefit) at Federal statutory rate	\$ (248,996)	\$ (362,095)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	—	—
Foreign income taxes	3,392	3,944
Valuation allowance	235,607	(126,339)
Non—deductible items	14,456	11,390
Expired State Net Operating Losses	—	477,044
Change in estimate for prior years' provisions	(1,067)	—
Income tax expense (benefit)	\$ 3,392	\$ 3,944





Temporary differences at December 31 follow:

	2012	2013
Deferred income tax assets:		
Inventories	\$ 333,315	\$ 165,225
Accounts receivable	292,846	235,207
Intangible assets	96,791	25,738
Accrued expenses	60,397	44,112
Net operating loss and tax credit carry forwards	17,792,110	17,977,742
Plant and equipment	15,378	15,018
Stock compensation	88,059	89,515
Other – investment impairments	127,855	127,855
Total deferred income tax assets	18,806,751	18,680,412
Valuation allowance	(18,806,751)	(18,680,412)
Net deferred tax assets	\$ —	\$ —

As of December 31, 2013 the Company had federal net operating loss carry forwards of approximately \$49,363,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2033. As of December 31, 2013, the Company had Massachusetts state net operating loss carry forwards of approximately \$8,069,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2014 through 2018.

The distribution of Zoom Telephonics stock to Zoom Technologies' shareholders was not intended to be a tax-free distribution governed by Section 355 of the Internal Revenue Code. A taxable distribution will generally result in taxable gain to the distributing corporation; however, Zoom Technologies' tax basis in Zoom Telephonics is believed to exceed the fair market value of that stock as of the date of distribution. In addition, even if Zoom Technologies' tax basis in the Zoom Telephonics stock was less than the fair market value of that stock as of the date of distribution, it is believed that there are sufficient net operating loss carry forwards to offset any taxable gain recognized. To the extent that either of these assumptions are incorrect, Zoom Telephonics, as the successor to Zoom Technologies, has fully indemnified TCB Digital for any pre-closing income taxes incurred, including any income tax resulting from the distribution of Zoom Telephonics. Management believes the likelihood of the Company incurring any obligation under this indemnification is remote.

Effective January 1, 2007, the Company adopted the provisions of a new standard which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon adoption and in subsequent periods. Upon the adoption, and at December 31, 2013 and 2012, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2013 and 2012.

The Company files income tax returns in the United States and the United Kingdom. Years subsequent to 2009 are open for U.S. Federal and state income tax reporting and years subsequent to 2007 are open in the United Kingdom.

The Company has not provided for U.S. income taxes related to undistributed earnings from its foreign operations at December 31, 2013, as the Company considers these earnings to be permanently reinvested. Determination of the additional income taxes and applicable withholding that would be payable on the remittance of such undistributed earnings is not practicable because such liability, if any, is dependent upon circumstances existing if and when the Company no longer considers all or a portion of such undistributed earnings to be permanently reinvested.



## (9) SIGNIFICANT CUSTOMERS

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 revenues. In 2013 three customers accounted for 69% of our total net sales with our largest customer accounting for 51% of our net sales. At December 31, 2013, three customers accounted for 84% of our gross accounts receivable, with our largest customer representing 71% of our gross accounts receivable. During 2012 three customers accounted for 67% of the Company's total net sales with our largest customer accounting for 54% of our net sales. At December 31, 2012, three customers accounted for 85% of our gross accounts receivable, with our largest customer representing 79% of our gross accounts receivable

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

## (10) SEGMENT AND GEOGRAPHIC INFORMATION

The Company's operations are classified as one reportable segment. Substantially all of the Company's operations and long-lived assets reside primarily in the United States. Net sales information follows:

	2012	Percent	2013	Percent
United States	\$ 13,424,789	91%	\$ 10,541,921	94%
Outside United States	1,266,397	9%	699,243	6%
Total	\$ 14,691,186	100%	\$ 11,241,164	100%

## (11) DEPENDENCE ON KEY SUPPLIERS AND CONTRACT MANUFACTURERS

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. If the supply of a key material component is delayed or curtailed, the Company's ability to ship the related product or solution in desired quantities and in a timely manner could be adversely affected, possibly resulting in reductions in net sales. In cases where alternative sources of supply are available, qualification of the sources and establishment of reliable supplies could result in delays and possible reduction in net sales.

