SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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Zoom Telephonics, Inc.

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SIC: **3661** Telephone & telegraph apparatus

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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, 2017

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	**04-2621506**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

99 High Street, Boston, Massachusetts 02110
(Address of Principal Executive 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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑

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(Do not check if a smaller reporting company)	Emerging growth company	☐

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

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

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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, 2017, based upon the last sale price of such stock on that date as reported by the OTCQB, was $25,775,434.

The number of shares outstanding of the registrant's common stock, $0.01 par value, as of March 19, 2018 was 15,874,040 shares.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the definitive proxy statement for our 2018 annual meeting of stockholders, which is to be filed within 120 days after the end of the fiscal year ended December 31, 2017, are incorporated by reference into Part III of this Form 10-K, to the extent described in Part III.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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:

- our ability to generate sales of Motorola brand products sufficient to make that portion of our business profitable;
- the sufficiency of our capital resources and the availability of debt and equity financing;
- potential costs and senior management distraction associated with patent-related legal proceedings;
- our reliance on a limited number of customers for a large portion of our revenue;
- the effect of changes in cable service providers' policy of offering discounts when customers supply their own modem;
- product liability claims related to Connected Home products could harm our competitive position, results of operation and financial condition;
- the effect of competing technologies and the potential decline in the demand for our products;
- 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;
- our ability to succeed in the competitive broadband modem market;
- the development of new competitive technologies, products and services to meet customer demand;
- our ability to succeed in markets outside the US;
- our ability to manage inventory levels and product returns;
- our ability to produce sufficient quantities of quality products due to reliance on third party manufacturers;
- the impact of long lead times for our products and the components used in our products;
- the impact of state sales tax in states where Amazon holds our inventory in at least one of their warehouses;
- the impact of competition on demand for our products and services;
- the impact of changes in environmental and other regulations and on our ability to obtain necessary certifications for our products and services;
- changes in laws or governmental regulations and industry standards impacting our products;
- our reliance on the continued service of our Chief Executive Officer and other key employees; and
- our ability to protect our intellectual property and operate without infringing the intellectual property of others.

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 1A below as well as those discussed elsewhere in this report. We qualify all of our forward-looking statements by these cautionary statements.

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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. and its wholly owned subsidiary MTRLC LLC.

Zoom Telephonics designs, produces, markets, sells, and supports Internet access and other communications-related products including cable modems and gateways, mobile broadband modems, wireless routers, Multimedia over Coax ("MoCA") adapters, Digital Subscriber Line ("DSL") modems, and dial-up modems. 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 United States ("USA" or "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, tablets, and streaming media.

Cable modem products, including both cable modems and cable gateways, were Zoom's highest revenue product category in 2015 through 2017. Cable modems provide a high-bandwidth connection to the Internet through a cable that connects to the cable service provider's managed broadband network. When a cable modem also includes a built-in WiFi router, it is called a cable modem/router or cable gateway. We began shipping cable modems in 2000. Our primary means of distribution to end-users in the US, our primary market, is through national retailers and distributors. We continue to sell cable modem products under the Zoom brand, and beginning in 2016 we started offering cable modems and gateways under the Motorola brand. In response to demand for faster connection speeds and increased functionality including improved WiFi performance, we have invested and continue to invest resources to advance our cable modem product line.

Our mobile broadband products provide or use a high-bandwidth cell-modem connection to the Internet through access to a mobile service provider's mobile broadband network. These products target both the consumer and machine-to-machine ("M2M") markets. Zoom has sold mobile broadband modems and routers in the past, and Zoom plans to ship a Motorola Ethernet cell modem, a Motorola Ethernet cell modem/router, and a Motorola multi-sensor in 2018.

Our DSL modems provide a high-bandwidth connection to the Internet through a telephone line that typically connects to compatible DSL equipment that is managed by the DSL service provider. In past years Zoom has shipped Asymmetrical DSL ("ADSL") modems. Zoom plans to ship a new AC1600 gateway with both Very high bit-rate DSL ("VDSL") and ADSL capabilities during the first half of 2018.

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 from the mid-eighties through 2010, are expected to continue their decline due to the ongoing adoption of broadband access.

In August 2016 we extended our Motorola license to a worldwide exclusive license that includes cable modems and gateways, WiFi routers, WiFi range extenders, powerline communication devices, and related products. In August 2017 we further extended our Motorola license to a worldwide exclusive license for DSL modems and gateways, cellular modems and gateways, and MoCA products, and to a worldwide non-exclusive license for cellular sensors. We introduced under the Motorola brand two WiFi routers, one range extender, and one MoCA Adapter in 2017. In 2018 we plan to introduce under the Motorola brand one or more WiFi routers, a DSL modem/router, a cellular modem and modem/router, and a cellular multi-sensor.

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. MTRLC LLC, a wholly owned subsidiary of Zoom Telephonics, Inc., is a limited liability company organized in Delaware that focuses on the sale of our Motorola brand products. Our principal executive offices are located at 99 High Street, Boston, MA 02110, and our telephone number is (617) 423-1072. Our Web site is at www.zoomtel.com. Information contained on our web site does not constitute part of this prospectus. Our common stock is traded on the Over-The-Counter market ("OTCQB") under the symbol ZMTP.

Available Information

Our Internet website address is 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

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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.

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Products

General

The vast majority of our products involve communication of data through the Internet. Our cable modems connect to the cable-TV cable and our DSL modems connect to the local telephone line to provide a high-speed link to the Internet. Our mobile broadband modems and our coming mobile broadband routers and sensors connect to the Internet through a mobile service provider's mobile broadband cellular network. Our dial-up modems link computers, point-of-purchase terminals, or other devices to each other or the Internet through the traditional telephone network. Our router products may communicate with a broadband modem for access to the Internet, and they may also be used for local area network communications. Our planned sensor products will connect sensors to users' smartphones and Web browsers via a mobile broadband connection to the Internet.

Cable Modems

We have obtained CableLabs® certification for our currently marketed cable modems, and these cable modems have also received a number of cable service provider certifications**.** The lengthy, expensive, and technically challenging certification process has been and continues to be a significant barrier to entry.

Zoom sells cable modems to end-users through retailers and cable service providers. While sales through the retail channel have been significant, they have been handicapped by the fact that all cable service providers offer cable modems directly with their service. Zoom will continue its cable modem sales focus on retailers, and will also direct some sales efforts toward cable service providers.

During 2015 Zoom's cable modem revenues were primarily from four types of Zoom brand cable modems, all supporting Data Over Cable Service Interface Specification ("DOCSIS") 3.0 with either 16 or 8 downstream channels and 4 upstream channels ("16x4" or "8x4"). One product was an 8x4 cable modem bridge, one was a 16x4 cable modem bridge, one was an 8x4 cable modem gateway that included an N300 wireless-N router, and one was an 8x4 cable modem gateway that included an 802.11ac ("wireless-AC") AC1900 router. Zoom continues to sell Zoom brand cable modems, but Zoom's primary cable modem sales in both 2016 and 2017 were of Motorola brand cable modem products.

In May 2015 Zoom entered into an agreement to license certain Motorola trademarks from Motorola Trademark Holdings, LLC ("Motorola") for cable modem products. From January 1, 2016 through December 31, 2020 we are authorized to manufacture, sell and market consumer cable modem products through certain authorized sales channels using the Motorola trademarks. The agreement includes numerous requirements intended to assure the quality and reputation of Motorola brand products. In January 2016 Zoom, through its MTRLC LLC subsidiary which was formed on October 6, 2015, began shipping cable modems under the Motorola brand. Zoom will also continue to ship Zoom brand cable modems, but these will be distinctly different from our Motorola brand cable modem products. In August, 2016 Zoom entered into an amendment to the license agreement with Motorola. The amendment expands Zoom's exclusive license to use the Motorola trademark to a wide range of authorized channels worldwide, and expands the license from cable modems and gateways to also include consumer routers, WiFi range extenders, home powerline network adapters, and related products. In August, 2017 we further extended our Motorola license to a worldwide exclusive license for DSL modems and gateways, cellular modems and gateways, and MoCA products, and to a worldwide non-exclusive license for cellular sensors. We introduced under the Motorola brand two WiFi routers, one range extender, and one MoCA Adapter in 2017.

Zoom currently ships eight Motorola brand cable modem products. The least expensive product in this line is an 8x4 DOCSIS 3.0 cable modem, and the most expensive is a cable gateway that includes a 16x4 DOCSIS 3.0 cable modem and an AC1900 WiFi router with Power Boost. Zoom's product line includes a 24x8 cable modem and a DOCSIS 3.1 cable modem. In 2018 Zoom plans to introduce 24x8 cable gateways, including one with telephone capability, and Zoom hopes to introduce a DOCSIS 3.1 cable gateway.

DSL Modems

Our DSL modems have incorporated the ADSL standards that are currently most popular worldwide. Zoom currently sells one type of ADSL modem, which has an integrated wireless-N 4-port router using Broadcom Integrated Circuit ("IC") technology. During the first half of 2018 Zoom expects to begin shipping a VDSL/ADSL AC1600 gateway product.

Mobile Broadband Modems and Routers

During the second half of 2009 Zoom began shipping its first mobile broadband or "cellular" products, mobile broadband USB modems and wireless-N routers. In 2017 Zoom introduced a new line of USB cellular modems, with different models designed to work with

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AT&T and other mobile broadband carriers worldwide. In 2018 Zoom plans to introduce a Motorola Ethernet cell modem and a Motorola cell modem/router.

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Dial-Up Modems

We have a line of external Serial and USB dial-up modems with data speeds up to 56,000 bps. These modems are typically designed to work with almost any terminal or computer, and to work with many computer operating systems including Windows, Apple, Linux, and others. We sell and market dial-up modems under the Zoom® and Hayes® brands, as well as selling unbranded or private-label modems for some specific high-volume accounts.

Local Area Network Products

In 2017 Zoom began shipping its first Motorola brand local area network products including a Motorola AC1900 router, a Motorola AC1700 router, a Motorola AC1200 range extender, and a Motorola Bonded 2.0 MoCA Adapter. When plugged into a cable modem or other broadband modem, WiFi routers provide shared Internet access for WiFi and Ethernet devices. A range extender is typically used to extend the WiFi coverage of a router. A MoCA Adapter provides an Ethernet connection over coaxial cable between a MoCA-capable router and an HDTV, PC, or other device connected to the MoCA Adapter. Zoom plans to sell its Motorola brand Local Area Network products in the US and internationally.

Mobile Broadband Sensors

In 2018 Zoom plans to introduce a line of sensor products that communicate sensor data via a built-in cellular modem through the Internet to a smartphone or browser-enabled device. This cellular approach typically makes these sensors easier to install than a sensor that requires a router and a broadband connection. This approach can be teamed up with a very low cost data plan, since the amount of data being transmitted is low. Zoom's first product is a multi-sensor that senses temperature, humidity, earthquake and other vibration, motion, water, light, and power loss. Zoom believes that there is significant potential for cellular sensor products, but that there are significant risks including risk relating to delays in finishing these products and risks from competitors.

Products for Markets outside North America

Products for countries outside the US typically differ from a similar product for the US due to different regulatory and certification 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 sold our products into a number of markets outside North America. We have received regulatory certifications for, and are currently selling our products in a number of countries, including the US, the United Kingdom ("UK"), and Canada. We intend to continue to expand and enhance our product line for our existing markets and to seek certifications for the sale of new products outside the US. Most importantly for sales outside the US, we hope to sell Motorola brand local area network products in the UK, Canada, Latin America, and other regions. The vast majority of our sales were in North America from 2015 through 2017 due to the fact that the US is by far the largest market for cable modems sold through retailers. We expect the US to continue to account for most of our sales. However, we expect significant growth outside North America due to our worldwide Motorola license for a number of local area network products, DSL products, and cellular products.

Sales Channels

General

We sell our products primarily through high-volume retailers and distributors, Internet service providers, 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.

Few customers account for a substantial portion of the Company's revenues. In 2017, two customers accounted for 10% or greater individually and 40% in the aggregate of the Company's total net sales. At December 31, 2017, two customers with an accounts receivable balance of 10% or greater individually accounted for a combined 71% of the Company's accounts receivable. In 2016, two customers accounted for 10% or greater individually and 53% in the aggregate of the Company's total net sales. At December 31, 2016 three customers with an accounts receivable balance of 10% or greater individually accounted for a combined 86% of the Company's accounts receivable. Additionally, revenues from sales fulfilled by Amazon accounted for 51% and 29% of our total sales for the years ended December 31, 2017 and 2016, respectively, and represented 13% and 5% of the Company's total accounts receivable balance at December 31, 2017 and 2016, respectively.

Distributors and Retailers outside North America

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In markets outside North America we sell and ship our products primarily to distributors. We believe that sales growth outside North America will continue to require substantial additional investments of resources for product design and testing, regulatory certifications, 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 some countries and products in the future. However, we anticipate that the vast majority of our future sales will come from the US, largely because the US has an unusually robust retail cable modem market.

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In 2016 we announced a master distributor agreement with T&W, a Chinese manufacturer and our primary supplier, whereby T&W will be the master distributor for some of our Motorola brand product categories in China. We hope to have similar agreements for some other countries, but there is no guarantee that we will have such agreements. We have distributors in several countries, and we hope to add other distributors outside North America. We also expect to sell some Motorola brand local area network products through Amazon UK and other Amazon sites in Europe.

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, Micro Center, Target, Wal-Mart, and 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 D&H Distributing and Ingram Micro.

Internet and Telephone Service Providers

In past years our sales have included DSL modems sold to DSL service providers in the US and in some other countries. We plan to continue selling to 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.

Sales, Marketing & Support

Our sales, marketing, and support are primarily managed from our headquarters in Boston, Massachusetts. In North America we sell our Zoom, Motorola, 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. Worldwide technical support is primarily handled from our Boston headquarters.

We believe that Motorola, Zoom, and Hayes are widely recognized brand names. We build upon our brand equity in a variety of ways, including Amazon advertising, Google Adwords advertising, Facebook advertising, retailer cooperative advertising, product packaging, trade shows, and public relations.

We attempt to develop quality products that are user-friendly and that 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 provide telephone support five days per week in English and 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 & 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 Original Design Manufacturer ("ODM") 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 do however develop certain products in-house, including some modems and our Connected Home product line.

The Company's costs on research and development were $1.9 million for 2017 and $1.5 million for 2016. As of December 31, 2017 we had 11 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 certification efforts, end-user and internal documentation, and third-party software selection and testing.

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Manufacturing & 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. The contract manufacturer sometimes performs final packaging. For the US and many other markets, packaging is often performed at our facilities in North America, allowing us to tailor the packaging and its contents for our customers immediately before shipping. This facility also performs warehousing, shipping, quality control, finishing and some software updates from time to time. We also perform circuit design, circuit board layout, and strategic component sourcing at our Boston headquarters. Wherever the product is built, our quality systems are used to help assure that the product meets our specifications.

Our North American facility is currently located in Tijuana, Mexico. From time to time we experience certain challenges associated with the Tijuana facility, specifically relating to bringing products across the border between the US and Mexico. We believe that this facility assists us in cost-effectively providing rapid response to the needs of our US customers.

Historically we have used 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. In 2017, one supplier provided 97% 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.

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. Most of our cellular products include a Gemalto module. Our dial-up modem chipsets come exclusively from Conexant. Serious problems at Broadcom, 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, fuel costs rise, or significant delays develop due to labor-related issues.

We are also subject to the Restriction of Hazardous Substances Directive ("RoHS") and Consumer Electronics Control ("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.

