

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2002

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: 0-22046

Bogen Communications International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

38-3114641

(IRS Employer Identification Number)

50 Spring Street, Ramsey, New Jersey
(Address of principal executive offices)

07446

(Zip Code)

(201) 934-8500

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

As of April 26, 2002, 9,455,995 shares and restricted shares of the registrant's common stock, par value \$.001 per share, were outstanding.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES**

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BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars, Except Share and Per Share Amounts)

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,784	\$ 11,001
Marketable securities	3,675	3,970
Trade receivables (net of allowance for doubtful accounts of \$518 and \$471 at March 31, 2002, and December 31, 2001, respectively)	6,028	5,819
Other receivables	244	172
Inventories, net	12,268	12,306
Prepaid expenses and other current assets	479	519
Current deferred income taxes	1,452	1,454
TOTAL CURRENT ASSETS	<u>33,930</u>	<u>35,241</u>
Equipment and leasehold improvements, net	3,425	3,746
Goodwill, net	15,131	15,189
Other intangible assets, net	854	896
Deferred income taxes	927	590
Other assets	185	145
TOTAL ASSETS	<u>\$ 54,452</u>	<u>\$ 55,807</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ 107	\$ 973
Current maturities of capital lease obligations	203	267
Accounts payable	2,101	1,910
Accrued expenses	4,017	4,376
Income taxes payable	324	104
TOTAL CURRENT LIABILITIES	<u>6,752</u>	<u>7,630</u>
Advances and notes payable to related parties	118	120
Capital lease obligations, less current maturities	11	11
Minority interest	219	219
Other long-term liabilities	59	81
TOTAL LIABILITIES	<u>7,159</u>	<u>8,061</u>
STOCKHOLDERS' EQUITY		
Preferred stock – \$.001 par value; 1,000,000 shares authorized; none issued and outstanding at March 31, 2002, and December 31, 2001	—	—
Common stock – \$.001 par value; 50,000,000 shares authorized; 9,100,745 shares issued and outstanding at March 31, 2002, and December 31, 2001	9	9
Additional paid-in-capital	45,565	45,565
Retained earnings	3,307	3,590
Accumulated other comprehensive loss	(1,556)	(1,386)
Treasury stock at cost – 3,572 shares at March 31, 2002, and December 31, 2001	(32)	(32)
TOTAL STOCKHOLDERS' EQUITY	<u>47,293</u>	<u>47,746</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 54,452</u>	<u>\$ 55,807</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands of Dollars, Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
Net sales	\$ 12,376	\$ 13,846
Cost of goods sold	6,943	7,041
Gross profit	5,433	6,805
Operating expenses:		
Research and development	875	1,303
Selling, general and administrative	4,795	5,835
Amortization of goodwill	—	234
Amortization of intangibles	40	41
Restructuring and other charges	—	35
Loss from operations	(277)	(643)
Other (income) expenses:		
Interest income	(99)	(148)
Interest expense	74	31
Other (income) expense, net	4	(19)
Loss before income taxes	(256)	(507)
Income tax expense (benefit)	27	(291)
Net loss	\$ (283)	\$ (216)
Basic net loss per common share	\$ (0.03)	\$ (0.02)
Diluted net loss per common share	\$ (0.03)	\$ (0.02)
Weighted average number of common shares outstanding-Basic	9,100,745	10,112,956
Weighted average number of common shares outstanding-Diluted	9,100,745	10,112,956

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In Thousands of Dollars, Except Share and Per Share Amounts)
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings / (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Number of Shares</u>	<u>Amount</u>				<u>Number of Shares</u>	<u>Amount</u>	
Balance at January 1, 2002	9,100,745	\$ 9	\$ 45,565	\$ 3,590	\$ (1,386)	3,572	\$ (32)	\$ 47,746
Comprehensive income:								
Net loss	—	—	—	(283)	—	—	—	—
Translation adjustments	—	—	—	—	(170)	—	—	—
Comprehensive income	—	—	—	—	—	—	—	(453)
Balance at March 31, 2002	<u>9,100,745</u>	<u>\$ 9</u>	<u>\$ 45,565</u>	<u>\$ 3,307</u>	<u>\$ (1,556)</u>	<u>3,572</u>	<u>\$ (32)</u>	<u>\$ 47,293</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars, Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ (283)	\$ (216)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	417	432
Amortization of goodwill	—	234
Amortization of intangible assets	40	41
Provisions for doubtful accounts	67	38
Utilization of pre-acquisition NOL charged to goodwill	27	27
Deferred income taxes	(328)	(9)
Change in operating assets and liabilities:		
Receivables	(132)	51
Inventories	(16)	(522)
Prepaid expenses and other current assets	39	(75)
Accounts payable and accrued expenses	(156)	(863)
Other	(62)	(113)
Net cash used in operating activities	<u>(387)</u>	<u>(975)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(134)	(562)
Proceeds from sale of marketable securities	295	—
Net cash provided by (used in) investing activities	<u>161</u>	<u>(562)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital lease obligations	(65)	(64)
Decrease in borrowings under revolving credit agreements	(851)	(420)
Net cash used in financing activities	<u>(916)</u>	<u>(484)</u>
Effects of foreign exchange rate on cash	(75)	(20)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,217)	(2,041)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,001	12,158
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 9,784</u>	<u>\$ 10,117</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 39	\$ 21
Cash paid for income taxes	269	228

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands of Dollars, Except Share and Per Share Amounts)
(Unaudited)

1. **Basis of Presentation**

The consolidated balance sheet of Bogen Communications International, Inc. and its subsidiaries (the "Company") as of December 31, 2001, has been derived from the audited consolidated balance sheet contained in the Company's Annual Report on Form 10-K and is presented for comparative purposes. The consolidated balance sheet as of March 31, 2002, the consolidated statements of operations and cash flows for the three months ended March 31, 2002 and 2001, and the consolidated statement of changes in stockholders' equity for the three months ended March 31, 2002, are unaudited. In the opinion of management, all significant adjustments, including normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. Certain prior year balances have been reclassified to conform to the current year's presentation. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

Footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been substantially omitted in accordance with the published rules and regulations of the Securities and Exchange Commission ("SEC"). These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in Company's Annual Report on Form 10-K for the year ended December 31, 2001.

2. **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of the Company's 99% owned subsidiary, Bogen Corporation ("Bogen"); Bogen's wholly-owned subsidiary, Bogen Communications, Inc. ("BCI"); BCI's wholly-owned subsidiary, Apogee Sound International, LLC ("Apogee"); the Company's 98% owned subsidiary, Speech Design International, Inc. ("SDI"); SDI's wholly-owned subsidiary, Speech Design GmbH ("Speech Design"); Speech Design's 67% owned subsidiary Satelco AG ("Satelco"); and Speech Design's wholly-owned subsidiaries: Speech Design (Israel), Ltd., and Speech Design Carrier Systems GmbH ("Carrier Systems") (formerly Digitronic Computersysteme GmbH). All significant inter-company balances and transactions have been eliminated in consolidation.