In the event that the financial condition of the Company's third-party suppliers for key components was to erode, the delay or curtailment of deliveries of key material components could occur. Additionally, the Company's reliance on third-party suppliers of key material components exposes the Company to potential product quality issues that could affect the reliability and performance of its products and solutions. Any lesser ability to ship its products in desired quantities and in a timely manner due to a delay or curtailment of the supply of material components, or product quality issues arising from faulty components manufactured by third-party suppliers, could adversely affect the market for the Company's products and lead to a reduction in the Company's net sales.

In 2013 the Company had one supplier that provided 84% of the Company's purchased inventory. The loss of their services or a material adverse change in their business or in the Company's relationship could materially and adversely harm the Company's business.

F-17

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(12) RETIREMENT PLAN

The Company has a 401(k) retirement savings plan for employees. Under the plan, the Company matches 25% of an employee's contribution, up to a maximum of \$350 per employee per year. Company matching contributions charged to expense in 2012 and 2013 were \$5,164 and \$4,779, respectively.

(13) VALUATION OF MARKETABLE SECURITIES

In October 2010 Zoom Telephonics, Inc. entered into an agreement with Zoom Technologies, Inc. (Nasdaq: ZOOM) in which Zoom Telephonics transferred its rights to the zoom.com domain name and certain trademark rights in exchange for 80,000 shares of Zoom Technologies common stock. These shares had trading restrictions that ended January 18, 2012. The Company values the marketable securities at market value in the financial statements. The Company did not sell any Zoom Technologies shares in 2012. In the fourth quarter of 2013, Zoom Technologies, Inc. announced a reverse merger resulting in a 10:1 split so that the 80,000 shares became 8,000 shares. In December 2013 the Company sold all 8,000 shares of Zoom Technologies, Inc. stock. The Company received proceeds of \$40 thousand and reported a realized loss of \$273 thousand in 2013.

(14) BANK CREDIT LINES

On April 10, 2012 Zoom Telephonics, Inc. entered into a Loan and Security Agreement with Silicon Valley Bank (the "Loan Agreement"). This Loan Agreement was filed with the SEC in an 8-K dated April 13, 2012. The Loan Agreement 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 Company's most recent charge for the month of September was an annualized interest rate of 11.125%, but this may change (or decrease) depending on Zoom's balance sheet as specified in the Loan Agreement. Our outstanding bank debt at September 30, 2012 was \$796,000. 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. We used a portion of the proceeds from the financing arrangement with Rosenthal & Rosenthal, Inc., as described below, to pay off our existing loan of \$879,047 with Silicon Valley Bank. On December 19, 2012, the Loan Agreement with Silicon Valley Bank was terminated upon payment in full by us of all amounts owed under such agreement.

On December 18, 2012, we entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). The Financing Agreement provides for up to \$1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions as specified in the Financing Agreement. The Financing Agreement has a two year term. Borrowings are secured by all of our assets including our intellectual property. The Loan Agreement contained several covenants, including a requirement that we maintain a tangible net worth not less than \$2.5 million and working capital not less than \$2.5 million. On March 25, 2014, we entered into an amendment to the Financing Amendment (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 such that we are required to maintain tangible net worth of not less than \$2.0 million and working capital of not less than \$1.75 million.

(15) RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	2012	2013
Accumulated Other Comprehensive Income (Loss) Components		

Foreign currency translations:

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Balance at beginning of period	\$	360,199	\$	371,859
Current period currency translation adjustments		11,660		(7,504)
Balance at end of period	\$	371,859	\$	364,355
Marketable securities available for sale:				
Balance at beginning of period	\$	(234,629)	\$	(272,909)
Current period comprehensive income (loss)		(38,280)		(19,983)
Amounts reclassified on sales of marketable securities		—		292,892
Balance at end of period	\$	(272,909)	\$	—
Accumulated Other Comprehensive Income (Loss) end of period	\$	98,950	\$	364,355

(16) SUBSEQUENT EVENTS

Management of the Company has reviewed subsequent events from December 31, 2013 through the date of filing and concluded that there were no subsequent events requiring adjustment to or disclosure in these financial statements.

EXHIBIT INDEX

(a) Financial Statements, Schedules and Exhibits:

(1),(2) The financial statements and required schedules are indexed on page 26.

10.25 Amendment dated March 25, 2014, effective January 1, 2013, to Financing Agreement, dated December 18, 2012, between Zoom Telephonics, Inc. and Rosenthal & Rosenthal, Inc.

21. Subsidiaries

23.1 Independent Registered Accounting Firm's Consent

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

32.1 CEO and CFO Certification, Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002