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

- **Cable modem competitors:** Arris, Belkin/Linksys, D-Link, Hon Hai Network Systems (formerly Ambit Microsystems), Netgear, Sagemcom, SMC Networks, Technicolor, TP-Link and Ubee Interactive.
- **Dial-up modem competitors:** Best Data, Hiro, Lite-On, Multitech, and US Robotics.
- **DSL modem competitors:** Arris, Actiontec, Asus, Aztech, Belkin / Linksys, D-Link, Huawei, Netgear, Sagemcom (formerly Sagem), Siemens (formerly Efficient Networks), Technicolor, TP-Link, Westell, Xavi, and ZyXEL Communications.
- **Mobile broadband competitors:** Cradlepoint, D-Link, Huawei, Inseego, Multitech, Netcomm Wireless, Netgear, Nimbelink, Option, Sierra Wireless, and ZTE.
- **Networking competitors:** Amped, Apple, Asus, Belkin/Linksys, D-Link, Eero, Google, Netgear, Securifi, Tenda, TP-Link, Trendnet, and Ubiquiti.

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;
- sales and distribution capability, including retailer and distributor relationships;
- technical support and service;
- product documentation and product warranties;
- relationships with providers of broadband access services; and
- certifications evidencing compliance with various requirements.

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, small to medium sized Internet service providers, and system integrators. We have been less successful in selling directly to large telephone companies and other large providers of broadband access services.

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 service providers;
- the time-consuming, expensive and uncertain certification processes of the various cable and DSL service providers; and
- the strong relationships with service providers enjoyed by some incumbent equipment providers, including ARRIS 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 three active patents that expire between years 2020 and 2031. 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.

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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.

In May 2015 we entered into an agreement to license certain Motorola® brand trademarks for consumer cable modem products in the US and Canada through certain authorized sales channels using such trademarks beginning January 1, 2016 through December 31, 2020. In August 2016 Zoom entered into an amendment to the License Agreement with Motorola Mobility LLC (the "2016 Amendment"). The 2016 Amendment expands Zoom's exclusive license to use the Motorola trademark to a wide range of authorized channels worldwide, and expands the license from cable modems and gateways to also include consumer routers, WiFi range extenders, home powerline network adapters, and access points. In August 2017 Zoom entered into an amendment to the License Agreement with Motorola Mobility LLC (the "2017 Amendment"). The 2017 Amendment expands Zoom's exclusive license to use the Motorola trademark to a wide range of authorized channels worldwide, and expands the license from cable modems, gateways, consumer routers, WiFi range extenders, home powerline network adapters, and access points to also include MoCa adapters, and cellular sensors.

Backlog

Our backlog on February 28, 2018 was $0.4 million, and on February 28, 2017 was $0.4 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

As of February 28, 2018, Zoom had thirty-three full-time and part-time employees. Eleven employees were engaged in research and development and quality control. Four employees were involved in operations, which manages production, inventory, purchasing, warehousing, freight, invoicing, shipping, collections, and returns. Eleven employees were engaged in sales, marketing, and customer support. The remaining seven employees performed executive, accounting, administrative, and management information systems functions. Zoom currently has twenty-nine full-time employees and four employees working less than 5 days per week, typically 4 days per week. Our dedicated personnel in Tijuana, Mexico are employees of our Mexican service provider and not included in our headcount. On February 28, 2018, Zoom had two consultants in sales and one consultant in information systems, none of whom are included in our headcount.

Executive Officers

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

Name	Age	Position with Zoom
Frank B. Manning	69	Chief Executive Officer, President, Acting Chief Financial Officer, & Chairman of the Board
Terry Manning	66	Vice President of Sales and Marketing
Deena Randall	64	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.

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Terry J. Manning joined us in 1984 and served as corporate communications director from 1984 until 1989, when he became the director of sales and marketing. 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.

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ITEM 1A. – RISK FACTORS

Risks Related to Our Business

Our recent license agreement with Motorola has risks, including risks associated with our ability to successfully generate Motorola sales that are large enough to make our Motorola business profitable after we pay the minimum annual royalty payments required by the license agreement. Our failure to successfully increase Motorola sales would have an adverse effect on our liquidity and financial results.

In May 2015 Zoom entered into an agreement to exclusively license the Motorola brand trademark for use with cable modem products in North America for five years starting with shipments January 2016. In August 2016 that agreement was amended to include WiFi routers, range extenders, and other products worldwide, and to increase the minimum royalty payments. In August 2017 that agreement was amended again to include cellular modems and routers, DSL modems and routers, MoCA Adapters, and cellular sensors, and to increase the minimum royalty payments. In connection with this opportunity, Zoom has an aggressive plan to continue to introduce new Motorola brand products. Our product development plan has and will continue to increase our costs and may result in cost overruns and delays. If our sales of Motorola brand products do not meet our forecasts, this may result in excess inventory and a shortage of cash. In addition, the license agreement includes significant minimum quarterly royalty payments due by Zoom. If we are unable to sell a sufficient number of Motorola brand products to offset these minimum royalty payments, our net income and cash position will be reduced and we may experience losses.

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 buy inventory and develop products in anticipation of significant Motorola sales, if our sales are lower than forecast, or if we continue to experience losses. On September 1, 2016, we signed an amendment to our financing agreement to increase our line of credit to $3.0 million assuming our receivables support this amount; and this line is subject to covenants that must be met and may be terminated by the lender at any time upon sixty days prior notice. It is not certain whether all or part of this line of credit will be available to us in the future; and other sources of financing may not be available to us on a timely basis if at all, or on terms acceptable to us. If we fail to obtain acceptable additional financing when needed, we may not have sufficient resources to fund our normal operations; and this would have a material adverse effect on our business.

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

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 May 17, 2016, Magnacross LLC ("Magnacross") filed a complaint in the U.S. District Court for the Eastern District of Texas (U.S.D.C., E.D.Tex.) against the Company alleging infringement of U.S. Patent No. 6,917,304 (“the ’304 patent”) entitled “Wireless Multiplex Data Transmission System.” Magnacross alleged that the Company’s wireless routers, including its Model 5363, 5360, and 5354 (N300, N600, and AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case was resolved on February 1, 2017 with the entry by the judge of an Order of Dismissal with Prejudice.

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.

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

Few customers account for a substantial portion of the Company’s revenues. In 2017, two customers accounted for 10% or greater individually and 40% in the aggregate of the Company’s total net sales. At December 31, 2017, two customers with an accounts receivable balance of 10% or greater individually accounted for a combined 71% of the Company’s accounts receivable. In 2016, two customers accounted for 10% or greater individually and 53% in the aggregate of the Company’s total net sales. At December 31, 2016 three customers with an accounts receivable balance of 10% or greater individually accounted for a combined 86% of the Company’s accounts receivable. Additionally, revenues from sales fulfilled by Amazon accounted for 51% and 29% of our total sales for the years ended December 31, 2017 and 2016, respectively, and represented 13% and 5% of the Company’s total accounts receivable balance at December 31, 2017 and 2016, respectively.

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Our customers generally do not enter into long-term agreements obligating them to purchase our products. 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.

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

We plan to introduce products that may be used to monitor for threats such as fire, flooding, break-ins, medical emergencies, and other threats; to allow remote control of our Connected Home products and attached electrical devices; and to cause actions including alerts and sirens in certain situations. If our products fail 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.

If we are unable to grow demand for our broadband and dial-up modems or other products, 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; or using a mobile broadband modem and mobile broadband service. 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.

Our reliance on sole suppliers or limited sources of supply could materially harm our business.

We obtain certain key parts, components, and equipment from sole or limited sources of supply. In 2017, the Company had one supplier that provided 97% of the Company's purchased inventory. In 2016, the Company had one supplier that provided 92% of the Company's purchased inventory. Also, as examples, the vast majority of our broadband modems use Broadcom chipsets and the vast majority of our dial-up modems use Conexant chipsets. The loss of the services of any of our significant suppliers or a material change in their business or their relationship with us could harm our business and operating results. 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 US dollar could have a material adverse effect on our operating results.

Changes in currency exchange rates that increase the relative value of the US 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 US dollar relative to the Mexican peso and various Asian currencies, especially the Chinese renminbi ("RMB"), could increase our product costs. Fluctuations in the currency exchange rates have, and may continue to, adversely affect our operating results.

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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 operations to our Mexican facility we have experienced and may continue to experience constraints on our 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 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 our North American manufacturing operations in Mexico, we rely on a business processing outsourcing partner to hire, subject to our oversight, the team for our Mexican operations, provide the selected facility described above, and coordinate many of the ongoing 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.

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.

We believe that our future success depends in large part on our ability to penetrate the broadband modem markets including cable and mobile broadband. These markets have significant barriers to entry. Although some cable, 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 certification processes for modems to be approved for use on their network. These certifications are expensive and time consuming, and they 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 US; the significant bargaining power of these large volume purchasers; the time consuming, expensive, uncertain and varied certification process of the various cable service providers; the savings if any offered to customers who use their own modem instead of one supplied by the service provider; and the strong relationships with cable service providers enjoyed by incumbent cable equipment providers like Arris.

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 effect 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

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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.

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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 US, particularly the production of substantially all of our products. For the fiscal year ending December 31, 2017 sales outside North America were only 1.4% of our net sales. However, almost all of our manufacturing operations are now located outside of the US. The inherent risks of international operations could harm our business, results of operation, and liquidity. For instance, our 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, 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 include, among others: regulatory and communications requirements and policy changes; currency exchange rate fluctuation, including changes in value of the Mexican peso relative to the US dollar; 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; strikes and work slowdowns at ports or other locations in the supply path; 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. Additionally, President Donald Trump has expressed antipathy towards certain existing international trade agreements, including the North American Free Trade Agreement (NAFTA), and has made comments suggesting that he supports significantly increasing tariffs on goods imported into the United States from countries such as Mexico and China. As of the date of this Form 10-K, it remains unclear what actions, if any, will occur with respect to NAFTA, other international trade agreements, and tariffs on goods imported into the United States. If the United States were to withdraw from or materially modify NAFTA or other international trade agreements to which it is a party, or if tariffs were raised on the China-sourced products that we buy, our costs for such products could increase significantly, which in turn could have a material adverse effect on our business, financial condition and results of operations.

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 effect 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, manufacturing yields, and labor practices; 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.

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

Cable modems and other broadband modems represented 97% of Zoom's net sales during 2017. 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.

In the past, environmental regulations have increased our manufacturing costs and caused us to modify products. New state, US, or other regulations may in the future impact our product costs or restrict our ability to ship certain products into certain regions.

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 ("FCC"), extends to the entire US 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 certifications is time-consuming and 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, chief executive officer, and acting chief financial 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 US. 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.

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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.

We Could Be Subject to Additional Sales Tax or Other Tax Liabilities.

States have varying policies regarding when a company has a taxable presence in the state. There are many factors to consider when determining if state nexus exists, including inventory consignment to ordering and fulfillment entities such as Amazon. This affects us, especially because we cannot control the warehouses where Amazon chooses to store our inventory. We have disclosed the estimated sales tax liability resulting from determined nexus in various states, and we plan to ask Amazon to collect sales tax for us in appropriate states moving forward. However, it is possible that we will be negatively impacted by a change in Amazon policy, state laws, court decisions, or Federal law. In the U.S., although Supreme Court decisions restrict states' rights to require remote sellers to collect state and local sales taxes, the Supreme Court has recently agreed to hear a case that could overturn prior precedent.

Risks Related to the Securities Market and Our Common Stock

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 herein; 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 OTCQB. 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 must appreciate for you to receive a gain on your investment in Zoom Telephonics.

Our directors, executive officers and principal stockholders own a significant percentage of our shares, which will limit your ability to influence corporate matters.

Our directors, executive officers and stockholders with over 5% of our stock together owned approximately 46% percent of our outstanding Common Stock as of March 14, 2018. Accordingly, these stockholders could have a significant influence over the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets and also could prevent or cause a change in control. The interests of these stockholders may differ from the interests of our other stockholders. Third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership.

In 2015 we adopted an Internal Revenue Code Section 382 stockholder rights plan which could discourage potential acquisition proposals and could prevent, deter or delay a change in control of our company.

In November 2015 we adopted an Internal Revenue Code Section 382 stockholder rights plan (the "Rights Plan") with the purpose of reducing the likelihood of an unintended "ownership change" and thus assisting in preserving the value of the tax benefits associated with our accumulated net operating losses. The Rights Plan could have the effect, either alone or in combination provisions of our certificate of incorporation or Delaware law, of preventing, deterring or delaying a change in control of our company, even if a change in control would be beneficial to our stockholders.

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Our ability to use our net operating losses ("NOLs") may be negatively affected if there is an "ownership change" as defined under Section 382 of the Internal Revenue Code.

At December 31, 2017 we had approximately $54.6 million in federal NOLs. These deferred tax assets are currently fully reserved. Under Internal Revenue Code Section 382 rules, if a change of ownership is triggered, our ability to use our NOLs can be negatively affected if there is an "ownership change" as defined under Internal Revenue Code Section 382. In general, an ownership change occurs whenever there is a shift in ownership by more than 50 percentage points by one or more 5% stockholders over a specified time period (generally three years). Given Internal Revenue Code Section 382's broad definition, an ownership change could be the unintended consequence of otherwise normal market trading in the Company's stock that is outside of the Company's control. Similar plans have been adopted by a number of companies holding similar significant tax assets over the past several years.

ITEM 1B. – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 – PROPERTIES

From 1983 to July 2016 our headquarters was on South Street, near South Station in downtown Boston. Our principal executive offices are still near South Station, but our location changed in July 2016 to 99 High Street, Boston, MA 02110. Our current sub-lease for this facility expires on June 30, 2019. We also lease a facility in Tijuana, Mexico. In November 2014 we signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility in Tijuana, Mexico. In September 2015, Zoom extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, Zoom also signed a new lease for additional space in the adjacent building, which doubled our capacity. The term of the lease is from March 1, 2016 through November 30, 2018.

ITEM 3 – LEGAL PROCEEDINGS

On May 17, 2016, Magnacross LLC ("Magnacross") filed a complaint in the U.S. District Court for the Eastern District of Texas (U.S.D.C., E.D.Tex.) against the Company alleging infringement of U.S. Patent No. 6,917,304 ("the '304 patent") entitled "Wireless Multiplex Data Transmission System." Magnacross alleged that the Company's wireless routers, including its Model 5363, 5360, and 5354 (N300, N600, and AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case was resolved on February 1, 2017 with the entry by the judge of an Order of Dismissal with Prejudice.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

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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 OTCQB 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 OTCQB.

Fiscal Year Ended December 31, 2017	High	Low
First Quarter	$ 2.42	$ 1.46
Second Quarter	$ 2.48	$ 1.71
Third Quarter	$ 2.40	$ 1.71
Fourth Quarter	$ 2.22	$ 1.91

Fiscal Year Ended December 31, 2016	High	Low
First Quarter	$ 2.30	$ 1.22
Second Quarter	$ 2.93	$ 1.53
Third Quarter	$ 3.20	$ 1.84
Fourth Quarter	$ 3.15	$ 1.97

As of March 19, 2018, there were 15,874,040 shares of our common stock outstanding and 138 holders of record of our common stock.

Recent Sales of Unregistered Securities

None.

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 2017 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.

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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 consolidated financial statements included elsewhere in this report and the information described under the caption "ITEM 1A - Risk Factors" above. Readers should also be cautioned that results of any reported period are often not indicative of results for any future period.