The ownership interests of minority owners in the equity and earnings of the Company's less than 100 percent-owned consolidated subsidiaries are recorded as minority interest.

3. **Revenue Recognition**

The Company derives its revenue from primarily two sources: (i) sale of sound processing and telecommunications peripheral equipment and (ii) services and support revenue for telecommunications equipment and Unified Messaging products. The Company recognizes revenue from the sale of equipment. Services and support revenue are recognized upon customer acceptance where a product deliverable or repair is called for, or ratably over the contract term in case of support or maintenance contracts. In the case of services subject to customer acceptance, recognition occurs upon the earlier of receipt of a written customer acceptance or expiration of the acceptance period.

In June 2001, the Company adopted the provisions of the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for "Point" and Other Loyalty Programs", which classified customer rebates as a reduction of sales, and Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products", which classifies such consideration as a reduction of sales. Consequently, the Company has reclassified such expenses that were previously a component of selling, general, and administrative expenses against sales. As a result of these reclassifications, sales were decreased by \$244 for the three months ended March 31, 2001. There is no effect on operating income.

4. ***Comprehensive Income***

The Company has determined total comprehensive loss to be \$453 and \$748 for the three months ended March 31, 2002 and 2001, respectively. The Company's total comprehensive loss represents net loss plus the change in the cumulative translation adjustment equity account for the periods presented.

5. ***Segments***

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign). The domestic segment is primarily engaged in commercial and engineered sound equipment and telecommunications peripherals. The foreign segment focuses on digital voice processing systems for the mid-sized PABX market and in Unified Messaging products and services, targeting the European voice processing and Unified Messaging markets.

The following table presents information about the Company by segment area. Inter-segment revenues and transfers are not considered material:

	March 31, 2002		March 31, 2001	
	Bogen	Speech Design	Bogen	Speech Design
Revenue from external customers	\$ 9,707	\$ 2,669	\$ 8,713	\$ 5,133
Operating profit (loss)	563	(771)	(429)	23

A reconciliation of reportable segment operating loss to the Company's consolidated totals is as follows:

	Three months ended March 31	
	2002	2001
Operating loss		
Total operating loss for reportable segments	\$ (208)	\$ (406)
Other corporate expenses	(69)	(237)
Operating (loss)	\$ (277)	\$ (643)

6. **Inventories**

Inventories are stated at the lower of cost or market and are valued using the first-in, first-out method. Inventories are as follows:

	March 31, 2002	December 31, 2001
Raw materials and supplies	\$ 3,187	\$ 3,367
Work in progress	618	627
Finished goods	8,463	8,312
Total	<u>\$ 12,268</u>	<u>\$ 12,306</u>

7. **Income Per Share**

Basic earnings (loss) per common share is computed by dividing net earnings (loss) per common share by the weighted-average number of common shares outstanding for the periods presented. Diluted earnings (loss) per common share is computed by dividing net earnings (loss) per common share by the weighted-average number of common shares outstanding and all potentially dilutive common shares, consisting of outstanding warrants and stock options, for the periods presented. At March 31, 2002, there were 1,227,915 options and 825,885 warrants outstanding. They are not included in the calculation of weighted-average shares outstanding because of their anti-dilutive effect.

8. **Income Tax**

Domestic and foreign earnings (loss) before income taxes includes income or loss derived from operations in the respective U.S. and foreign geographic areas, whereas provisions for taxes on income or loss include all income taxes payable to U.S., foreign and other governments as applicable, regardless of the sites in which the taxable income or loss is generated. Income tax expense (benefit) for the first three months of fiscal 2002 and 2001 differs from the amount computed by applying the U.S. Federal statutory rates primarily due to the creation of foreign loss carryforwards, foreign tax exemptions, and the utilization of U.S. pre-acquisition loss carryforwards for which the benefit reduces goodwill.

The Company has established valuation allowances covering certain of its deferred tax assets. These allowances were \$1,020 and \$948 as of March 31, 2002, and December 31, 2001, respectively. The valuation allowance was established due to the uncertainty of the realization of these deferred tax assets. A portion of the deferred tax assets, which are currently subject to a valuation allowance, may be allocated to reduce goodwill or other non-current intangible assets when subsequently recognized.

9. Goodwill

In July 2001, the FASB Issued Statement No. 141, “Business Combinations”, (“SFAS 141”) and Statement No. 142, “Goodwill and Other Intangible Assets”, (“SFAS 142”). SFAS 141 requires that the purchase method of accounting be used for all business combinations completed after June 30, 2001. SFAS 141 also specifies that intangible assets acquired in a purchase method business combination must meet certain criteria to be recognized and reported apart from goodwill. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized. Instead, they will be tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. The Company adopted the provisions of SFAS 141 for acquisitions initiated after June 30, 2001, and SFAS 142 effective January 1, 2002. In connection with the transitional goodwill impairment evaluation, SFAS 142 requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To the extent an indication exists that the goodwill may be impaired, the Company must measure the impairment loss, if any. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company’s statement of earnings. The Company has approximately \$15,189 of unamortized goodwill as of January 1, 2002, which is subject to the transition provisions of SFAS 142.

Amortization expense related to goodwill was approximately \$234 for the three months ended March 31, 2001. Other than the non-amortization of goodwill, the Company’s adoption of SFAS 142 is not expected to have a material effect on its revenue, operating results or liquidity.

A reconciliation of net income (loss) and income (loss) per common share under the Company’s adoption of SFAS 142 is as follows:

	Three Months Ended	
	March 31,	
	2002	2001
Reported net income (loss)	\$ (283)	\$ (216)
Add back: Goodwill amortization	0	234
Adjusted net income (loss)	<u>\$ (283)</u>	<u>\$ 18</u>
Basic net income (loss) per common share:		
Reported net income (loss)	0.00	0.02
Add back: Goodwill amortization	<u>\$ (0.03)</u>	<u>\$ 0.00</u>
Adjusted net income (loss)		
Diluted net income (loss) per common share:		
Reported net income (loss)	\$ (0.03)	\$ (0.02)
Add back: Goodwill amortization	0.00	0.02
Adjusted net income (loss)	<u>\$ (0.03)</u>	<u>\$ 0.00</u>

Revolving Credit Agreements

On April 21, 1998, the Company and BCI entered into a \$27,000 credit facility (the "Facility") with KeyBank National Association ("Key"), which matured on April 30, 2001. The Facility provided, subject to certain criteria, for a \$20,000 revolving line of credit for acquisition financing and a \$7,000 working capital line. Effective June 30, 2001, the Company and Key entered into a Modification Agreement ("The Agreement"), under which the working capital line was reduced to \$5,000 and the parties agreed to an unsecured \$20,000 line of credit for acquisition financing. The Agreement extends the provisions, warranties, certifications, and other criteria of the expired Facility to June 30, 2002, and reduces the number of financial covenants required to be met, with which the Company was in compliance for the period ended March 31, 2002. The Agreement bears interest at either Key's prime rate or, at the borrower's option, LIBOR plus 125 to 200 basis points. As of March 31, 2002, and December 31, 2001, Bogen had no short-term domestic borrowings outstanding under the Agreement.