Overview

We derive our net sales primarily from sales of Internet access and other communications-related products, including cable modems and gateways, wireless routers, DSL modems and dial-up modems 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 located at our headquarters in Boston, Massachusetts. We are experienced in electronics hardware, firmware, and software design and testing, 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 Asia.

From 1983 to July 2016 our headquarters was on South Street, near South Station in downtown Boston. Our principal executive offices are still near South Station, but our location changed in July 2016 to 99 High Street, Boston, MA 02110. Our current lease for this facility expires on June 30, 2019. We also lease a facility in Tijuana, Mexico. In November 2014 we signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility in Tijuana, Mexico. In September 2015, Zoom extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, Zoom also signed a new lease for additional space in the adjacent building, which doubled our capacity. The term of the lease is from March 1, 2016 through November 30, 2018.

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.

As of February 28, 2018, Zoom had thirty-three full-time and part-time employees. Eleven employees were engaged in research and development and quality control. Four employees were involved in operations, which manages production, inventory, purchasing, warehousing, freight, invoicing, shipping, collections, and returns. Eleven employees were engaged in sales, marketing, and customer support. The remaining seven employees performed executive, accounting, administrative, and management information systems functions. Zoom currently has twenty-nine full-time employees and four employees working less than 5 days per week, typically 4 days per week. Our dedicated personnel in Tijuana, Mexico are employees of our Mexican service provider and not included in our headcount. On February 28, 2018, Zoom had two consultants in sales and one consultant in information systems, none of whom are included in our headcount.

Although the Company has experienced losses in the past, we continue to experience significant sales growth and increased gross margin. We reported net profit of $377 thousand in Q3 2017 and net loss of $387 thousand in Q4 2017. This is Zoom's second consecutive year with sales growth of 65%. The Company expects year-over-year growth to continue for an unpredictable number of quarters due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the associated reduction in net loss, and its Financing Agreement, the Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of our annual filing with the Securities Exchange Commission. The Financing Agreement has a maturity date of November 2018, and automatically renews unless cancelled under terms of agreement.

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Zoom's cash balance on December 31, 2017 was $229 thousand, and its net loss for the fiscal year ended December 31, 2017 was approximately $1.4 million. On December 31, 2017, Zoom had $90 thousand in bank debt outstanding on a $3.0 million line of credit, working capital of $2.6 million, and a current ratio of 1.5. We may need to raise additional funds in future periods to fund our operations. We may seek to raise necessary funds through a combination of publicly or private equity offerings, debt financings, other financing mechanisms, or strategic arrangements. We may not be able to obtain additional financing on terms favorable to us, if at all.

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Recent Accounting Standards

Refer to Note 2 of the Notes to the Consolidated Financial Statements

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 consolidated financial statements. We have identified areas where material differences could result in the amount and timing of our net sales, costs, and expenses for any period if we had made different judgments or used different estimates.

Revenue Recognition. We primarily sell hardware products to our customers. The hardware products include dial-up modems, DSL modems, cable modems, and local area networking equipment.

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

- Computer peripherals retailers,
- Computer product distributors,
- Internet service providers, and
- OEMs.

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

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

We have completed our evaluation of our transition to the new revenue recognition guidance and have concluded there will not be a material impact to previously reported revenue as a result.

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

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

Sales and Marketing Incentives. Many of our retailer customers require sales and marketing support funding, usually set as a percentage of our sales in their stores. The incentives were reported as reductions in our net sales.

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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.

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

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

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

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

In December 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”) that significantly revised the U.S. tax code effective January 1, 2018 by, among other things, lowering the corporate income tax rate from a top marginal rate of 35% to a flat 21%. We have recorded a tax provision of $7,160,556 due to a re-measurement of deferred tax assets and liabilities for tax rate changes due to the Tax Act, which was fully offset by a valuation allowance.

As of December 31, 2017 the Company had federal net operating loss carry forwards of approximately $54,595,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2037. As of December 31, 2017, the Company had state net operating loss carry forwards of approximately $8,879,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2037. A valuation allowance has been established for the full amount of deferred income tax assets as management has concluded that it is more-likely than-not that the benefits from such assets will not be realized.

Results of Operations

Zoom’s net sales of $29.4 million for the fiscal year ended December 31, 2017 (“FY 2017”) were up 65.0% from $17.8 million for the fiscal year ended December 31, 2016 (“FY 2016”). Zoom reported a net loss of $1.4 million or $0.09 per share for FY 2017 compared to a net loss of $2.9 million or $0.21 per share for FY 2016. Gross profit was $10.2 million for FY 2017, up $4.9 million from $5.4 million for FY 2016. Gross margin improved to 34.8% in FY 2017 from 30.1% in FY 2016.

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

	Years Ended December 31,	
	2016	2017
Net sales	100.0%	100.0%
Cost of goods sold	69.9	65.2
Gross profit	30.1	34.8
Operating expense:		
Selling	29.1	24.6
General and administration	8.6	4.9
Research and development	8.5	6.6
Sales tax expense	—	2.8
Total operating expenses	46.3	38.9
Operating profit (loss)	(16.2)	(4.1)
Other income (expense):		
Other, net	(0.2)	(0.5)
Total other income (expense)	(0.2)	(0.5)

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Income (loss) before income taxes	(16.4)	(4.6)
Income taxes (benefit)	0.0	0.0
Net income (loss)	(16.4)%	(4.6)%

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Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

The following is a discussion of the major categories of our consolidated statement of operations, comparing the consolidated financial results for the year ended December 31, 2017 with the year ended December 31, 2016.

Net Sales. Our total net sales increased year-over-year by $11.6 million or 65.0%. The growth in sales is directly attributable to Motorola branded cable modems. In both 2017 and 2016 we primarily generated our sales by selling broadband and dial-up modems via retailers, distributors, and Internet Service Providers. Zoom sales of Dial-up modems decreased $114 thousand or 18.3%. Our Broadband modems, Wireless and Other Products sales increased year-over-year by $11.7 million or 68.0%. The increase in sales was primarily attributable to Motorola branded broadband products, and reflects continued shift away from dial-up modems to cable modems and other broadband technologies.

Zoom focuses on maintaining appropriate inventory levels. We have also reviewed our obsolete inventory reserve. Zoom determines its inventory reserve for obsolete and slow moving products by reviewing for each Zoom product its past and forecasted sales, open sales orders, customer 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 cost in order to sell the product's entire inventory within the next 12 months.

	Year 2016 Sales $000	Year 2017 Sales $000	Change $000	Change %
Dial-up	$ 620	$ 507	$ (113)	(18.3)%
Broadband, Wireless and Other Products	17,214	28,911	11,697	68.0%
Total Net Sales	$ 17,834	$ 29,418	$ 11,584	65.0%

As shown in the table below our net sales in North America increased $11.4 million to $29.0 million in 2017 from $17.6 million in 2016. Generally Zoom's lower sales outside North America reflect the fact that cable modems are sold successfully through retailers in the US but not in most countries outside the US, due primarily to variations in government regulations.

	Year 2016 Sales $000	Year 2017 Sales $000	Change $000	Change %
North America	$ 17,632	$ 29,007	$ 11,374	64.5%
Outside North America	202	411	210	103.9%
Total Net Sales	$ 17,834	$ 29,418	$ 11,584	65.0%

Few customers account for a substantial portion of the Company's revenues. In 2017, two customers accounted for 10% or greater individually and 40% in the aggregate of the Company's total net sales. At December 31, 2017, two customers with an accounts receivable balance of 10% or greater individually accounted for a combined 71% of the Company's accounts receivable. In 2016, two customers accounted for 10% or greater individually and 53% in the aggregate of the Company's total net sales. At December 31, 2016 three customers with an accounts receivable balance of 10% or greater individually accounted for a combined 86% of the Company's accounts receivable. Additionally, revenues from sales fulfilled by Amazon accounted for 51% and 29% of our total sales for the years ended December 31, 2017 and 2016, respectively, and represented 13% and 5% of the Company's total accounts receivable balance at December 31, 2017 and 2016, respectively.

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. Gross profit was $10.2 million for FY 2017, up $4.9 million from $5.4 million for FY 2016 due primarily to continued growth in sales, especially for Motorola brand cable modems and gateways. Gross margin improved to 34.8% in FY 2017 from 30.1% in FY 2016 due to both product mix and to increases in production volumes and manufacturing utilization.

Operating Expense. Total operating expense increased by $3.2 million from $8.3 million in 2016 to $11.5 million in 2017. Total operating expense as a percentage of net sales decreased from 46.3% in 2016 to 38.9% in 2017. The table below illustrates the change in operating expense.

Operating Expense	Year 2016 Sales $000	% Net Sales	Year 2017 Sales $000	% Net Sales	Change $000	% Change
Selling expense	$ 5,188	29.1%	$ 7,245	24.6%	$ 2,057	39.6%
General and administrative expense	1,541	8.6%	1,433	4.9%	(108)	(7.0)%

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Research and development expense	1,523	8.5%	1,945	6.6%	422	27.7%
Sales tax expense	—	—	831	2.8%	831	*
Total operating expense	$ 8,252	46.3%	$ 11,454	38.9%	$ 3,202	38.8%

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Selling Expense. Selling expense increased to $7.2 million in 2017 from $5.2 million in 2016. Selling expense as a percentage of net sales was 24.6% in 2017 and 29.1% in 2016. The $2.1 million increase in selling expense was due primarily to increased advertising expenses and Motorola trademark costs.

General and Administrative Expense. General and administrative expense decreased to $1.4 million in 2017 from $1.5 million in 2016. General and administrative expense as a percentage of net sales was 4.9% in 2017 and 8.6% in 2016. The $108 thousand decrease in general and administration expense was primarily due to decreased professional expenses.

Research and Development Expense. Research and development expense increased to $1.9 million in 2017 from $1.5 million in 2016. Research and development expense as a percentage of net sales decreased to 6.6% in 2017 from 8.5% in 2016. The $422 thousand increase in research and development expense was primarily due to new product certification costs.

Sales Tax Expense. An expense was reported for Q4 2017 of $831 thousand due primarily to estimated sales taxes incurred due to inventory stored in Amazon warehouses in a number of states creating nexus for the Company. The sales tax charge recorded in Q4 2017 represents 2.8% of net sales.

Other Income (Expense). Other income (expense), net was $(140) thousand in 2017, primarily due to loan related interest expense and fees. Other income (expense), net was $(42) thousand in 2016. Loan interest and fees of approximately $84 thousand were reduced by one-time miscellaneous income of approximately $44 thousand received from class action settlement.

Income Tax Expense (Benefit). We recorded income tax from our operations in Mexico, which was negligible in both 2016 and 2017.

Liquidity and Capital Resources

Zoom's cash balance on December 31, 2017 was $229 thousand compared to $180 thousand on December 31, 2016. Reductions in cash due were a FY 2017 loss of $1.4 million, the paydown in debt by $1.2 million, and increase in inventory of $0.3 million. Sources of cash were increased accounts payable and accrued liabilities of $2.8 million and decrease in accounts receivable of $0.3 million. On December 31, 2017, Zoom had $90 thousand in bank debt for a $3.0 million line of credit, working capital of $2.6 million, and a current ratio of 1.5. Loan availiablity is based on certain eligible receivables. Approximately $2.5 million was available to be borrowed as of December 31, 2017.

In May 2015 Zoom entered into a License Agreement with Motorola Mobility LLC (the "License Agreement"). The License Agreement provides Zoom with an exclusive license to use certain trademarks owned by Motorola Trademark Holdings, LLC. for the manufacture, sale and marketing of consumer cable modem products in the United States and Canada through certain authorized sales channels for five years starting January 2016 (the "License Agreement").

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

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

On December 18, 2012, the Company entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the "Financing Agreement"). The Financing Agreement originally provided for up to $1.75 million of revolving credit, subject to a borrowing base formula and other terms and conditions. The Financing Agreement continued until November 30, 2014 with automatic renewals from year to year thereafter, unless sooner terminated by either party. The lender has the right to terminate the Financing Agreement at any time on 60 days' prior written notice. Borrowings are secured by all of the Company assets including intellectual property. The Financing Agreement contains several covenants, including a requirement that the Company maintain tangible net worth of not less than $2.5 million and working capital of not less than $2.5 million.

On March 25, 2014, the Company entered into an amendment to the Financing Agreement (the "Amendment") with an effective date of January 1, 2013. The Amendment clarified the definition of current assets in the Financing Agreement, reduced the size of the

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revolving credit line to $1.25 million, and revised the financial covenants so that Zoom is required to maintain tangible net worth of not less than $2.0 million and working capital of not less than $1.75 million.

On October 29, 2015, the Company entered into a second amendment to the Financing Agreement (the "Second Amendment"). Retroactive to October 1, 2015, the Second Amendment eliminated $2,500 in monthly charges for the Financing Agreement. Effective December 1, 2015, the Second Amendment reduces the effective rate of interest to 2.25% plus an amount equal to the higher of prime rate or 3.25%.

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On July 19, 2016, the Company entered into a third amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $2.5 million effective as of date of the amendment.

On September 1, 2016, the Company entered into a fourth amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $3.0 million effective with the date of this amendment.

The Company is required to calculate its covenant compliance on a quarterly basis. As of December 31, 2017, the Company was in compliance with both its working capital and tangible net worth covenants. At December 31, 2017, the Company's tangible net worth was approximately $2.8 million, while the Company's working capital was approximately $2.6 million.

Off-Balance Sheet Arrangements

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. In order to facilitate Zoom's current and planned increase in production demand, driven in part by the launch of Motorola branded products, Zoom has entered into a first amendment to the Production Sharing Agreement ("PSA"). This amendment extends its existing agreement through September 25, 2019. Any related assets, liabilities, or expenses are reported in the accompanying financial statements. Additionally, the Company is obligated to pay future minimum required royalty payments associated with certain licensing agreements which are not included in our balance sheet.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8 – CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ZOOM TELEPHONICS, INC.
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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.

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As of December 31, 2017 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 were effective as of the end of the period covered by this report 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 US. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth in 2013 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, 2017, 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 that 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 year ended December 31, 2017 that have materially or are reasonably likely to materially affect, our internal control over financial reporting.

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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 2018 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 2018 annual meeting of stockholders that 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, 2017 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 Securities To Be Issued Upon Exercise Of Outstanding Options	Weighted-Average Exercise Price Of Outstanding Options	Number Of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders(1)	1,789,494	$ 0.61	4,410,506
Total:	1,789,494	$ 0.61	4,410,506

(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 2018 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.

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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 2018 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 2017 and 2016. 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, 2017 and December 31, 2016:

FEE CATEGORY	**2017**	**2016**
Audit fees (1)	$ 159,757	$ 158,620
Audit-related fees (2)	—	42,230
Total fees	$ 159,757	$ 200,850

(1) *Audit Fees.* Consists of fees billed for professional services rendered for the audit of Zoom's consolidated financial statements and review of the interim consolidated 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 consolidated financial statements and are not reported under "Audit Fees". For 2016, fees are related to a private placement.

All services rendered by Marcum LLP for fiscal years 2016 and 2017 were permissible under applicable laws and regulations, and were pre-approved by the Audit Committee.