Speech Design has credit lines and overdraft facilities of approximately 1,360 Euros (approximately U.S. \$1,185) from five banks. Speech Design's short-term lines of credit are collateralized by all of Speech Design's accounts receivable and inventory. Speech Design has a 7,700 Euros (U.S. \$6,700) credit facility for acquisition financing from D.G. Bank of Frankfurt. The interest rate under the credit facility is up to 200 basis points above the Euribor rate.

At March 31, 2002, and 2001, Speech Design had short-term borrowings amounting to \$107 and \$973, respectively. The amounts available under Speech Design's credit lines were approximately \$1,078. There were no borrowings under either the Bogen or Speech Design acquisition credit facilities.

Total outstanding revolving lines of credit are summarized as follows:

	March 31, 2002	December 31 2001
Domestic Lines of Credit Utilized	\$ —	\$ —
Foreign Lines of Credit Utilized		
• Speech Design GmbH	—	785
• Speech Design Israel	—	3
• Carrier Systems	75	125
• Satelco	32	60
	<u>\$ 107</u>	<u>\$ 973</u>

11. *Derivative Instruments and Hedging Activities*

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." These statements establish accounting and reporting standards for derivative instruments, including those embedded on other contracts, and for hedging activities. They require that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. The Company does not purchase or hold derivative instruments for trading or speculative purposes. There were no contracts outstanding as of March 31, 2002, or December 31, 2001, or for the three months ending March 31, 2002.

12. *Minority Interest*

On September 27, 2001, an agreement was signed with 2.T-Telematik Venture Beteiligungsgesellschaft mgH ("T-Venture"), a venture capital subsidiary of Deutsche Telekom AG, a world leader in telecommunications, to sell 2% of SDI, a newly-formed Company subsidiary which now holds all equity in Speech Design, the company's European operation, to T-Venture. Sale of the SDI common stock minority holding was for approximately 842 Euros, about \$765, less expenses of \$104. T-Venture also received a warrant to purchase another 2% of SDI shares at prices that, if SDI becomes separately traded, would be established at a discount to initial public market prices. As part of the agreement, within thirty days after both the second and third anniversaries of the agreement date, T-Venture has an option to request that the SDI repurchase all of the common shares held by T-Venture for a price, set by mutual determination or by an appraiser, not to exceed 125% of the total amount paid by T-Venture.

All statements contained herein that are not historical facts, including, but not limited to, statements regarding Bogen Communications International, Inc. and its subsidiaries, (collectively the "Company"), and its current business strategy, projected sources and uses of cash, and plans for future development and operations, are based upon current expectations. These statements are forward-looking in nature and involve a number of risks and uncertainties. Actual results may differ materially. Among the factors that could cause actual results to differ materially are the following: competitive factors, including the fact that the Company's competitors are highly focused and may have greater resources and/or name recognition than the Company; changes in technology and the Company's ability to develop or acquire new or improved products and/or modify and upgrade its existing products, including, but not limited to, the introduction and development of the Company's products; changes in labor, equipment and capital costs; changes in access to suppliers and sub-contractors; currency fluctuations; changes in United States and foreign regulations affecting the Company's business; future acquisitions or strategic partnerships; implementation or termination of strategic initiatives or transactions; the availability of sufficient capital to finance potential acquisitions on terms satisfactory to the Company; general business and economic conditions; political instability in certain regions; employee turnover; issues relating to the Company's internal systems; and other factors described from time to time in the Company's reports filed with the Securities and Exchange Commission. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which are made pursuant to the Private Litigation Reform Act of 1995 and, as such, speak only as of the date made

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

The following discussion addresses the financial condition of the Company as of March 31, 2002, and the results of its operations for the three-month period ended March 31, 2002, compared to the same period last year. The discussion should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2001, included in the Company's 2001 Annual Report on Form 10-K for the year ended December 31, 2001.

Results of Operations

Three Months Ended March 31, 2002, Compared to the Three Months Ended March 31, 2001

Net Sales

Net sales of \$12,376,000 for the three months ended March 31, 2002, decreased 10.6% from the \$13,846,000 recorded in the same period in 2001. Bogen's domestic revenues increased 11.4%. All domestic product lines improved, but the Engineered Systems and Pro Audio product lines grew the most, with revenue increases of \$527,000 and \$179,000, respectively, over 2001. Speech Design revenues in U.S. dollars, conversely, declined 48% from 2001. In local currency Speech Design revenues decreased 45.3%; currency exchange fluctuations accounted for the remaining percentage decrease.

Bogen (domestic)

All Bogen product lines improved with the rebounding domestic economy in general and the telecommunications industry in particular. Telco net sales in the first quarter of 2002 were \$3,490,000 versus \$3,364,000 in the same period in 2001, an increase of 3.7%. Growth in non-OEM product sales was offset to some extent by a decrease in OEM product revenues. Net sales of Commercial Audio products totaled \$2,225,000 in the first three months of 2002, up \$162,000 (7.9%) from net sales of \$2,063,000 in the first quarter of 2001.

Net sales of the Engineered System line increased 23.6%, to \$2,757,000 in the first quarter of 2002 from \$2,230,000 in the same period last year. Net sales of Pro Audio products amounted to \$1,235,000 in 2002, up 17.1% from the \$1,056,000 recorded in 2001. The increase is primarily a result of sales of existing products and of Apogee's new products that were released in late 2001.

Speech Design (foreign)

Speech Design's net sales in the first three months of 2002 were \$2,669,000 compared to \$5,133,000 in the same period in 2001, a decrease of \$2,464,000. In local currency, net sales in 2002 decreased to 3,064,000 Euros, 2,539,000 Euros less than the 5,603,000 Euros in 2001. Both of Speech Design's product lines were negatively affected by the continuing softness in both the European telecommunications and Unified Messaging markets, which has caused significant spending reductions by end users and telecom carriers. Unified Messaging services declined to \$153,000 in the first quarter of 2002 from \$1,076,000 in 2001 and Telco sales decreased to \$2,516,000 for the three months ended March 31, 2002, from the \$4,057,000 reported in the same period in 2001.

Gross Profit

The Company's gross profit as a percentage of sales decreased to 43.9% for the three months ended March 31, 2002, from 49.1% for the same period last year. Gross profit was \$5,433,000 in 2002, a decrease of \$1,372,000, or 20.2%, from \$6,805,000 in 2001.

Bogen's gross profit as a percentage of sales decreased to 41.8% in 2002 from 42.9% in 2001. This percentage decrease is reflective of fluctuations in Bogen's product line sales mix, as indicated by the increases in Engineered Systems and Pro Audio sales, which historically have lower gross margins as compared to the other Bogen product lines. These lower gross margins were offset by certain cost efficiencies implemented in early 2001. Gross profit increased to \$4,056,000 in 2002 from \$3,734,000 in 2001.

Speech Design's gross profit decreased to \$1,377,000 in 2002 from \$3,071,000 in 2001. Gross profit as a percentage of sales fell to 51.6% in 2002 from 59.8% in 2001. The decline can be attributed to the lower revenues in Unified Messaging products and services and the absorption of fixed costs relative to overall sales volume. Unified Messaging products and services generally have a higher gross margin than Telco products.

Research and Development

The Company's Research and Development ("R&D") programs are designed to efficiently introduce innovative products in a timely manner. R&D expense was \$875,000, or 7.1% of sales in the first quarter of 2002, compared to \$1,303,000, or 9.4% of sales in the same period of 2001. The \$428,000 decrease primarily reflects cost reductions achieved by the restructuring of Speech Design's operations in the third and fourth quarters of 2001.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") in the three months ended March 31, 2002, decreased \$1,040,000 from the same period in 2001. SG&A expense was \$4,795,000, or 38.7% of sales, in 2002 compared to \$5,835,000, or 42.1% of sales, in 2001. Domestic SG&A costs were down primarily due to lower administrative costs, a result of overhead cost control initiatives implemented throughout 2001. Foreign SG&A expenses decreased due to the restructuring of Speech Design's operations in the second half of 2001 and decreased sales.

Restructuring and Other Charges

In the first quarter of 2001, the Company recorded approximately \$35,000 for expenses incurred in connection with its exploration of alternatives for enhancing shareholder value, which included a possible separation of the domestic and foreign businesses.

Interest Income and Expenses

Interest income was \$99,000 in the first three months of 2001, a decrease of \$49,000 from \$148,000 in the same period in 2001. The decrease is primarily a result of lower interest rates on invested cash in the United States.

Interest expense, was \$74,000 in 2002, an increase of \$43,000 from \$31,000 in 2001. The increase is primarily from interest on payments made related to prior period tax filings.

Income Taxes

The Company's tax provision was \$27,000 in the first quarter of 2002, an increase of \$318,000 from a \$291,000 tax benefit recorded in the first quarter of 2001.

Domestic tax expense was \$251,000 in the first quarter of 2002, an increase of \$470,000 from the \$219,000 tax benefit in the same period in 2001, primarily due to higher income. Foreign operations recorded a tax benefit of \$224,000 for the first three months of 2002, an increase of \$152,000 from the \$72,000 tax benefit recorded in the first three months of 2001, due to the creation of foreign loss carryforwards and the tax-exempt status of the Israel subsidiary.

Liquidity and Capital Resources

During the first quarter of 2002, cash utilization focused on working capital requirements, pay-down of accounts payable and accrued expenses, debt reduction, and tax payments.

Net cash used in the Company's operating activities was \$387,000, primarily caused by the net loss of \$283,000 recorded by the Company.

Net cash provided by investing activities was \$161,000, which was comprised of proceeds from the sale of certain marketable securities for \$295,000, offset by purchases of \$134,000 for fixed assets, primarily computer hardware and software and other equipment.

Net cash used in financing activities was \$916,000. The Company paid down \$851,000 of its existing lines of credit and \$65,000 of capitalized lease obligations.

As of March 31, 2002, the Company's total liabilities were \$7,159,000, of which \$6,752,000 is due and payable within one year.

On April 21, 1998, the Registrant and BCI entered into a \$27 million credit facility (the Facility") with KeyBank National Association ("Key"), which matured on April 30, 2001. The Facility provided, subject to certain criteria, for a \$20 million revolving line of credit for acquisition financing and a \$7 million working capital line. Effective June 30, 2001, the Company and Key entered into a Modification Agreement (The Agreement"), under which the working capital line was reduced to \$5 million and the parties agreed to an unsecured \$20 million line of credit for acquisition financing. The Agreement extends the provisions, warranties, certifications, and other criteria of the expired Facility to June 30, 2002, and reduces the number of financial covenants required to be met, with which the Company was in compliance for the period ended March 31, 2002. The Agreement bears interest at either Key's prime rate or, at the borrower's option, LIBOR plus 125 to 200 basis points. As of March 31, 2002 and December 31, 2001, the Company had no short-term domestic borrowings under the Agreement.

Speech Design has credit lines and overdraft facilities of approximately 1,360,000 Euros (approximately \$1.2 million) from five banks. Speech Design's short-term lines of credit are collateralized by all of Speech Design's accounts receivable and inventory. Speech Design has a 7,700,000 Euro (approximately \$6.8 million) credit facility for acquisition financing from D.G. Bank of Frankfurt. The interest rate under the credit facility is up to 200 basis points above the Euribor rate.

At March 31, 2002, Speech Design had short-term borrowings amounting to \$107,000. The amounts available under Speech Design's credit lines were approximately \$1,078,000 at March 31, 2002, with rates tied to short-term bank notes and Euromarket loans. There were no borrowings under either the Bogen or Speech Design acquisition credit facilities.

The Company believes that it has adequate liquidity to finance its ongoing activities and capital expenditures for the near term.

ITEM 3. MARKET RISK DISCUSSION

Since the Company operates on a global basis, it is exposed to various foreign currency risks, primarily from the operations of the Company's German subsidiary, Speech Design. The Company's consolidated financial statements are denominated in U.S. dollars, whereas Speech Design and its subsidiaries are denominated in different foreign currencies, as follows: Speech Design's and Carrier Systems' currency is the Euro, Satelco's currency is the Swiss Franc, and Speech Design Israel's currency is the Israeli Shekel. All Speech Design subsidiaries' financial statements are first translated into Euros; then, Speech Design's consolidated financial statements are then translated into the U.S. dollar.