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PART IV

ITEM 15 – EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES *

(a) Consolidated Financial Statements, Schedules and Exhibits:

(1),(2) The consolidated 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 reference to Exhibit 3.1 to Zoom Telephonics, Inc. Registration Statement on Form 10, filed with the Commission on September 4, 2009). *
3.2	Amendment to Amended and Restated Certificate of Incorporation of Zoom Telephonics, Inc. (incorporated by the reference to Exhibit 3.1 to the Form 8-K filed by the Company on November 18, 2015)*
3.3	Certificate of Designation of Series A Junior Participating Preferred Stock (incorporated by reference to Exhibit 3.2 to the Form 8-K filed by the Company on November 18, 2015)*
3.4	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).*
4.1	Section 382 Rights Agreement, dated as of November 18, 2015, between Zoom Telephonics, Inc. and Computershare Trust Company, N.A., which includes the Form of Certificate of Designation of Series A Preferred Stock as Exhibit A, the Form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Stock as Exhibit C (incorporated by reference to Exhibit 4.1 to the Form 8-K filed by the Company on November 18, 2015)*
10.1	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).* **
10.2	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).* **
10.3	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).* **
10.4	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).* **
10.5	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).* **
10.6	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)* **
10.7	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)* **
10.8	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)* **

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10.9	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)*
10.10	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)*
10.11	Amendment dated March 25, 2014, effective January 1, 2013 to Financing Agreement, dated December 18, 2012, between Zoom Telephonics, Inc. and Rosehthal & Rosenthal, Inc. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company on November 3, 2015)*
10.12	Amendment dated October 29, 2015, effective January 1, 2013, to 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 filed by the Company on November 3, 2015)*
10.13	Form of Common Stock Subscription Agreement (incorporated by reference to Exhibit 10.2 to the Form 8-K filed by the Company on September 28, 2015)*
10.14	Amendment dated July 19, 2016 to 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 filed by the Company on July 25, 2016)*
10.15	Amendment dated September 1, 2016 to 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 filed by the Company on September 8, 2016)*
10.16	Form of Common Stock Subscription Agreement (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company on September 26, 2016)*
10.17†	License Agreement, dated May 13, 2015, between Zoom Telephonics, Inc. and Motorola Mobility LLC (incorporated by reference to Exhibit 10.3 to the Form 10-Q/A filed by the Company on December 6, 2016)*
10.18†	Amendment to License Agreement, dated August 16, 2016, between Zoom Telephonics, Inc. and Motorola Mobility LLC (incorporated by reference to Exhibit 10.4 to the Form 10-Q/A filed by the Company on December 6, 2016)*
10.19†	Amendment to License Agreement, dated August 21, 2017, between Zoom Telephonics, Inc. and Motorola Mobility LLC (incorporated by reference to Exhibit 10.1 to the Form 10-Q filed by the Company on November 9, 2017)*
21.1***	Subsidiaries
23.1***	Independent Registered Public 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.
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

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* 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.

*** Filed herewith.

† Confidential portions of this exhibit have been redacted and filed separately with the SEC pursuant to a confidential treatment request in accordance with Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

†† This certification shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

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

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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 30, 2018

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

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 and Accounting Officer, Acting Chief Financial Officer, and Chairman of the Board	March 30, 2018
/s/ Robert Crowley Robert Crowley	Director	March 30, 2018
/s/ Joseph Donovan Joseph Donovan	Director	March 30, 2018
/s/ Philip Frank Philip Frank	Director	March 30, 2018
/s/ Peter R. Kramer Peter R. Kramer	Director	March 30, 2018
/s/ Peter Sykes Peter Sykes	Director	March 30, 2018

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ZOOM TELEPHONICS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Zoom Telephonics, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zoom Telephonics, Inc. (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Marcum LLP

Marcum LLP

We have served as the Company's auditor since 2009; such date takes into account the acquisition of a portion of UHY LLP by Marcum LLP in April 2010.

New Haven, CT
March 30, 2018

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ZOOM TELEPHONICS, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016

	December 31,	
	2017	**2016**
ASSETS		
Current assets		
Cash and cash equivalents	$ 229,218	$ 179,846
Accounts receivable, net of allowances of $582,126 and $507,296 at December 31, 2017 and 2016, respectively	2,229,512	2,498,259
Inventories, net	5,202,303	4,926,612
Prepaid expenses and other current assets	578,406	652,402
Total current assets	8,239,439	8,257,119
Equipment, net	161,574	175,743
Other assets	391,668	588,907
Total assets	$ 8,792,681	$ 9,021,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Bank credit line	$ 90,260	$ 1,306,620
Accounts payable	3,526,851	2,502,323
Accrued sales tax	831,000	—
Accrued other expenses	1,172,984	1,051,616
Total current liabilities	5,621,095	4,860,559
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock: Authorized: 25,000,000 shares at $0.01 par value		
Issued and outstanding: 15,286,540 shares and 14,685,290 shares at December 31, 2017 and 2016, respectively	152,865	146,853
Additional paid-in capital	40,265,282	39,893,919
Accumulated deficit	(37,246,561)	(35,879,562)
Total stockholders' equity	3,171,586	4,161,210
Total liabilities and stockholders' equity	$ 8,792,681	$ 9,021,769

See accompanying notes.

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ZOOM TELEPHONICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2017 and 2016

	2017	2016
Net sales	$ 29,417,990	$ 17,834,237
Cost of goods sold	19,176,612	12,467,080
Gross profit	10,241,378	5,367,157
Operating expenses:		
Selling	7,244,514	5,187,849
General and administrative	1,433,499	1,541,249
Research and development	1,944,690	1,522,510
Sales tax expense	831,000	—
Total operating expenses	11,453,703	8,251,608
Operating profit (loss)	(1,212,325)	(2,884,451)
Other :		
Interest income	100	254
Interest expense	(98,757)	(54,452)
Other income (expense), net	(41,357)	12,579
Total other income (expense), net	(140,014)	(41,619)
Income (loss) before income taxes	(1,352,339)	(2,926,070)
Income taxes	14,660	7,070
Net income (loss)	$ (1,366,999)	$ (2,933,140)
Basic and diluted net income (loss) per share	$ (0.09)	$ (0.21)
Weighted average common and common equivalent shares:		
Basic and Diluted	14,917,301	13,907,957

See accompanying notes.

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ZOOM TELEPHONICS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2017 and 2016

	Common Stock				
	Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Total
Balance at January 1, 2016	13,477,803	$ 134,778	$ 37,965,230	$ (32,946,422)	$ 5,153,586
Net income (loss)	—	—	—	(2,933,140)	(2,933,140)
Private placement offering (net of issuance costs of $38,583)	619,231	6,192	1,484,726	—	1,490,918
Stock option exercise	588,256	5,883	266,005	—	271,888
Stock based compensation	—	—	177,958	—	177,958
Balance at December 31, 2016	14,685,290	$ 146,853	$ 39,893,919	$ (35,879,562)	$ 4,161,210
Net income (loss)	—	—	—	(1,366,999)	(1,366,999)
Stock option exercise	601,250	6,012	175,050		181,062
Stock based compensation	—	—	196,313	—	196,313
Balance at December 31, 2017	15,286,540	$ 152,865	$ 40,265,282	$ (37,246,561)	$ 3,171,586

See accompanying notes.

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ZOOM TELEPHONICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
Operating activities:		
Net income (loss)	$ (1,366,999)	$ (2,933,140)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation	196,313	177,958
Depreciation and amortization	500,078	544,694
Provision (recovery) for accounts receivable allowances	(677)	7,887
Provision for inventory reserves	200,357	32,051
Changes in operating assets and liabilities:		
Accounts receivable	269,424	(1,427,001)
Inventories	(476,048)	(2,174,053)
Prepaid expense and other current assets	35,116	(271,197)
Accounts payable and accrued expenses	1,976,896	1,837,680
Net cash provided by (used in) operating activities	1,334,460	(4,205,121)
Investing activities:		
Purchases of plant and equipment	(99,790)	(58,163)
Cost of other assets	(150,000)	(473,000)
Net cash provided by (used in) investing activities	(249,790)	(531,163)
Financing activities:		
Proceeds from stock option exercise	181,062	271,888
Proceeds from private placement offering	—	1,529,501
Issuance costs of private placement offering	—	(38,583)
Net (payments to) proceeds from bank credit lines	(1,216,360)	1,306,620
Net cash provided by (used in) financing activities	(1,035,298)	3,069,426
Net change in cash	49,372	(1,666,858)
Cash and cash equivalents at beginning of year	179,846	1,846,704
Cash and cash equivalents at end of year	$ 229,218	$ 179,846
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 98,757	$ 54,452
Income taxes	$ 14,660	$ 7,070

See accompanying notes.

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ZOOM TELEPHONICS, INC.
Notes to Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

(1) NATURE OF OPERATIONS

Zoom Telephonics, Inc. and its wholly owned subsidiary MTRLC LLC (collectively the "Company"), designs, produces, markets and supports cable modems and other communication products.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Use of Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in the consolidation.

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated 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; 3) stock based compensation; 4) management's assessment of going concern; 5) and estimated life of certification costs.

(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 can be 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 net realizable value. 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 $958,500 and $442,300 at December 31, 2017 and 2016, respectively.

(d) Equipment

Equipment is stated at cost, less accumulated depreciation. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the assets.

(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.

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(f) Other Assets

Other assets are stated at cost, less accumulated amortization. Certain certification costs incurred that are necessary to market and sell products are capitalized and reported as "other assets" in the accompanying consolidated balance sheets when the costs are measurable, significant, and relating to products that are projected to generate revenue beyond twelve months. These costs are amortized over an eighteen-month period, beginning when the related products are available to be sold. Total certification costs capitalized during the year ended December 31, 2017 were $150,000, with related amortization expense of $386,119 in 2017. Total certification costs capitalized during the year ended December 31, 2016 were $473,000, with related amortization expense of $457,142 in 2016.

(g) 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.

(h) Sales Tax

The Company recorded a sales tax accrual in 2017 after the Company became aware that a state sales tax liability was both probable and estimable as of December 31, 2017. The state sales tax liability stems from the Company's 'Fulfilled By Amazon' sales agreement which allows Amazon to warehouse the Company's inventory throughout a number of states. As a result, the Company recorded an expense of $831 thousand in Q4 2017.

(i) Earnings (Loss) Per Common Share

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

Diluted earnings (loss) per common share for the years ended December 31, 2017 and 2016 exclude the effects of 1,268,295 and 1,821,784 common share equivalents, respectively, since such inclusion would be anti-dilutive. The common share equivlents consist of common shares issuable upon exercise of outstanding stock options.

(j) 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 does not sell software.

The Company derives its net sales primarily from the sales of hardware products to computer peripherals retailers, computer product distributors, OEMs, and direct to consumers and other channel partners via the Internet. The Company accounts for point-of-sale taxes on a net basis.

The Company recognizes net hardware sales at the point when the customers take legal ownership of the delivered products. Legal ownership passes to the customer based on the contractual delivery terms specified in signed contracts and purchase orders, which are both used extensively. Many customer contracts or purchase orders specify FOB destination, which means buyer takes delivery of goods once the goods arrive at the buyers dock.

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

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The Company's net sales of hardware are reduced by certain events that 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. These are 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. Product return reserves were approximately $439.2 thousand and $343.3 thousand at December 31, 2017 and 2016, respectively. 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. Price protection reserves were negligible at both December 31, 2017 and at December 31, 2016. 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. Rebate reserves were negligible at December 31, 2017 and approximately $38.4 thousand at December 31, 2016. Additionally, sales and marketing incentive reserves were approximately $127.8 thousand and $109.7 thousand at December 31, 2017 and 2016, respectively. The Company's allowances for doubtful accounts were approximately $15.1 thousand and $16.0 thousand at December 31, 2017 and 2016, respectively. These allowances are included in allowances for accounts receivable on the accompanying consolidated balance sheets.

(k) 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 that 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, accounts receivable, bank debt, and accounts payable. Due to the short-term nature and payment terms associated with these instruments, their carrying amounts approximate fair value.

(l) 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 wherein the discount rate is based on published daily treasury interest rates for zero-coupon bonds available from the US Treasury. Volatility is based on the historical volatility over a period that is commensurate with the expected life of the option granted.

(m) Advertising Costs

Advertising costs are expensed as incurred and reported in selling expense in the accompanying consolidated statements of operations, and include costs of advertising, production, trade shows, and other activities designed to enhance demand for the Company's products. The Company reported advertising costs of approximately $2.23 million in 2017 and $1.34 million in 2016.

(n) 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

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transaction gains and losses are reflected in operations and were not material for any period presented. The Company does not use derivative financial instruments for hedging purposes.

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(o) 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 $27,789 and $23,310 at December 31, 2017 and 2016, respectively.

(p) 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 $563.1 thousand in 2017 and $396.3 thousand in 2016.

(q) Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheets, a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (the lease asset). For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-02 may have on its consolidated financial statements.

In May 2014 the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers,” which supersedes the revenue recognition requirements in Topic 605, “Revenue Recognition,” and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. In December 2016, the FASB issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” which continues the FASB's ongoing project to issue technical corrections and improvements to clarify the codification or correct unintended applications of guidance. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. In September 2017, the FASB Issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842),” which provides additional implementation guidance on the previously issued ASU 2014-09. Overall, ASU No. 2014-09, as amended, provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented.

The Company will use the modified retrospective method to adopt the provisions of this standard effective January 1, 2018, which requires us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, our consolidated revenues for the periods prior to January 1, 2018 will not be revised. The Company does not expect to record a significant cumulative effect adjustment to its beginning retained earnings as a result of adoption of Topic 606.

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

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guidance is effective (modified-retrospective approach). The Company is currently evaluating the potential impact that the adoption of ASU 2016-13 may have on its consolidated financial statements, however, it does not expect it to have a material effect.

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(3) LIQUIDITY

Zoom's cash balance on December 31, 2017 was $229 thousand compared to $180 thousand on December 31, 2016. Reductions in cash due were the FY 2017 loss of $1.4 million, paydown in debt by $1.2 million, and increase in inventory of $0.3 million. Sources of cash were increased accounts payable and accrued liabilities of $2.8 million and decrease in accounts receivable of $0.3 million. On December 31, 2017, Zoom had $90 thousand in bank debt outstanding on a $3.0 million line of credit, working capital of $2.6 million, and a current ratio of 1.7. Loan availiablity is based on eligible receivables and approximately $2.5 million was available to be borrowed as of December 31, 2017.

Although the Company has experienced losses in the past, we continue to experience significant sales growth and increased gross margin. We reported net profit of $377 thousand in Q3, 2017 and net loss of $387 in Q4, 2017. This is Zoom's second consecutive year with sales growth of 65%. The Company expects year-over-year growth to continue due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the associated reduction in net loss, and its Financing Agreement, the Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of our annual filing with the Securities Exchange Commission. The Financing Agreement has a maturity date of November 2018, and automatically renews unless cancelled under terms of agreement.

(4) INVENTORIES

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

	2017	2016
Materials	$ 1,524,728	$ 888,830
Work in process	1,149	27,708
Finished goods	3,676,426	4,010,074
Total	$ 5,202,303	$ 4,926,612

Finished goods includes consigned inventory held by our customers of $958,500 and $442,300 at December 31, 2017 and 2016, respectively. The Company reviews inventory for obsolete and slow moving products each quarter and makes provisions based on its estimate of the probability that the material will not be consumed or that it will be sold below cost. The provision for inventory reserves was $200,357 and $32,051 for the years ended December 31, 2017 and 2016, respectively.

(5) EQUIPMENT

Equipment consists of the following at December 31:

	2017	2016	Estimated Useful lives in years
Computer hardware and software	$ 233,705	$ 222,660	3
Machinery and equipment	280,061	274,833	5
Molds, tools and dies	362,791	279,274	5
Office furniture and fixtures	40,001	40,001	5
	916,558	816,768	
Accumulated depreciation	(754,984)	(641,025)	
Equipment, net	$ 161,574	$ 175,743	
Depreciation expense for the year ended	$ 113,959	$ 87,551	

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(6) COMMITMENTS AND CONTINGENCIES

(a) Lease Obligations

In June 2016 the Company signed a three year sub-lease agreement for 11,480 square feet on the 28th floor of 99 High Street, Boston, MA 02110, The lease for this facility expires on June 30, 2019.