Accordingly, changes in exchange rates between the applicable foreign currency and the Euro, and changes in the exchange rates between the Euro and the U.S. dollar will affect the translation of each foreign subsidiary's financial results into U.S. dollars for the purposes of reporting the Company's consolidated financial results.

In general, the Company does not use derivative instruments or hedging to manage its exposure and does not currently hold any material risk sensitive instruments for trading purposes at March 31, 2002. During the quarter ending March 31, 2002, the Company had no material changes of its market risk assessment.

The above discussion should be read in conjunction with Management's discussion of market risk as reported on Form 10-K for the year ended December 31, 2001, filed with the Securities and Exchange Commission on March 28, 2002.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party, in the ordinary course of business, to various legal actions and claims that relate to its products, intellectual property, employee matters, or other aspects of its operations. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

ITEM 2. CHANGES IN SECURITIES

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are included herein:

10.42 Employment Agreement dated April 10, 2002, between the Company and Mr. Jonathan Guss.

10.43 Employment Agreement dated April 10, 2002, between the Company and Mr. Michael Fleischer.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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.

BOGEN COMMUNICATIONS INTERNATIONAL, INC.
(Registrant)

Date: May 2, 2002

By: /s/ Michael P. Fleischer
Name: Michael P. Fleischer
Title: President

Date: May 2, 2002

By: /s/ Maureen A. Flotard
Name: Maureen A. Flotard
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

DOC 2 : Header

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of December 1, 2001, between Bogen Communications International, Inc., a Delaware corporation (the "Company"), and Jonathan Guss (the "Executive").

In consideration of the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree as follows:

1. **Employment, Duties and Acceptance.**

1.1 *Employment by the Company.* The Company employs the Executive, for itself and its affiliates, to render exclusive and full time services in such capacities as the Company's Board of Directors may assign, as the Chief Executive Officer of the Company and, in connection therewith, to comply with the stated policies of the Company and perform such duties consistent with such position as the Executive shall reasonably be directed to perform by the Company's Board of Directors. The Executive shall, together with the President of the Company, be responsible for the implementation of the overall direction, strategy and operations and administration of the business of the Company with such powers and duties as are typically provided or reserved to the senior executive officers of the Company under its by-laws and the General Corporation law of the State of Delaware. Notwithstanding the Executive's obligation to render exclusive and full time services to the Company, the Executive may (i) hold and make passive investments, and (ii) continue to serve as a non-employee director or advisor for those companies for which the Executive currently serves as a director or advisor or (iii) engage in such other charitable, educational or business activities as may be otherwise permitted by the Board of Directors of the Company; provided, that such activities are not otherwise prohibited under Section 5.1.

1.2 *Acceptance of Employment by the Executive.* The Executive accepts such employment and shall render the services described above. Subject to election by the Company's Board of Directors as such, the Executive shall also serve during all or any part of the Term (as defined below) as an officer of the Company and of any of its subsidiaries, without any compensation therefore other than as specified in this Agreement. The Executive shall be nominated to the Board of Directors of the Company and, subject to election by the stockholders of the Company, shall serve as a director of the Company during the Term, and at the discretion of the Company, shall serve as a director of any one or more of the Company's subsidiaries, without any compensation therefore other than as specified in this Agreement. Notwithstanding the foregoing, if the Executive is no longer employed by the Company as the Chief Executive Officer or otherwise servicing the Company as a full-time consultant, the Executive shall, upon request of the Company, promptly resign from the Board of Directors of the Company and/or any of its subsidiaries.

1.3 *Place of Employment.* The Executive's place of employment shall be Ramsey, New Jersey, or such other location as may be agreed upon by the Executive and the Company, subject to such reasonable travel as the rendering of the services hereunder may require.

2. **Term of Employment and Renewal.** The term of the Executive's employment under this Agreement (the "Term") shall commence on December 1, 2001 (the "Commencement Date") and shall end at 5:00 pm (Eastern Time) on November 30, 2004, unless sooner terminated as herein provided. The Term will be automatically renewed for successive one year periods expiring on November 30 of each year *unless* either the Company or the Executive has notified the other in writing at least 180 days prior to the expiration of the initial Term (or any renewal Term) that the Company, or the Executive, as the case may be, is electing to terminate this Agreement on the then applicable expiration date, in which case this Agreement shall (unless terminated sooner in accordance with the provisions hereof) terminate on such date. Where the Term has been extended as provided herein, reference to "Term" shall include any renewal Term unless otherwise indicated.

3. **Compensation.**

3.1 *Base Salary.* As compensation for all services to be rendered pursuant to this Agreement, the Company shall pay the Executive, during each year of the Term, a salary of not less than \$240,750 per annum (the "Annual Salary"), payable in accordance with the executive payroll policies of the Company as from time to time in effect, less such deductions as shall be required to be withheld by applicable law and regulations. On each anniversary of the Commencement Date, the Annual Salary shall be increased by an amount equal to the Annual Salary for the twelve months preceding such date multiplied by the greater of (i) 5% or (ii) the annual increase in the Consumer Price Index for such year, as most recently reported by the Bureau of Labor Statistics of the U.S. Department of Labor.

3.2 *Retirement Benefits.* The Executive shall be entitled to participate in the Company's 401(k) plan and/or a non-qualified deferred compensation plan or any similar arrangement which may be established by the Company (the "Deferred Plan") and that employee shall be entitled to make contributions to such 401(k) plan and the Deferred Plan (in such combination as the Company may direct to be consistent with its plans) up to an aggregate amount of \$30,000 annually; provided, however, that if for any year the Executive is eligible for, and the Company makes, matching contributions to its 401(k) plan (the "Matched Amount"), the amount of the Executive's compensation to be paid for such year into the Deferred Plan shall be reduced by the Matched Amount divided by the Executive's individual combined city, state and federal tax rate.

3.3 *Equity Compensation.* (a) *Stock Options.* The Executive shall be granted, as soon as practicable following the execution of this Agreement, a non-qualified option to purchase 220,750 shares of Common Stock, \$.001 par value per share (the "Shares"), of the Company (the "Option"). The per Share exercise price of the Option shall be the market price on the date of grant. The Option shall be issued on terms and provisions set forth in the form of Option Certificate approved by the Board, and shall otherwise have terms and conditions no less favorable to Executive as those set forth in options heretofore granted to the Executive, or as set forth herein requiring vesting in full upon a Change of Control or in the event the Executive's employment is terminated by the Company, other than for "cause" under Section 4.3. The Executive shall be eligible to participate in any cashless exercise plan made available to any other holders of options of the Company, or if none, the Company shall provide for Executive a cashless exercise plan to facilitate the exercise of Executive of any and all options and warrants held by him, or by entities of which he is a controlling person, on such terms and conditions as may be approved by the Board. Options shall vest according to the schedule set forth on Exhibit A.