The Company performs most of the final assembly, testing, packaging, warehousing and distribution at a production and warehouse facility in Tijuana, Mexico. In November 2014, the Company signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility. In September 2015, the Company extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, the Company also signed a new lease for additional space in the adjacent building, which doubles our existing capacity. The term of the lease is from March 1, 2016 through November 30, 2018 with early access granted as of December 1, 2015.

In order to facilitate the Company’s current and planned increase in production demand, driven in part by the launch of Motorola branded products, the Company has committed with North American Production Sharing, Inc. (“NAPS”) to extend its existing lease used in connection with the Production Sharing Agreement (“PSA”) entered into between the Company and NAPS. The extension term is December 1, 2015 through November 30, 2018 and allows the Company to contract additional Mexico personnel to work in the Tijuana facility.

Rent expense for all of the Company's leases was $512.4 thousand in 2017 and $500.0 thousand in 2016.

As of December 31, 2017, 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 $526.3 thousand for 2018, and $218.1 thousand for 2019. There are no future minimum committed rental payments that extend beyond 2019.

(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 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 the loss cannot be made. The Company expenses its legal fees as incurred.

On May 17, 2016, Magnacross LLC ("Magnacross") filed a complaint in the U.S. District Court for the Eastern District of Texas (U.S.D.C., E.D.Tex.) against the Company alleging infringement of U.S. Patent No. 6,917,304 (“the ’304 patent”) entitled “Wireless Multiplex Data Transmission System.” Magnacross alleged that the Company’s wireless routers, including its Model 5363, 5360, and 5354 (N300, N600, and AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case was resolved on February 2, 2017 with the entry by the judge of an Order of Dismissal with Prejudice.

(c) Commitments

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

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

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

In connection with the License Agreement, the Company has committed to reserve a certain percentage of wholesale prices for use in advertising, merchandising and promotion of the related products. Additionally, the Company is required to make quarterly royalty payments equal to a certain percentage of the preceding quarter's net sales with minimum annual royalty payments as follows:

Year ending December 31,

2018	$ 3,500,000
2019:	$ 4,500,000
2020:	$ 5,100,000

Royalty expense under the License Agreement amounted to $3,000,000 for 2017 and $2,000,000 for 2016, and is included in selling expense on the accompanying consolidated statements of operations.

(7) STOCK OPTION PLANS

2009 Stock Option Plan

On December 10, 2009, the Company established the *2009 Stock Option Plan* (the "Option Plan") 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 Option Plan provides for 5,500,000 shares of common stock for issuance upon the exercise of stock options granted under the plan. 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, 2016	2,536,500	$ 0.38
Granted	120,000	1.91
Exercised	(573,256)	0.46
Expired	(162,500)	1.89
Balance as of December 31, 2016	1,920,744	0.32
Granted	110,000	1.98
Exercised	(571,250)	0.30
Expired	---	---
Balance as of December 31, 2017	1, 459,494	$ 0.45

The weighted average grant date fair value of options granted was $1.16 in 2017. The weighted average grant date fair value of options granted was $1.10 in 2016. The aggregate intrinsic value of options outstanding was approximately $2.6 million at December 31, 2017 and approximately $3.9 million at December 31, 2016. The aggregate intrinsic value of exercisable options was approximately $2.5 million at December 31, 2017 and $3.3 million at December 31, 2016. As of December 31, 2017 there remained 2,639,500 shares available to be issued under the Option Plan.

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The following table summarizes information about fixed stock options under the *2009 Stock Option Plan* outstanding on December 31, 2017.

		Options Outstanding			Options Exercisable	
Exercise Prices		**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$	0.18 to 0.25	1,255,500	1.24	$ 0.25	1,255,500	$ 0.25
$	0.90 to 1.69	73,994	2.68	$ 1.14	63,994	$ 1.05
$	1.94 to 2.39	130,000	4.32	$ 2.04	28,750	$ 2.17
$	0.18 to 2.39	1,459,494	1.59	$ 0.45	1,348,244	$ 0.33

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, 2016	225,000	$ 0.51
Granted	60,000	2.45
Exercised	(15,000)	0.36
Expired	---	---
Balance as of December 31, 2016	270,000	0. 95
Granted	90,000	2.07
Exercised	(30,000)	0.26
Balance as of December 31, 2017	330,000	$ 1.32

The weighted average grant date fair value of options granted was $1.12 in 2017 and $1.39 in 2016. The aggregate intrinsic value of options outstanding was approximately $0.3 million at December 31, 2017 and $0.4 million at December 31, 2016. The aggregate intrinsic value of exercisable options was approximately $0.3 million at December 31, 2017 and $0.4 million at December 31, 2016. As of December 31, 2017 there remained 295,000 shares available to be issued under the Directors Plan.

The following table summarizes information about fixed stock options under the Directors Plan on December 31, 2017.

		Options Outstanding			Options Exercisable	
Exercise Prices		**Number Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number Exercisable**	**Weighted Average Exercise Price**
$	0.12-0.20	97,500	1.1	$ 0.16	97,500	$ 0.16
$	0.84-1.20	82,500	2.8	$ 1.05	82,500	$ 1.05
$	2.00-2.85	150,000	3.9	$ 2.22	150,000	$ 2.22
$	0.12-2.85	330,000	2.80	$ 1.32	330,000	$ 1.32

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The Black-Scholes range of assumptions for the Option Plan and the Directors Plan are shown below:

	2017	2016
Assumptions:		
Expected life	2.75 (yrs) - 3.5 (yrs)	2.75 (yrs) - 3.5 (yrs)
Expected volatility	74.67% - 95.30%	85.75% - 91.54%
Risk-free interest rate	1.44% - 1.92%	0.68% - 1.19%
Expected dividend yield	0.00%	0.00%

The unrecognized stock based compensation expense related to non-vested stock awards was approximately $56 thousand as of December 31, 2017. This amount will be recognized through the fourth quarter of 2019.

(8) INCOME TAXES

Income tax expense consists of:

	Current	Deferred	Total
Year Ended December 31, 2016:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	7,070	—	7,070
	$ 7,070	$ —	$ 7,070
Year Ended December 31, 2017:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	14,660	—	14,660
	$ 14,660	$ —	$ 14,660

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

	2016	2017
Computed "expected" US tax (benefit) at Federal statutory rate	$ (997,268)	$ (287,070)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	(185,083)	(101,924)
Valuation allowance	1,219,633	(6,663,556)
Non—deductible items	(162,068)	(94,344)
Expired Federal capital loss	127,855	—
Federal rate change	—	7,160,556
State net operating loss true up and rate change	4,001	998
Income tax expense	$ 7,070	$ 14,660

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Temporary differences at December 31 follow:

	2016	2017
Deferred income tax assets:		
Inventories	$ 116,776	$ 135,077
Accounts receivable	141,587	128,817
Accrued expenses	83,227	272,008
Net operating loss and tax credit carry forwards	19,562,969	12,714,278
Plant and equipment	535	8,389
Stock compensation	128,524	111,493
Other – investment impairments	—	—
Total deferred income tax assets	20,033,618	13,370,062
Valuation allowance	(20,033,618)	(13,370,062)
Net deferred tax assets	$ —	$ —

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that significantly revised the U.S. tax code effective January 1, 2018 by, among other things, lowering the corporate income tax rate from a top marginal rate of 35% to a flat 21%. We have recorded a tax provision of $7,160,556 due to a re-measurement of deferred tax assets and liabilities for tax rate changes due to the Tax Act, which was fully offset by a valuation allowance. Other than the reduction in statutory rate, the Company does not anticipate the regulations will have a material impact on income taxes in future years.

As of December 31, 2017 the Company had federal net operating loss carry forwards of approximately $54,595,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2037. As of December 31, 2017, the Company had state net operating loss carry forwards of approximately $8,879,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2037. A valuation allowance has been established for the full amount of deferred income tax assets as management has concluded that it is more-likely than-not that the benefits from such assets will not be realized.

The Company reviews annually the 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 December 31, 2017 and 2016, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2017 and 2016.

The Company files income tax returns in the United States and Mexico. Tax years subsequent to 2012 remain subject to examination for both US federal and state tax reporting purposes. Tax years subsequent to 2010 remain subject to examination for Mexico tax reporting purposes. The foreign income tax reported represents tax on operations for the Company that is located in a special economic zone in Mexico. Other than the Mexico facility, the Company has no operations in a foreign location.

(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 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.

Few customers account for a substantial portion of the Company's revenues. In 2017, two customers accounted for 10% or greater individually and 40% in the aggregate of the Company's total net sales. At December 31, 2017, two customers with an accounts receivable balance of 10% or greater individually accounted for a combined 71% of the Company's accounts receivable. In 2016, two customers accounted for 10% or greater individually and 53% in the aggregate of the Company's total net sales. At December 31, 2016 three customers with an accounts receivable balance of 10% or greater individually accounted for a combined 86% of the Company's accounts receivable. Additionally, revenues from sales fulfilled by Amazon accounted for 51% and 29% of our total sales for the years ended December 31, 2017 and 2016, respectively, and represented 13% and 5% of the Company's total accounts receivable balance at December 31, 2017 and 2016, respectively.

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(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 North America. Net sales information follows:

	2016	Percent	2017	Percent
North America	$ 17,632,535	99%	$ 29,006,661	99%
Outside North America	201,702	1%	411,329	1%
Total	$ 17,834,237	100%	$ 29,417,990	100%

(11) DEPENDENCE ON KEY SUPPLIERS

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. In 2017, the Company had one supplier that provided 97% of the Company's purchased inventory. In 2016, the Company had one supplier that provided 92% of the Company's purchased inventory.

(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 2016 and 2017 were $6,705 and $6,352, respectively.

(13) BANK CREDIT LINE

On December 18, 2012, the Company entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the “Financing Agreement”). The Financing Agreement provided 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 continued until November 30, 2014 and automatically renews from year to year thereafter, unless sooner terminated by either party as specified in the Financing Agreement. The Lender shall have the right to terminate the Financing Agreement at any time by giving the Company sixty days’ prior written notice. Borrowings are secured by all of the Company assets including intellectual property. The Loan Agreement contained several covenants, including a requirement that the Company maintain tangible net worth of not less than $2.5 million and working capital of not less than $2.5 million.

On March 25, 2014, the Company entered into an amendment to the Financing Agreement (the “Amendment”) with an effective date of January 1, 2013. The Amendment clarified the definition of current assets in the Financing Agreement, reduced the size of the revolving credit line to $1.25 million, and revised the financial covenants so that Zoom is required to maintain tangible net worth of not less than $2.0 million and working capital of not less than $1.75 million.

On October 29, 2015, the Company entered into a second amendment to the Financing Agreement (the “Second Amendment”). Retroactive to October 1, 2015, the Second Amendment eliminated $2,500 in monthly charges for the Financing Agreement. Effective December 1, 2015, the Second Amendment reduces the effective rate of interest to 2.25% plus an amount equal to the higher of prime rate or 3.25%.

On July 19, 2016, the Company entered into a third amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $2.5 million effective as of date of the amendment.

On September 1, 2016, the Company entered into a fourth amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $3.0 million effective with the date of this amendment.

The Company is required to calculate its covenant compliance on a quarterly basis as of December 31, 2017, the Company was in compliance with both its working capital and tangible net worth covenants. At December 31, 2017, the Company’s tangible

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net worth was approximately $2.8 million, while the Company's working capital was approximately $2.6 million. Loan availiablity is based on certain eligible receivables. Approximately $2.5 million was available to be borrowed as of December 31, 2017.

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(14) STOCKHOLDERS EQUITY

The Company raised approximately $1.5 million from a private placement in October 2016 and incurred issuance costs of approximately $39 thousand resulting in net proceeds of approximately $1.5 million.

(15) SUBSEQUENT EVENTS

Management of the Company has reviewed subsequent events from December 31, 2017 through the date of filing and has concluded that there were no subsequent events requiring adjustment to or disclosure in these consolidated financial statements.

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EXHIBIT 21.1

SUBSIDIARIES

MTRLC LLC, a wholly owned subsidiary of Zoom Telephonics, Inc., is a limited liability company organized in Delaware that focuses on the sale of our Motorola brand products.

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EXHIBIT 23.1

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Zoom Telephonics, Inc. on Form S-8 [File Nos. 333-209807 and 333-173143] of our report dated March 30, 2018 with respect to our audits of the consolidated financial statements of Zoom Telephonics, Inc. as of December 31, 2017 and 2016 and for each of the two years in the period ended December 31, 2017, which report is included in this Annual Report on Form 10-K of Zoom Telephonics, Inc. for the year ended December 31, 2017.

/s/ Marcum LLP

Marcum LLP
New Haven, Connecticut
March 30, 2018

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EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Frank B. Manning, President, Chief Executive Officer, and Acting Chief Financial Officer of Zoom Telephonics, Inc., certify that:

1) I have reviewed this Annual Report on Form 10-K of Zoom Telephonics, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) As the registrant's certifying officer, I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 30, 2018

By: /s/ Frank B. Manning

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

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EXHIBIT 32.1

CERTIFICATION

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).

In connection with this report on Form 10-K of Zoom Telephonics, Inc. (the "Company") for the period ended December 31, 2017 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), the undersigned, Frank B. Manning, President, Chief Executive Officer and Acting Chief Financial Officer, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 30, 2018

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

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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Document and Entity Information - USD ($)	12 Months Ended Dec. 31, 2017	Mar. 19, 2018	Jun. 30, 2017
Document And Entity Information			
Entity Registrant Name	Zoom Telephonics, Inc.		
Entity Central Index Key	0001467761		
Document Type	10-K		
Document Period End Date	Dec. 31, 2017		
Amendment Flag	false		
Current Fiscal Year End Date	--12-31		
Is Entity a Well-known Seasoned Issuer?	No		
Is Entity a Voluntary Filer?	No		
Is Entity's Reporting Status Current?	Yes		
Entity Filer Category	Smaller Reporting Company		
Entity Public Float			$ 25,775,434
Entity Common Stock, Shares Outstanding		15,874,040	
Document Fiscal Period Focus	FY		
Document Fiscal Year Focus	2017		

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CONSOLIDATED BALANCE SHEETS - USD ($)	Dec. 31, 2017	Dec. 31, 2016
Current assets		
Cash and cash equivalents	$ 229,218	$ 179,846
Accounts receivable, net of allowances of $582,126 and $507,296 at December 31, 2017 and 2016, respectively	2,229,512	2,498,259
Inventories, net	5,202,303	4,926,612
Prepaid expenses and other current assets	578,406	652,402
Total current assets	8,239,439	8,257,119
Equipment, net	161,574	175,743
Other assets	391,668	588,907
Total assets	8,792,681	9,021,769
Current liabilities		
Bank credit line	90,260	1,306,620
Accounts payable	3,526,851	2,502,323
Accrued sales tax	831,000	0
Accrued other expenses	1,172,984	1,051,616
Total current liabilities	5,621,095	4,860,559
Commitments and contingencies (Note 6)		
Stockholders' equity		
Common stock: Authorized: 25,000,000 shares at $0.01 par value Issued and outstanding: 15,286,540 shares and 14,685,290 shares at December 31, 2017 and 2016, respectively	152,865	146,853
Additional paid-in capital	40,265,282	39,893,919
Accumulated deficit	(37,246,561)	(35,879,562)
Total stockholders' equity	3,171,586	4,161,210
Total liabilities and stockholders' equity	$ 8,792,681	$ 9,021,769

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CONSOLIDATED BALANCE SHEETS (Parenthetical) - USD ($)	Dec. 31, 2017	Dec. 31, 2016
Assets		
Accounts receivable allowances	$ 582,126	$ 507,296
Stockholders Equity		
Common stock, par value	$ 0.01	$ 0.01
Common stock, authorized	25,000,000	25,000,000
Common stock, issued	15,286,540	14,685,290
Common stock, outstanding	15,286,540	14,685,290

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Income Statement [Abstract]		
Net sales	$ 29,417,990	$ 17,834,237
Cost of goods sold	19,176,612	12,467,080
Gross profit	10,241,378	5,367,157
Operating expenses:		
Selling	7,244,514	5,187,849
General and administrative	1,433,499	1,541,249
Research and development	1,944,690	1,522,510
Sales tax expense	831,000	0
Total	11,453,703	8,251,608
Operating profit (loss)	(1,212,325)	(2,884,451)
Other:		
Interest income	100	254
Interest expense	(98,757)	(54,452)
Other income (expense), net	(41,357)	12,579
Total other income (expense), net	(140,014)	(41,619)
Income (loss) before income taxes	(1,352,339)	(2,926,070)
Income taxes	14,660	7,070
Net income (loss)	$ (1,366,999)	$ (2,933,140)
Other comprehensive income (loss):		
Basic and diluted net income (loss) per share	$ (0.09)	$ (0.21)
Weighted average common and common equivalent shares:		
Basic and diluted	14,917,301	13,907,957

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY - USD ($)	Common Stock	Additional Paid In Capital	Accumulated Deficit	Total
Beginning Balance, Amount at Dec. 31, 2015	$ 134,778	$ 37,965,230	$ (32,946,422)	$ 5,153,586
Beginning Balance, Shares at Dec. 31, 2015	13,477,803			13,477,803
Net income (loss)			(2,933,140)	$ (2,933,140)
Private placement offering (net of issuance costs, Amount	$ 6,192	1,484,726		1,490,918
Private placement offering (net of issuance costs, Shares	619,231			
Stock option exercise	$ 5,883	266,005		271,888
Stock option exercise, Shares	588,256			
Stock based compensation		177,958		177,958
Ending Balance, Amount at Dec. 31, 2016	$ 146,853	39,893,919	(35,879,562)	$ 4,161,210
Ending Balance, Shares at Dec. 31, 2016	14,685,290			14,685,290
Net income (loss)			(1,366,999)	$ (1,366,999)
Stock option exercise	$ 6,012	175,050		181,062
Stock option exercise, Shares	601,250			
Stock based compensation		196,313		196,313
Ending Balance, Amount at Dec. 31, 2017	$ 152,865	$ 40,265,282	$ (37,246,561)	$ 3,171,586
Ending Balance, Shares at Dec. 31, 2017	15,286,540			15,286,540

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CONSOLIDATED STATEMENTS OF CASH FLOWS - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Operating activities:		
Net income (loss)	$ (1,366,999)	$ (2,933,140)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation	196,313	177,958
Depreciation and amortization	500,078	544,694
Provision (recovery) for accounts receivable allowances	(677)	7,887
Provision for inventory reserves	200,357	32,051
Changes in operating assets and liabilities:		
Accounts receivable	269,424	(1,427,001)
Inventories	(476,048)	(2,174,053)
Prepaid expense and other current assets	35,116	(271,197)
Accounts payable and accrued expenses	1,976,896	1,837,680
Net cash provided by (used in) operating activities	1,334,460	(4,205,121)
Investing activities:		
Purchases of plant and equipment	(99,790)	(58,163)
Other assets	(150,000)	(473,000)
Net cash provided by (used in) investing activities	(249,790)	(531,163)
Financing activities:		
Proceeds from stock option exercise	181,062	271,888
Proceeds from private placement offering	0	1,529,501
Issuance costs of private placement offering	0	(38,583)
Net (payments to) proceeds from bank credit lines	(1,216,360)	1,306,620
Net cash provided by (used in) financing activities	(1,035,298)	3,069,426
Net change in cash	49,372	(1,666,858)
Cash and cash equivalents at beginning of year	179,846	1,846,704
Cash and cash equivalents at end of year	229,218	179,846
Cash paid during the period for:		
Cash paid during the period for: Interest	98,757	54,452
Cash paid during the period for: Income taxes	$ 14,660	$ 7,070

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1. NATURE OF OPERATIONS	12 Months Ended Dec. 31, 2017
Organization, Consolidation and Presentation of Financial Statements [Abstract]	
NATURE OF OPERATIONS	Zoom Telephonics, Inc. and its wholly owned subsidiary MTRLC LLC (collectively the "Company"), designs, produces, markets and supports cable modems and other communication products.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Notes to Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

12 Months Ended

Dec. 31, 2017

(a) Basis of Presentation and Use of Estimates

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in the consolidation.

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated 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; 3) stock based compensation; 4) management's assessment of going concern; 5) and estimated life of certification costs.

(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 can be 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 net realizable value. 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 $958,500 and $442,300 at December 31, 2017 and 2016, respectively.

(d) Equipment

Equipment is stated at cost, less accumulated depreciation. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the assets.

(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) Other Assets

Other assets are stated at cost, less accumulated amortization. Certain certification costs incurred that are necessary to market and sell products are capitalized and reported as "other assets" in the accompanying consolidated balance sheets when the costs are measurable, significant, and relating to products that are projected to generate revenue beyond twelve months. These costs are amortized over an eighteen-month period, beginning when the related products are available to be sold. Total certification costs capitalized during the year ended December 31, 2017 were $150,000, with related amortization expense of $386,119 in 2017. Total certification costs capitalized during the year ended December 31, 2016 were $473,000, with related amortization expense of $457,142 in 2016.

(g) 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

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that includes the enactment date. A valuation allowance is provided for that portion of deferred tax assets not expected to be realized.

(h) Sales Tax

The Company recorded a sales tax accrual in 2017 after the Company became aware that a state sales tax liability was both probable and estimable as of December 31, 2017. The state sales tax liability stems from the Company's 'Fulfilled By Amazon' sales agreement which allows Amazon to warehouse the Company's inventory throughout a number of states. As a result, the Company recorded an expense of $831 thousand in Q4 2017.

(i) Earnings (Loss) Per Common Share

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

Diluted earnings (loss) per common share for the years ended December 31, 2017 and 2016 exclude the effects of 1,268,295 and 1,821,784 common share equivalents, respectively, since such inclusion would be anti-dilutive. The common share equivlents consist of common shares issuable upon exercise of outstanding stock options.

(j) 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 does not sell software.

The Company derives its net sales primarily from the sales of hardware products to computer peripherals retailers, computer product distributors, OEMs, and direct to consumers and other channel partners via the Internet. The Company accounts for point-of-sale taxes on a net basis.

The Company recognizes net hardware sales at the point when the customers take legal ownership of the delivered products. Legal ownership passes to the customer based on the contractual delivery terms specified in signed contracts and purchase orders, which are both used extensively. Many customer contracts or purchase orders specify FOB destination, which means buyer takes delivery of goods once the goods arrive at the buyers dock.

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

The Company's net sales of hardware are reduced by certain events that 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. These are 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. Product return reserves were approximately $439.2 thousand and $343.3 thousand at December 31, 2017 and 2016, respectively. 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. Price protection reserves were negligible at both December 31, 2017 and at December 31, 2016. 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. Rebate reserves were negligible at December 31, 2017 and approximately $38.4 thousand at December 31, 2016. Additionally, sales and marketing incentive reserves were approximately $127.8 thousand and $109.7 thousand at December 31, 2017 and 2016, respectively. The Company's allowances for doubtful accounts were approximately $15.1 thousand and $16.0 thousand at December 31, 2017 and 2016, respectively. These allowances are included in allowances for accounts receivable on the accompanying consolidated balance sheets.

(k) Fair Value of Financial Instruments

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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 that 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, accounts receivable, bank debt, and accounts payable. Due to the short-term nature and payment terms associated with these instruments, their carrying amounts approximate fair value.

(l) 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 wherein the discount rate is based on published daily treasury interest rates for zero-coupon bonds available from the US Treasury. Volatility is based on the historical volatility over a period that is commensurate with the expected life of the option granted.

(m) Advertising Costs

Advertising costs are expensed as incurred and reported in selling expense in the accompanying consolidated statements of operations, and include costs of advertising, production, trade shows, and other activities designed to enhance demand for the Company's products. The Company reported advertising costs of approximately $2.23 million in 2017 and $1.34 million in 2016.

(n) 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 for hedging purposes.

(o) 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 $27,789 and $23,310 at December 31, 2017 and 2016, respectively.

(p) 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 $563.1 thousand in 2017 and $396.3 thousand in 2016.

(q) Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheets, a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (the lease asset). For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-02 may have on its consolidated financial statements.

In May 2014 the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and requires

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entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. In May 2016, the FASB issued ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. In December 2016, the FASB issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” which continues the FASB's ongoing project to issue technical corrections and improvements to clarify the codification or correct unintended applications of guidance. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. In September 2017, the FASB Issued ASU 2017-13, “Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842),” which provides additional implementation guidance on the previously issued ASU 2014-09. Overall, ASU No. 2014-09, as amended, provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented.

The Company will use the modified retrospective method to adopt the provisions of this standard effective January 1, 2018, which requires us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, our consolidated revenues for the periods prior to January 1, 2018 will not be revised. The Company does not expect to record a significant cumulative effect adjustment to its beginning retained earnings as a result of adoption of Topic 606.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments Credit Losses —Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for public business entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period for fiscal years beginning after December 15, 2018. An entity should apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). The Company is currently evaluating the potential impact that the adoption of ASU 2016-13 may have on its consolidated financial statements, however, it does not expect it to have a material effect.

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3. LIQUIDITY

Notes to Financial Statements

LIQUIDITY

12 Months Ended
Dec. 31, 2017

Zoom's cash balance on December 31, 2017 was $229 thousand compared to $180 thousand on December 31, 2016. Reductions in cash due were the FY 2017 loss of $1.4 million, paydown in debt by $1.2 million, and increase in inventory of $0.3 million. Sources of cash were increased accounts payable and accrued liabilities of $2.8 million and decrease in accounts receivable of $0.3 million. On December 31, 2017, Zoom had $90 thousand in bank debt outstanding on a $3.0 million line of credit, working capital of $2.6 million, and a current ratio of 1.7. Loan availiablity is based on eligible receivables and approximately $2.5 million was available to be borrowed as of December 31, 2017.

Although the Company has experienced losses in the past, we continue to experience significant sales growth and increased gross margin. We reported net profit of $377 thousand in Q3, 2017 and net loss of $387 in Q4, 2017. This is Zoom's second consecutive year with sales growth of 65%. The Company expects year-over-year growth to continue due to a number of factors including the strength of the Motorola brand, new product introductions, increased shelf space, growing online retailer sales, and international expansion. Because of projected sales increases, the associated reduction in net loss, and its Financing Agreement, the Company expects to maintain acceptable levels of liquidity to meet its obligations as they become due for at least twelve months from the date of issuance of our annual filing with the Securities Exchange Commission. The Financing Agreement has a maturity date of November 2018, and automatically renews unless cancelled under terms of agreement.

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4. INVENTORIES

	12 Months Ended
	Dec. 31, 2017

[Notes to Financial Statements]
[INVENTORIES]

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

	2017	2016
Materials	$ 1,524,728	$ 888,830
Work in process	1,149	27,708
Finished goods	3,676,426	4,010,074
Total	$ 5,202,303	$ 4,926,612

Finished goods includes consigned inventory held by our customers of $958,500 and $442,300 at December 31, 2017 and 2016, respectively. The Company reviews inventory for obsolete and slow moving products each quarter and makes provisions based on its estimate of the probability that the material will not be consumed or that it will be sold below cost. The provision for inventory reserves was $200,357 and $32,051 for the years ended December 31, 2017 and 2016, respectively.

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5. EQUIPMENT

12 Months Ended Dec. 31, 2017

Property, Plant and Equipment [Abstract]

EQUIPMENT

Equipment consists of the following at December 31:

	2017	2016	Estimated Useful lives in years
Computer hardware and software	$ 233,705	$ 222,660	3
Machinery and equipment	280,061	274,833	5
Molds, tools and dies	362,791	279,274	5
Office furniture and fixtures	40,001	40,001	5
	916,558	816,768	
Accumulated depreciation	(754,984)	(641,025)	
Equipment, net	$ 161,574	$ 175,743	

Depreciation expense for the year ended	$ 113,959	$ 87,551

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6. COMMITMENTS AND CONTINGENCIES

Notes to Financial Statements

COMMITMENTS AND CONTINGENCIES

	12 Months Ended Dec. 31, 2017

(a) Lease Obligations

In June 2016 the Company signed a three year sub-lease agreement for 11,480 square feet on the 28th floor of 99 High Street, Boston, MA 02110, The lease for this facility expires on June 30, 2019.

The Company performs most of the final assembly, testing, packaging, warehousing and distribution at a production and warehouse facility in Tijuana, Mexico. In November 2014, the Company signed a one-year lease with five one-year renewal options thereafter for an 11,390 square foot facility. In September 2015, the Company extended the term of the lease from December 1, 2015 through November 30, 2018. In September 2015, the Company also signed a new lease for additional space in the adjacent building, which doubles our existing capacity. The term of the lease is from March 1, 2016 through November 30, 2018 with early access granted as of December 1, 2015.

In order to facilitate the Company’s current and planned increase in production demand, driven in part by the launch of Motorola branded products, the Company has committed with North American Production Sharing, Inc. (“NAPS”) to extend its existing lease used in connection with the Production Sharing Agreement (“PSA”) entered into between the Company and NAPS. The extension term is December 1, 2015 through November 30, 2018 and allows the Company to contract additional Mexico personnel to work in the Tijuana facility.

Rent expense for all of the Company's leases was $512.4 thousand in 2017 and $500.0 thousand in 2016.

As of December 31, 2017, 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 $526.3 thousand for 2018, and $218.1 thousand for 2019. There are no future minimum committed rental payments that extend beyond 2019.

(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 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 the loss cannot be made. The Company expenses its legal fees as incurred.

On May 17, 2016, Magnacross LLC ("Magnacross") filed a complaint in the U.S. District Court for the Eastern District of Texas (U.S.D.C., E.D.Tex.) against the Company alleging infringement of U.S. Patent No. 6,917,304 (“the ’304 patent”) entitled “Wireless Multiplex Data Transmission System.” Magnacross alleged that the Company’s wireless routers, including its Model 5363, 5360, and 5354 (N300, N600, and AC1900) Routers, infringe the '304 patent. In its complaint, Magnacross sought injunctive relief and unspecified compensatory damages. The case was resolved on February 2, 2017 with the entry by the judge of an Order of Dismissal with Prejudice.

(c) Commitments

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

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

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

In connection with the License Agreement, the Company has committed to reserve a certain percentage of wholesale prices for use in advertising, merchandising and promotion of the related products. Additionally, the Company is required to make quarterly royalty payments equal to a certain percentage of the preceding quarter's net sales with minimum annual royalty payments as follows:

Year ending December 31,

2018	$3,500,000
2019:	$4,500,000
2020:	$5,100,000

Royalty expense under the License Agreement amounted to $3,000,000 for 2017 and $2,000,000 for 2016, and is included in selling expense on the accompanying consolidated statements of operations.