(b) **Restricted Stock Grant.** Promptly following the execution of this Agreement, the Company shall grant and deliver to the Executive 105,000 shares of Restricted Stock of the Company's common stock, par value \$.0001 per share (the "Restricted Shares"), such Restricted Shares to vest in a single installment on the fifth anniversary of the date of grant; provided, however that such Restricted Shares shall earlier vest as follows: if at any time the Initial Value Target (as defined below) is achieved, then 65,625 Restricted Shares shall immediately vest and become non-forfeitable, and if at any time the Additional Value Target is achieved, then 39,375 Restricted Shares (together with any Restricted Shares not earlier vested) shall immediately vest and become non-forfeitable. Unless otherwise requested by the Executive, the Company shall provide cashless delivery of such Restricted Shares to the Executive by delivering to the Executive the net number of Restricted Shares, after withholding Restricted Shares with a value sufficient to satisfy withholding and other tax liabilities.

For purposes hereof, the Initial Value Target shall be \$4 per share of Common Stock, and the Additional Value Target shall be \$5 per share, in each case subject to adjustment for splits, reverse splits, stock dividends and similar matters, or as otherwise determined by the Board to reflect any spin-off, split-up or similar extraordinary or unanticipated transaction or condition. The targets amounts shall be deemed achieved if either (a) the closing market price of the Company's Common Stock closes at or higher than the target value for ten (10) or more consecutive days of trading, or there is any Change of Control transaction, or other sale, merger or combination of the Company, or a sale of its assets, that is consummated at a price above such target price.

3.4 *Limitations Imposed by Law.* Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Agreement relating to the compensation to be paid to the Executive shall be subject to any limitations provided by law or regulation which may from time to time limit the compensation payable to the Executive.

3.5 *Participation in Employee Benefits.* Subject to the acceptance of the Executive and his dependents by any applicable insurance company or applicable benefit provider, the Executive shall be permitted during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, loan program, pension plan or similar benefit plan of the Company, and shall be entitled to such vacation, personal time, car allowance and the like, which may be available to other executives of the Company and generally on the same terms as such other executives. In addition to the benefit programs set forth above, the Company shall use reasonable efforts, consistent with the Company's overall business interests, to assist the Executive in accomplishing the effective exercise of the vested portion of the Option, whether by cashless exercise, loans or otherwise, at the Company's discretion.

3.6 *Expenses.* Subject to such policies as may from time to time be established by the Company's Board of Directors, the Company shall pay or reimburse the Executive for all reasonable expenses actually incurred or paid by the Executive during the Term in the performance of the Executive's services under this Employment Agreement upon presentation of expense statements or vouchers or such other supporting information as it may require.

3.7 *Change of Control.*

3.7.1 Right to Change of Control Benefits. The Company agrees that the Executive shall have the right to terminate this Agreement and receive the severance benefits set forth in subsection 3.7.2 below in the event of a Change of Control (as defined in subsection 3.7.3 below) under the circumstances described in this Section 3.7. No right to terminate or benefits shall be applicable or payable under subsection 3.7.2 below unless there shall have been a Change of Control.

3.7.2 Benefit. In the event that (i) within six months of a Change of Control the Executive dies or his employment is terminated by reason of disability pursuant to Section 4.2 or , (ii) within twelve months of a Change of Control the Executive terminates his employment with the Company for Good Reason (as hereinafter defined), or (iii) within twelve months after a Change of Control the Executive's employment with the Company is terminated by the Company for any reason other than for Cause as defined in Section 4.3, (including, without limitation, death or disability), the Executive shall receive a lump sum compensation, payable within five days after termination of his employment, equal to one half (1/2) his Annual Salary immediately prior to such termination in the case of a termination under (i), and one times such Annual Salary in the event of a termination under (ii) or (iii). In addition, the Company shall maintain in full force and effect, for the continued benefit of the Executive and/or his family for one year after the date his employment terminates or, if earlier, the date the Executive receives comparable coverage from a new employer, all medical and dental insurance plans in which he was entitled to participate immediately prior to the Change of Control, provided that his continued participation is possible under the general terms and provisions of such plans (in the event that his participation in any such plan is barred, the Company shall arrange to provide the Executive with benefits substantially similar to those which he is entitled to receive under such plans).

3.7.3 Definition of Change of Control. For purposes of this Agreement, a "Change of Control" shall mean a change of control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is in fact required to comply therewith; provided, that, without limitation, such a change of control shall be deemed to have occurred if:

- (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, any corporation controlled by or under common control with any entity which as of the date hereof holds in excess of five percent (5%) of the Company's common stock, or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50.01% or more of the combined voting power of the Company's then outstanding securities;

- (ii) the Company shall have consummated a merger or consolidation or sale of assets or significant subsidiaries with any other corporation, other than a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% (but less than 80%) of the combined voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or
- (iii) the Company shall have liquidated or sold all or substantially all of the Company's assets.

3.7.4 Definition of Good Reason. For purposes of this Agreement, "Good Reason" means:

- (i) the assignment to the Executive of any duties inconsistent with his position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the date of the Change of Control, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice from the Executive;
- (ii) any reduction of the Executive's Annual Salary or the failure by the Company to provide him with benefits which in the aggregate are no less favorable than the benefits to which he was entitled prior to the Change of Control;
- (iii) the Company's requiring the Executive to be based at any office or location other than the office and location at which he is employed on the date of the Change of Control, except for travel reasonably required in the performance of his responsibilities; or
- (iv) any action taken or suffered by the Company as of or following the Change of Control (such as, without limitation, transfer or encumbrance of assets or incurring of indebtedness) which materially impairs the ability of the Company to make any payments due or which may become due to the Executive under this Agreement.

4. Termination.

4.1 *Termination upon Death.* If the Executive dies during the Term, this Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive all compensation and benefits provided for under this Agreement accrued, earned, called for or vested as of the period ending on the last day of the sixth (6th) month after the month in which the Executive's death occurs; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof.

4.2 *Termination upon Disability.* If, during the Term, the Executive becomes physically or mentally disabled, whether totally or partially, so that the Executive is unable substantially to perform his services hereunder for (i) a period of three consecutive months, or (ii) for shorter periods aggregating three months during any six month period, the Company (as directed by a vote of the Board of Directors, excluding the Executive and Michael P. Fleischer) may at any time after the last day of the three consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of three months, by ten days' prior written notice to the Executive, terminate the Term of the Executive's employment hereunder. Nothing in this Section 4.2 shall be deemed to extend the Term. The Executive shall be entitled to all compensation and benefits provided for under this Agreement accrued, earned, called for or vested for a period ending on the last day of the third (3d) month after the month in which the Executive's employment is terminated; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof.