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7. STOCK OPTION PLANS

Notes to Financial Statements

STOCK OPTION PLANS

12 Months Ended Dec. 31, 2017

2009 Stock Option Plan

On December 10, 2009, the Company established the *2009 Stock Option Plan* (the "Option Plan") 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 Option Plan provides for 5,500,000 shares of common stock for issuance upon the exercise of stock options granted under the plan. 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, 2016	2,536,500	$ 0.38
Granted	120,000	1.91
Exercised	(573,256)	0.46
Expired	(162,500)	1.89
Balance as of December 31, 2016	1,920,744	0.32
Granted	110,000	1.98
Exercised	(571,250)	0.30
Expired	---	---
Balance as of December 31, 2017	1, 459,494	$ 0.45

The weighted average grant date fair value of options granted was $1.16 in 2017. The weighted average grant date fair value of options granted was $1.10 in 2016. The aggregate intrinsic value of options outstanding was approximately $2.6 million at December 31, 2017 and approximately $3.9 million at December 31, 2016. The aggregate intrinsic value of exercisable options was approximately $2.5 million at December 31, 2017 and $3.3 million at December 31, 2016. As of December 31, 2017 there remained 2,639,500 shares available to be issued under the Option Plan.

The following table summarizes information about fixed stock options under the *2009 Stock Option Plan* outstanding on December 31, 2017.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.18 to 0.25	1,255,500	1.24	$ 0.25	1,255,500	$ 0.25
$ 0.90 to 1.69	73,994	2.68	$ 1.14	63,994	$ 1.05
$ 1.94 to 2.39	130,000	4.32	$ 2.04	28,750	$ 2.17
$ 0.18 to 2.39	1,459,494	1.59	$ 0.45	1,348,244	$ 0.33

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.

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	Number of shares	Weighted average exercise price
Balance as of January 1, 2016	225,000	$ 0.51
Granted	60,000	2.45
Exercised	(15,000)	0.36
Expired	---	---
Balance as of December 31, 2016	270,000	0. 95
Granted	90,000	2.07
Exercised	(30,000)	0.26
Balance as of December 31, 2017	330,000	$ 1.32

The weighted average grant date fair value of options granted was $1.12 in 2017 and $1.39 in 2016. The aggregate intrinsic value of options outstanding was approximately $0.3 million at December 31, 2017 and $0.4 million at December 31, 2016. The aggregate intrinsic value of exercisable options was approximately $0.3 million at December 31, 2017 and $0.4 million at December 31, 2016. As of December 31, 2017 there remained 295,000 shares available to be issued under the Directors Plan.

The following table summarizes information about fixed stock options under the Directors Plan on December 31, 2017.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.12-0.20	97,500	1.1	$ 0.16	97,500	$ 0.16
$ 0.84-1.20	82,500	2.8	$ 1.05	82,500	$ 1.05
$ 2.00-2.85	150,000	3.9	$ 2.22	150,000	$ 2.22
$ 0.12-2.85	330,000	2.80	$ 1.32	330,000	$ 1.32

The Black-Scholes range of assumptions for the Option Plan and the Directors Plan are shown below:

	2017	2016
Assumptions:		
Expected life	2.75 (yrs) - 3.5 (yrs)	2.75 (yrs) - 3.5 (yrs)
Expected volatility	74.67% - 95.30%	85.75% - 91.54%
Risk-free interest rate	1.44% - 1.92%	0.68% - 1.19%
Expected dividend yield	0.00%	0.00%

The unrecognized stock based compensation expense related to non-vested stock awards was approximately $56 thousand as of December 31, 2017. This amount will be recognized through the fourth quarter of 2019.

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8. INCOME TAXES

12 Months Ended Dec. 31, 2017

Income Tax Disclosure [Abstract]

INCOME TAXES

Income tax expense consists of:

	Current	Deferred	Total
Year Ended December 31, 2016:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	7,070	—	7,070
	$ 7,070	$ —	$ 7,070
Year Ended December 31, 2017:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	14,660	—	14,660
	$ 14,660	$ —	$ 14,660

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

	2016	2017
Computed "expected" US tax (benefit) at Federal statutory rate	$ (997,268)	$ (287,070)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	(185,083)	(101,924)
Valuation allowance	1,219,633	(6,663,556)
Non—deductible items	(162,068)	(94,344)
Expired Federal capital loss	127,855	—
Federal rate change	—	7,160,556
State net operating loss true up and rate change	4,001	998
Income tax expense	$ 7,070	$ 14,660

Temporary differences at December 31 follow:

	2016	2017
Deferred income tax assets:		
Inventories	$ 116,776	$ 135,077
Accounts receivable	141,587	128,817
Accrued expenses	83,227	272,008
Net operating loss and tax credit carry forwards	19,562,969	12,714,278
Plant and equipment	535	8,389
Stock compensation	128,524	111,493
Other – investment impairments	—	—
Total deferred income tax assets	20,033,618	13,370,062
Valuation allowance	(20,033,618)	(13,370,062)
Net deferred tax assets	$ —	$ —

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that significantly revised the U.S. tax code effective January 1, 2018 by, among other things, lowering the corporate income tax rate from a top marginal rate of 35% to a flat 21%. We have recorded a tax provision of $7,160,556 due to a re-measurement of deferred tax assets

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and liabilities for tax rate changes due to the Tax Act, which was fully offset by a valuation allowance. Other than the reduction in statutory rate, the Company does not anticipate the regulations will have a material impact on income taxes in future years.

As of December 31, 2017 the Company had federal net operating loss carry forwards of approximately $54,595,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2018 to 2037. As of December 31, 2017, the Company had state net operating loss carry forwards of approximately $8,879,000 which are available to offset future taxable income. They are due to expire in varying amounts from 2031 through 2037. A valuation allowance has been established for the full amount of deferred income tax assets as management has concluded that it is more-likely than-not that the benefits from such assets will not be realized.

The Company reviews annually the 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 December 31, 2017 and 2016, the Company did not have any uncertain tax positions. No interest and penalties related to uncertain tax positions were accrued at December 31, 2017 and 2016.

The Company files income tax returns in the United States and Mexico. Tax years subsequent to 2012 remain subject to examination for both US federal and state tax reporting purposes. Tax years subsequent to 2010 remain subject to examination for Mexico tax reporting purposes. The foreign income tax reported represents tax on operations for the Company that is located in a special economic zone in Mexico. Other than the Mexico facility, the Company has no operations in a foreign location.

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9. SIGNIFICANT CUSTOMERS	12 Months Ended Dec. 31, 2017
Risks and Uncertainties [Abstract]	
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 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. Few customers account for a substantial portion of the Company's revenues. In 2017, two customers accounted for 10% or greater individually and 40% in the aggregate of the Company's total net sales. At December 31, 2017, two customers with an accounts receivable balance of 10% or greater individually accounted for a combined 71% of the Company's accounts receivable. In 2016, two customers accounted for 10% or greater individually and 53% in the aggregate of the Company's total net sales. At December 31, 2016 three customers with an accounts receivable balance of 10% or greater individually accounted for a combined 86% of the Company's accounts receivable. Additionally, revenues from sales fulfilled by Amazon accounted for 51% and 29% of our total sales for the years ended December 31, 2017 and 2016, respectively, and represented 13% and 5% of the Company's total accounts receivable balance at December 31, 2017 and 2016, respectively.

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10. SEGMENT AND GEOGRAPHIC INFORMATION

SEGMENT AND GEOGRAPHIC INFORMATION

12 Months Ended

Dec. 31, 2017

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 North America. Net sales information follows:

	2016	Percent	2017	Percent
North America	$17,632,535	99%	$29,006,661	99%
Outside North America	201,702	1%	411,329	1%
Total	$17,834,237	100%	$29,417,990	100%

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11. DEPENDENCE ON KEY SUPPLIERS	12 Months Ended Dec. 31, 2017
Notes to Financial Statements	
DEPENDENCE ON KEY SUPPLIERS	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. In 2017, the Company had one supplier that provided 97% of the Company's purchased inventory. In 2016, the Company had one supplier that provided 92% of the Company's purchased inventory.

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12. RETIREMENT PLAN	12 Months Ended Dec. 31, 2017
Retirement Benefits [Abstract]	
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 2016 and 2017 were $6,705 and $6,352, respectively.

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13. BANK CREDIT LINE

Notes to Financial Statements

BANK CREDIT LINE

12 Months Ended Dec. 31, 2017

On December 18, 2012, the Company entered into a Financing Agreement with Rosenthal & Rosenthal, Inc. (the “Financing Agreement”). The Financing Agreement provided 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 continued until November 30, 2014 and automatically renews from year to year thereafter, unless sooner terminated by either party as specified in the Financing Agreement. The Lender shall have the right to terminate the Financing Agreement at any time by giving the Company sixty days’ prior written notice. Borrowings are secured by all of the Company assets including intellectual property. The Loan Agreement contained several covenants, including a requirement that the Company maintain tangible net worth of not less than $2.5 million and working capital of not less than $2.5 million.

On March 25, 2014, the Company entered into an amendment to the Financing Agreement (the “Amendment”) with an effective date of January 1, 2013. The Amendment clarified the definition of current assets in the Financing Agreement, reduced the size of the revolving credit line to $1.25 million, and revised the financial covenants so that Zoom is required to maintain tangible net worth of not less than $2.0 million and working capital of not less than $1.75 million.

On October 29, 2015, the Company entered into a second amendment to the Financing Agreement (the “Second Amendment”). Retroactive to October 1, 2015, the Second Amendment eliminated $2,500 in monthly charges for the Financing Agreement. Effective December 1, 2015, the Second Amendment reduces the effective rate of interest to 2.25% plus an amount equal to the higher of prime rate or 3.25%.

On July 19, 2016, the Company entered into a third amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $2.5 million effective as of date of the amendment.

On September 1, 2016, the Company entered into a fourth amendment to the Financing Agreement. The Amendment increased the size of the revolving credit line to $3.0 million effective with the date of this amendment.

The Company is required to calculate its covenant compliance on a quarterly basis as of December 31, 2017, the Company was in compliance with both its working capital and tangible net worth covenants. At December 31, 2017, the Company’s tangible net worth was approximately $2.8 million, while the Company’s working capital was approximately $2.6 million. Loan availiablity is based on certain eligible receivables. Approximately $2.5 million was available to be borrowed as of December 31, 2017.

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14. STOCKHOLDERS EQUITY	12 Months Ended Dec. 31, 2017
Stockholders' Equity Note [Abstract]	
STOCKHOLDERS EQUITY	The Company raised approximately $1.5 million from a private placement in October 2016 and incurred issuance costs of approximately $39 thousand resulting in net proceeds of approximately $1.5 million.

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15. SUBSEQUENT EVENTS	12 Months Ended Dec. 31, 2017
Subsequent Events [Abstract]	
SUBSEQUENT EVENTS	Management of the Company has reviewed subsequent events from December 31, 2017 through the date of filing and has concluded that there were no subsequent events requiring adjustment to or disclosure in these consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Policies)	12 Months Ended
	Dec. 31, 2017
Summary Of Significant Accounting Policies Policies	
Basis of Presentation and Use of Estimates	The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in the consolidation. The preparation of consolidated financial statements in conformity with U.S. 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 consolidated 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; 3) stock based compensation; 4) management's assessment of going concern; 5) and estimated life of certification costs.
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 can be in excess of the insured limits. However, the Company believes that the institutions are financially sound and there is only nominal risk of loss.
Inventories	Inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value. 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 $958,500 and $442,300 at December 31, 2017 and 2016, respectively.
Equipment	Equipment is stated at cost, less accumulated depreciation. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the assets.
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.
Other Assets	Other assets are stated at cost, less accumulated amortization. Certain certification costs incurred that are necessary to market and sell products are capitalized and reported as "other assets" in the accompanying consolidated balance sheets when the costs are measurable, significant, and relating to products that are projected to generate revenue beyond twelve months. These costs are amortized over an eighteen-month period, beginning when the related products are available to be sold. Total certification costs capitalized during the year ended December 31, 2017 were $150,000, with related amortization expense of $386,119 in 2017. Total certification costs capitalized during the year ended December 31, 2016 were $473,000, with related amortization expense of $457,142 in 2016.
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.
Sales Tax	The Company recorded a sales tax accrual in 2017 after the Company became aware that a state sales tax liability was both probable and estimable as of December 31, 2017. The state sales tax liability stems from the Company's 'Fulfilled By Amazon' sales agreement which allows Amazon to warehouse the Company's inventory throughout a number of states. As a result, the Company recorded an expense of $831 thousand in Q4 2017.
Earnings (Loss) Per Common Share	Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares, except for periods with a loss from operations. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential shares of common stock had been issued. Potential shares of common stock that may be issued by the Company include shares of common stock that may be issued upon exercise of outstanding stock options. Under the treasury stock method, the unexercised options are assumed to be exercised at the beginning of the period or at issuance, if later. The assumed proceeds are then used to purchase shares of common stock at the average market price during the period.

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Diluted earnings (loss) per common share for the years ended December 31, 2017 and 2016 exclude the effects of 1,268,295 and 1,821,784 common share equivalents, respectively, since such inclusion would be anti-dilutive. The common share equivlents consist of common shares issuable upon exercise of outstanding stock options.

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 does not sell software.

The Company derives its net sales primarily from the sales of hardware products to computer peripherals retailers, computer product distributors, OEMs, and direct to consumers and other channel partners via the Internet. The Company accounts for point-of-sale taxes on a net basis.

The Company recognizes net hardware sales at the point when the customers take legal ownership of the delivered products. Legal ownership passes to the customer based on the contractual delivery terms specified in signed contracts and purchase orders, which are both used extensively. Many customer contracts or purchase orders specify FOB destination, which means buyer takes delivery of goods once the goods arrive at the buyers dock.

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

The Company's net sales of hardware are reduced by certain events that 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. These are 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. Product return reserves were approximately $439.2 thousand and $343.3 thousand at December 31, 2017 and 2016, respectively. 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. Price protection reserves were negligible at both December 31, 2017 and at December 31, 2016. 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. Rebate reserves were negligible at December 31, 2017 and approximately $38.4 thousand at December 31, 2016. Additionally, sales and marketing incentive reserves were approximately $127.8 thousand and $109.7 thousand at December 31, 2017 and 2016, respectively. The Company's allowances for doubtful accounts were approximately $15.1 thousand and $16.0 thousand at December 31, 2017 and 2016, respectively. These allowances are included in allowances for accounts receivable on the accompanying consolidated balance sheets.

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 that 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, accounts receivable, bank debt, and accounts payable. Due to the short-term nature and payment terms associated with these instruments, their carrying amounts approximate fair value.

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-

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pricing model wherein the discount rate is based on published daily treasury interest rates for zero-coupon bonds available from the US Treasury. Volatility is based on the historical volatility over a period that is commensurate with the expected life of the option granted.

Advertising Costs

Advertising costs are expensed as incurred and reported in selling expense in the accompanying consolidated statements of operations, and include costs of advertising, production, trade shows, and other activities designed to enhance demand for the Company's products. The Company reported advertising costs of approximately $2.23 million in 2017 and $1.34 million in 2016.

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 for hedging purposes.

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 $27,789 and $23,310 at December 31, 2017 and 2016, respectively.

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 $563.1 thousand in 2017 and $396.3 thousand in 2016.

Recently Issued Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the balance sheets, a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term (the lease asset). For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company is currently evaluating the potential impact that the adoption of ASU 2016-02 may have on its consolidated financial statements.