4.3 *Termination for Cause.* The Company (as directed by a vote of the Board of Directors, excluding the Executive and Michael P. Fleischer, but for which vote each of the Executive and Mr. Fleischer are given at least one (1) day's prior written notice) may at any time by written notice to the Executive terminate the Term of the Executive's employment under this Agreement for "cause" (as defined herein) and the Executive shall have no right to receive any compensation or benefit hereunder on and after the effective date of such notice, other than compensation accrued, earned or vested through the date of termination; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof. For purposes of this Agreement, "cause" shall mean

- (i) an act or acts of personal dishonesty taken by the Executive at the expense of or against the interests of the Company;
- (ii) violation by the Executive of his obligations under this Agreement, including, without limitation, any failure or refusal to comply with the oral or written policies or directives of the Company's Board of Directors; provided, however, that if such violation may be substantially cured, the Executive may not be terminated for cause unless the Executive fails to cure such violation within a reasonable period of time (not to exceed 30 days) after receipt of notice from the Company of such violation;
- (iii) any direct or indirect disclosure of any confidential information or other special knowledge of the finances, business or other affairs of the Company contrary to his obligations under Section 5.1.2;

- (iv) the conviction of the Executive of a felony; or
- (v) the conviction of the Executive of a serious misdemeanor involving illegal use, possession or sale of drugs, larceny, crimes of violence or sex offenses.

4.4 *Involuntary Termination.* Notwithstanding anything herein to the contrary, the Company (as directed by a vote of the Board of Directors, excluding the Executive and Michael P. Fleischer) shall have the right, at any time upon 90 days' prior notice to the Executive, to terminate the Term of the Executive's employment hereunder. If during the Term, the Company terminates the Executive's employment other than for the reasons set forth in Sections 4.1, 4.2 and 4.3 hereof, it shall be deemed to be an involuntary termination and the Company shall pay to the Executive (in addition to any accrued compensation or expense reimbursements otherwise due) within ten business days following the date of termination as a full and final severance payment the lesser of (i) the balance of the Annual Salary payable to the Executive for the remainder of the Term (or any renewal term called for), and (ii) one year of the then-current Annual Salary; provided, however, that if any payment is due the Executive pursuant to Section 3.7 hereof, then the Executive shall not be entitled to any payment under this Section 4.4.

4.5 *Voluntary Termination.* The Executive agrees to provide the Company with 90 days notice prior to voluntarily terminating the Term of the Executive's employment hereunder. At the end of such 90-day period, this Agreement shall terminate automatically and, except as provided under Section 3.7 hereof, the Company shall have no further obligations to the Executive under this Agreement, other than those obligations accrued, earned or vested by the Executive as of the date of the termination.

4.6 *Notice of Termination.* Any notice of termination by the Company for any reason or by the Executive for any reason shall be communicated by a written notice which indicates (i) the specific termination provision in this Agreement relied upon, (ii) the facts and circumstances claimed to provide a basis for such termination, and (iii) the date or proposed date of termination.

5. **Certain Covenants of the Executive.**

5.1 *Covenants Against Competition.* The Executive acknowledges that (i) the principal business of the Company and its subsidiaries is the development, assembly and distribution of sound processing equipment and telecommunication peripherals (together with other related businesses which the Company and its subsidiaries are in currently and which the Company and its subsidiaries may become involved with during the Term, the "Company Business"); (ii) the Company Business is international in scope; (iii) his work for the Company will bring him, into close contact with many confidential affairs not readily available to the public; and (iv) the Company would not enter into this Agreement but for the agreements and covenants of the Executive contained herein. In order to induce the Company to enter into this Agreement, the Executive covenants and agrees that:

5.1.1 Non-Compete. During the Term and for a period of two years following the termination (whether for cause or otherwise) of the Executive's employment with the Company or any of its affiliates (the "Restricted Period"), the Executive shall not, in the United States of America or in any foreign country, directly or indirectly, (i) engage in whole or in part in the Company Business for his own account; (ii) enter the employ of, or render any services to, any person engaged in whole or in part in the Company Business; and (iii) become interested in any person engaged in the Company Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, consultant or in any other relationship or capacity; provided, however, that the Executive may own, directly or indirectly, solely as an investment, securities of any person which are traded on any national securities exchange or the Nasdaq National Market System, if the Executive (a) is not a controlling person of, or a member of a group which controls, such person, or (b) does not, directly or indirectly, own 1% or more of any class of securities of such person.

5.1.2 Confidential Information. During the Term of this Agreement and during and after the Restricted Period, the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others except in connection with the business and affairs of the Company, all confidential matters of the Company and its affiliates. Such confidential matters, include, without limitation, trade "know-how," secrets, customer lists, details of consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, methods of manufacture, technical processes, designs and design projects, inventions and research projects and other business affairs of the Company and its affiliates (collectively, "Confidential Information"), learned by or disclosed to the Executive heretofore or hereafter, and shall not disclose them to anyone outside of the Company and its affiliates, either during or after his employment by the Company or any of its affiliates of the Company, except as required in the course of performing duties hereunder.

5.1.3 Property of the Company. All documents and other materials including, without limitation, memoranda, notes, lists, records and other documents made or compiled by or made available to the Executive prior to the commencement of employment hereunder or during the Term by the Company and any copies thereof, whether or not containing Confidential Information, are and shall be the property of the Company and shall, at the request of the Company, be delivered to the Company promptly upon the termination of the Executive's employment with the Company or any of its affiliates or at any other time on request. Except as required in connection with the services to be performed hereunder, the Executive agrees not to remove from the Company's premises, without permission, any and all papers or drawings belonging to the Company, including those prepared or worked on by him. All ideas, reports, and other creative works conceived by the Executive during the Term and relating to Company Business, shall be disclosed to the Company and shall be the sole property of the Company.

5.1.4 Employees of the Company. During the Restricted Period, the Executive shall not, directly or indirectly hire, solicit or encourage to leave the employment of the Company or any of its affiliates, any employee of the Company or its affiliates or hire any such employee who has left the employment of the Company or any of its affiliates within one year of the termination of such employee's employment with the Company or any of its affiliates.

5.1.5 Consultants and Independent Contractors of the Company. During the Restricted Period, the Executive shall not, directly or indirectly, hire, solicit or encourage to cease to work with the Company or any of its affiliates, any consultant, sales representative and other person then under contract with the Company or any of its affiliates; provided, however, that the Executive may hire or solicit consultants who in the ordinary course of such consultant's business provide services to a broad client base.