In May 2014 the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. Accordingly, this guidance is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted for interim and annual periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which finalizes its amendments to the guidance in the new revenue standard on assessing whether an entity is a principal or an agent in a revenue transaction. This conclusion impacts whether an entity reports revenue on a gross or net basis. In April 2016, the FASB issued ASU 2016-10, "Identifying Performance Obligations and Licensing," which finalizes its amendments to the guidance in the new revenue standard regarding the identification of performance obligations and accounting for the license of intellectual property. In May 2016, the FASB issued ASU 2016-12, "Narrow-Scope Improvements and Practical Expedients," which finalizes its amendments to the guidance in the new revenue standard on collectability, noncash consideration, presentation of sales tax, and transition. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers," which continues the FASB's ongoing project to issue technical corrections and improvements to clarify the codification or correct unintended applications of guidance. The amendments are intended to make the guidance more operable and lead to more consistent application. The amendments have the same effective date and transition requirements as the new revenue recognition standard. In September 2017, the FASB Issued ASU 2017-13, "Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842)," which provides additional implementation guidance on the previously issued ASU 2014-09. Overall, ASU No. 2014-09, as amended, provides for either full retrospective adoption or a modified retrospective adoption by which it is applied only to the most current period presented.

The Company will use the modified retrospective method to adopt the provisions of this standard effective January 1, 2018, which requires us to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018 and (ii) all existing revenue contracts as of January 1, 2018 through a cumulative adjustment to retained earnings. In accordance with this approach, our consolidated revenues for the periods prior to January 1, 2018 will not be revised. The Company does not expect to record a significant cumulative effect adjustment to its beginning retained earnings as a result of adoption of Topic 606.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments Credit Losses —Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. ASU 2016-13 is effective for public business entities that are SEC filers for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim or annual period for fiscal years beginning after December 15, 2018. An entity should apply the amendments in ASU 2016-13 through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (modified-retrospective approach). The Company is currently evaluating the potential impact that the adoption of ASU 2016-13 may have on its consolidated financial statements, however, it does not expect it to have a material effect.

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4. INVENTORIES (Tables)

12 Months Ended Dec. 31, 2017

Inventories Tables

Inventories

	2017	2016
Materials	$1,524,728	$ 888,830
Work in process	1,149	27,708
Finished goods	3,676,426	4,010,074
Total	$5,202,303	$4,926,612

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5. EQUIPMENT (Tables)

12 Months Ended Dec. 31, 2017

Property, Plant and Equipment [Abstract]

Equipment

	2017	2016	Estimated Useful lives in years
Computer hardware and software	$ 233,705	$ 222,660	3
Machinery and equipment	280,061	274,833	5
Molds, tools and dies	362,791	279,274	5
Office furniture and fixtures	40,001	40,001	5
	916,558	816,768	
Accumulated depreciation	(754,984)	(641,025)	
Equipment, net	$ 161,574	$ 175,743	
Depreciation expense for the year ended	$ 113,959	$ 87,551	

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6. COMMITMENTS AND CONTINGENCIES (Tables)	12 Months Ended Dec. 31, 2017
Commitments and Contingencies Disclosure [Abstract]	
Contractual Obligation Fiscal Year Maturity Schedule Table	2018 $3,500,000 2019:$4,500,000 2020:$5,100,000

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7. STOCK OPTION PLANS (Tables)

12 Months Ended Dec. 31, 2017

Fair value assumptions

	2017	2016
Assumptions:		
Expected life	2.75 (yrs) - 3.5 (yrs)	2.75 (yrs) - 3.5 (yrs)
Expected volatility	74.67% - 95.30%	85.75% - 91.54%
Risk-free interest rate	1.44% - 1.92%	0.68% - 1.19%
Expected dividend yield	0.00%	0.00%

2009 Stock Option Plan Plan Activity

	Number of shares	Weighted average exercise price
Balance as of January 1, 2016	2,536,500	$ 0.38
Granted	120,000	1.91
Exercised	(573,256)	0.46
Expired	(162,500)	1.89
Balance as of December 31, 2016	1,920,744	0.32
Granted	110,000	1.98
Exercised	(571,250)	0.30
Expired	---	---
Balance as of December 31, 2017	1, 459,494	$ 0.45

Schedule stock options under the Plan

		Options Outstanding			Options Exercisable	
	Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$	0.18 to 0.25	1,255,500	1.24	$ 0.25	1,255,500	$ 0.25
$	0.90 to 1.69	73,994	2.68	$ 1.14	63,994	$ 1.05
$	1.94 to 2.39	130,000	4.32	$ 2.04	28,750	$ 2.17
$	0.18 to 2.39	1,459,494	1.59	$ 0.45	1,348,244	$ 0.33

Directors Plan Plan Activity

	Number of shares	Weighted average exercise price
Balance as of January 1, 2016	225,000	$ 0.51
Granted	60,000	2.45
Exercised	(15,000)	0.36
Expired	---	---
Balance as of December 31, 2016	270,000	0. 95
Granted	90,000	2.07

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Exercised	(30,000)	0.26
Balance as of December 31, 2017	330,000	$ 1.32

Schedule stock options under the Plan

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 0.12-0.20	97,500	1.1	$ 0.16	97,500	$ 0.16
$ 0.84-1.20	82,500	2.8	$ 1.05	82,500	$ 1.05
$ 2.00-2.85	150,000	3.9	$ 2.22	150,000	$ 2.22
$ 0.12-2.85	330,000	2.80	$ 1.32	330,000	$ 1.32

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8. INCOME TAXES (Tables)

12 Months Ended Dec. 31, 2017

Income Tax Disclosure [Abstract]

Schedule of income taxes

	Current	Deferred	Total
Year Ended December 31, 2016:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	7,070	—	7,070
	$ 7,070	$ —	$ 7,070
Year Ended December 31, 2017:			
U.S. federal	$ —	$ —	$ —
State and local	—	—	—
Foreign	14,660	—	14,660
	$ 14,660	$ —	$ 14,660

Schedule of income tax reconciliation

	2016	2017
Computed "expected" US tax (benefit) at Federal statutory rate	$ (997,268)	$ (287,070)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	(185,083)	(101,924)
Valuation allowance	1,219,633	(6,663,556)
Non—deductible items	(162,068)	(94,344)
Expired Federal capital loss	127,855	—
Federal rate change	—	7,160,556
State net operating loss true up and rate change	4,001	998
Income tax expense	$ 7,070	$ 14,660

Schedule of deferred tax assets

	2016	2017
Deferred income tax assets:		
Inventories	$ 116,776	$ 135,077
Accounts receivable	141,587	128,817
Accrued expenses	83,227	272,008
Net operating loss and tax credit carry forwards	19,562,969	12,714,278
Plant and equipment	535	8,389
Stock compensation	128,524	111,493
Other – investment impairments	—	—
Total deferred income tax assets	20,033,618	13,370,062
Valuation allowance	(20,033,618)	(13,370,062)
Net deferred tax assets	$ —	$ —

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10. SEGMENT AND GEOGRAPHIC INFORMATION (Tables)

12 Months Ended

Dec. 31, 2017

Segment And Geographic Information Tables

Company's net sales by geographic region

	2016	Percent	2017	Percent
North America	$17,632,535	99%	$29,006,661	99%
Outside North America	201,702	1%	411,329	1%
Total	$17,834,237	100%	$29,417,990	100%

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4. INVENTORIES (Details) - USD ($)	Dec. 31, 2017	Dec. 31, 2016
Inventories Details		
Materials	$ 1,524,728	$ 888,830
Work in process	1,149	27,708
Finished goods	3,676,426	4,010,074
Total inventories	$ 5,202,303	$ 4,926,612

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4. INVENTORIES (Details Narrative) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Inventories Details		
Finished goods held by customer	$ 958,500	$ 442,300
Provision for inventory reserves	$ 200,357	$ 32,051

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5. EQUIPMENT (Details) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Equipment	$ 916,558	$ 816,768
Accumulated depreciation	(754,984)	(641,025)
Equipment, net	161,574	175,743
Depreciation expense for year ended	113,959	87,551
Computer hardware and software		
Equipment	$ 233,705	222,660
Estimated Useful lives in years	3 years	
Machinery and equipment		
Equipment	$ 280,061	274,833
Estimated Useful lives in years	5 years	
Molds, tools and dies		
Equipment	$ 362,791	279,274
Estimated Useful lives in years	5 years	
Office furniture and fixtures		
Equipment	$ 40,001	$ 40,001
Estimated Useful lives in years	5 years	

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6. COMMITMENTS AND CONTINGENCIES (Details)	Dec. 31, 2017 USD ($)
Commitments And Contingencies Details	
2018	$ 2,500,000
2019	4,500,000
2020	$ 5,100,000

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7. STOCK OPTION PLANS (Details) - 2009 Stock Option Plan - $ / shares	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Number of shares Outstanding at beginning of period	1,920,744	2,536,500
Granted	110,000	120,000
Exercised	(571,250)	(573,256)
Expired	0	(162,500)
Number of shares Outstanding end of period	1,459,494	1,920,744
Weighted average exercise price		
Weighted average exercise price, beginning	$ 0.32	$ 0.38
Granted	1.98	1.91
Exercised	0.30	0.46
Expired	0.00	1.89
Weighted average exercise price, ending	$ 0.45	$ 0.32

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7. STOCK OPTION PLANS (Details 1)	12 Months Ended Dec. 31, 2017 $ / shares shares
0.18 to 0.25	
Number of shares Outstanding end of period | shares	1,255,500
Weighted average remaining contractual life	1 year 2 months 26 days
Weighted average exercise price, ending | $ / shares	$ 0.25
Number Exercisable | shares	1,255,500
Weighted average exercise price | $ / shares	$ 0.25
0.90 to 1.69	
Number of shares Outstanding end of period | shares	73,994
Weighted average remaining contractual life	2 years 8 months 5 days
Weighted average exercise price, ending | $ / shares	$ 1.14
Number Exercisable | shares	63,994
Weighted average exercise price | $ / shares	$ 1.05
1.94 to 2.39	
Number of shares Outstanding end of period | shares	130,000
Weighted average remaining contractual life	4 years 3 months 25 days
Weighted average exercise price, ending | $ / shares	$ 2.04
Number Exercisable | shares	28,750
Weighted average exercise price | $ / shares	$ 2.17
0.18 to 2.39	
Number of shares Outstanding end of period | shares	1,459,494
Weighted average remaining contractual life	1 year 7 months 2 days
Weighted average exercise price, ending | $ / shares	$ 0.45
Number Exercisable | shares	1,348,244
Weighted average exercise price | $ / shares	$ 0.33

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7. STOCK OPTION PLANS (Details 2) - Directors Plan - $ / shares	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Number of shares Outstanding at beginning of period	270,000	225,000
Granted	90,000	60,000
Exercised	(30,000)	(15,000)
Number of shares Outstanding end of period	330,000	270,000
Weighted average exercise price		
Weighted average exercise price, beginning	$ 0.95	$ 0.51
Granted	2.07	2.45
Exercised	0.26	0.36
Weighted average exercise price, ending	$ 1.32	$ 0.95

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7. STOCK OPTION PLANS (Details 3)	12 Months Ended Dec. 31, 2017 $ / shares shares
0.12-0.20	
Number of shares Outstanding end of period | shares	97,500
Weighted average remaining contractual life	1 year 1 month 6 days
Weighted average exercise price, ending | $ / shares	$ 0.16
Number Exercisable | shares	97,500
Weighted average exercise price | $ / shares	$ 0.16
0.84-1.20	
Number of shares Outstanding end of period | shares	82,500
Weighted average remaining contractual life	2 years 9 months 18 days
Weighted average exercise price, ending | $ / shares	$ 1.05
Number Exercisable | shares	82,500
Weighted average exercise price | $ / shares	$ 1.05
2.00-2.85	
Number of shares Outstanding end of period | shares	150,000
Weighted average remaining contractual life	3 years 10 months 24 days
Weighted average exercise price, ending | $ / shares	$ 2.22
Number Exercisable | shares	150,000
Weighted average exercise price | $ / shares	$ 2.22
0.12-2.85	
Number of shares Outstanding end of period | shares	330,000
Weighted average remaining contractual life	2 years 9 months 18 days
Weighted average exercise price, ending | $ / shares	$ 1.32
Number Exercisable | shares	330,000
Weighted average exercise price | $ / shares	$ 1.32

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7. STOCK OPTION PLANS (Details 4)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Expected dividend yield	0.00%	0.00%
Minimum		
Expected life	2 years 9 months	2 years 9 months
Expected volatility	74.67%	85.75%
Risk-free interest rate	1.44%	0.68%
Maximum		
Expected life	3 years 6 months	3 years 6 months
Expected volatility	95.30%	91.54%
Risk-free interest rate	1.92%	1.19%

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8. INCOME TAXES (Details) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Current tax expense		
US Federal	$ 0	$ 0
State and local	0	0
Foreign	14,660	7,070
Total current tax expense	14,660	7,070
Deferred tax expense (benefit)		
US Federal	0	0
State and local	0	0
Foreign	0	0
Total deferred tax expense (benefit)	0	0
Total tax expense		
US federal	0	0
State and local	0	0
Foreign	14,660	7,070
Total	$ 14,660	$ 7,070

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8. INCOME TAXES (Details 1) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Income Tax Disclosure [Abstract]		
Computed "expected" US tax (benefit) at Federal statutory rate	$ (287,070)	$ (997,268)
Change resulting from:		
State and local income taxes, net of federal income tax benefit	(101,924)	(185,083)
Valuation allowance	(6,663,556)	1,219,633
Non-deductible items	(94,344)	(162,068)
Expired Federal capital loss	0	127,855
Federal rate change	7,160,556	0
State net operating loss true up and rate change	998	4,001
Income tax expense (benefit)	$ 14,660	$ 7,070

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8. INCOME TAXES (Details 2) - USD ($)	Dec. 31, 2017	Dec. 31, 2016
Deferred income tax assets:		
Inventories	$ 135,077	$ 116,776
Accounts receivable	128,817	141,587
Accrued expenses	272,008	83,227
Net operating loss and tax credit carry forwards	12,714,278	19,562,969
Plant and equipment	8,389	535
Stock compensation	111,493	128,524
Other - investment impairments	0	0
Total deferred income tax assets	13,370,062	20,033,618
Valuation allowance	(13,370,062)	(20,033,618)
Net deferred tax assets	$ 0	$ 0

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9. SIGNIFICANT CUSTOMERS (Details Narrative)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Two customers percentage of total sales		
Percent concentration	40.00%	53.00%
Two customers percentage of total accounts receivables		
Percent concentration	71.00%	
Three customers percentage of total accounts receivables		
Percent concentration		86.00%
On-line fulfillment sales		
Percent concentration	51.00%	29.00%
On-line fulfillment percentage of total accounts receivables		
Percent concentration	13.00%	5.00%

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10. SEGMENT AND GEOGRAPHIC INFORMATION (Details) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Revenues from External Customers and Long-Lived Assets [Line Items]		
Net sales, amount	$ 29,417,990	$ 17,834,237
Net sales, % of total	100.00%	100.00%
North America [Member]		
Revenues from External Customers and Long-Lived Assets [Line Items]		
Net sales, amount	$ 29,006,661	$ 17,632,535
Net sales, % of total	99.00%	99.00%
Outside North America [Member]		
Revenues from External Customers and Long-Lived Assets [Line Items]		
Net sales, amount	$ 411,329	$ 201,702
Net sales, % of total	1.00%	1.00%

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12. RETIREMENT PLAN (Details Narrative) - USD ($)	12 Months Ended	
	Dec. 31, 2017	Dec. 31, 2016
Retirement Plan Details Narrative		
Company matching contributions charged to expense	$ 6,352	$ 6,705

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