5.2 *Rights and Remedies Upon Breach*. If the Executive breaches, or threatens to commit a breach of, any of the provisions of Section 5.1 (the "Restrictive Covenants"), the Company shall have the right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and its affiliates and that money damages will not provide an adequate remedy to the Company; provided, however, that such right and remedy shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

5.3 *Enforceability in Jurisdictions*. The parties intend to and hereby confer jurisdiction to enforce the Restrictive Covenants upon the courts of any jurisdiction within the geographical scope of such Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

6. **Executive's Representations**. The Executive represents and warrants to the Company that there are no agreements or arrangements, whether written or oral, in effect which would prevent the Executive from rendering exclusive services to the Company during the Term. The Executive further represents, warrants and agrees with the Company that as of the date hereof he has not made and will not make during the Term any commitment to do any act in conflict with this Agreement, or take any action that might divert from the Company any opportunity which would be in the scope of any present or future business of the Company or any affiliate thereof.

7. **Indemnification**. The Company shall indemnify and hold harmless the Executive from all claims, losses, liabilities, damages and causes of action relating to or arising out of the Executive's performance, duties and responsibilities to, for, or on behalf of the Company to the extent provided by the Company's certificate of incorporation and by-laws, as the same may be amended from time to time.

8. **Other Provisions**.

8.1 *Notices*. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, by facsimile transmission, or sent by certified, registered or express mail, postage prepaid, and shall be deemed given when so delivered personally, transmitted by facsimile transmission, or if mailed, two days after the date of mailing, as follows:

(i) if to the Company:

Bogen Communications International, Inc.
50 Spring Street
Ramsey, New Jersey 07446
Attention: Ms. Maureen Flotard
Telecopy: (201) 995-2078

with a copy to:

Attention:
Telecopy:

(ii) if to the Executive, to:

Mr. Jonathan Guss
713 Clove Lane
Franklin Lakes, NJ 07417
Telecopy: 201-847-9096

with a copy to:

Attention:
Telecopy:

8.2 *Entire Agreement.* This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

8.3 *Waivers and Amendments.* This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

8.4 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed entirely within such State.

8.5 *Assignment.* Except as otherwise agreed to by the Company, this Agreement, and the Executive's rights and obligations hereunder, may not be assigned by the Executive. The Company may assign this Agreement and its rights, together with its obligations hereunder, in connection with any sale, transfer or other disposition of all or substantially all of its assets or business, whether by merger, consolidation or otherwise.

8.6 *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The delivery of a signature page of this Agreement by one party to the other via facsimile transmission shall constitute the execution and delivery of this Agreement by the transmitting party.

8.7 *Headings.* The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

8.8 *Severability.* If any term, provision, covenant or restriction contained in this Agreement, or any part thereof, is held by a court of competent jurisdiction or any foreign, federal, state, county or local government or any other governmental regulatory or administrative agency or authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and in no way shall be affected, impaired or invalidated. If any court construes any of the terms, provisions, covenants or restrictions contained in this Agreement, including, without limitation, the Restrictive Covenants, or any part thereof, to be unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BOGEN COMMUNICATIONS
INTERNATIONAL, INC.

By: /s/ Yoav Stern
Name: Yoav Stern
Title: Co-Chairman of the Board

/s/ Jonathan Guss
Jonathan Guss

EXHIBIT A

Vesting Schedule

<u>Portion of Option Immediately Vested:</u>	56,682 shares
<u>Portion of Option Vesting Cumulatively on the Last Day of Each Fiscal Quarter Beginning June 30, 2002 and Ending September 30, 2004(1):</u>	16,406.8 shares

(1) The option may not be exercised for financial shares.

Vesting Schedule – Special Circumstances

Notwithstanding the foregoing:

- (i) in the event of a Change of Control, the unvested portion of the Option shall immediately vest;
- (ii) in the event that the Executive's employment under this Agreement is terminated by the Company for any reason other than pursuant to Section 4.3 hereof, the unvested portion of the Option shall vest on the date notice of termination is given to the Executive and shall expire on the sooner of (a) ten (10) years from the date of grant, or (b) one year after the Executive ceases to render services to the Company, either as an employee or as a consultant; and
- (iii) in the event that the Agreement is terminated by the Company pursuant to Section 4.3 hereof, or by reason of the voluntary resignation of the Executive (X) the Option, other than with respect to that portion of the Option which has vested as of or prior to the date of termination, shall be cancelled, and (Y) the portion of the Option vested hereunder shall not expire sooner than the sooner of (a) ten (10) years from the date of grant, or (b) 90 days after the Executive ceases to render services to the Company, either as an employee or as a consultant.

DOC 3 : Header

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT dated as of December 1, 2001, between Bogen Communications International, Inc., a Delaware corporation (the "Company"), and Michael Fleischer (the "Executive").

In consideration of the mutual promises, terms, provisions and conditions set forth in this Agreement, the parties hereby agree as follows:

1. Employment, Duties and Acceptance.

1.1 *Employment by the Company.* The Company employs the Executive, for itself and its affiliates, to render exclusive and full time services in such capacities as the Company's Board of Directors may assign, as the President of the Company and, in connection therewith, to comply with the stated policies of the Company and perform such duties consistent with such position as the Executive shall reasonably be directed to perform by the Company's Board of Directors. The Executive shall, together with the Chief Executive Officer of the Company, be responsible for the implementation of the overall direction, strategy and operations and administration of the business of the Company with such powers and duties as are typically provided or reserved to the senior executive officers of the Company under its by-laws and the General Corporation law of the State of Delaware. Notwithstanding the Executive's obligation to render exclusive and full time services to the Company, the Executive may (i) hold and make passive investments, and (ii) continue to serve as a non-employee director or advisor for those companies for which the Executive currently serves as a director or advisor or (iii) engage in such other charitable, educational or business activities as may be otherwise permitted by the Board of Directors of the Company; provided, that such activities are not otherwise prohibited under Section 5.1.

1.2 *Acceptance of Employment by the Executive.* The Executive accepts such employment and shall render the services described above. Subject to election by the Company's Board of Directors as such, the Executive shall also serve during all or any part of the Term (as defined below) as an officer of the Company and of any of its subsidiaries, without any compensation therefore other than as specified in this Agreement. The Executive shall be nominated to the Board of Directors of the Company and, subject to election by the stockholders of the Company, shall serve as a director of the Company during the Term, and at the discretion of the Company, shall serve as a director of any one or more of the Company's subsidiaries, without any compensation therefore other than as specified in this Agreement. Notwithstanding the foregoing, if the Executive is no longer employed by the Company as the President or otherwise servicing the Company as a full-time consultant, the Executive shall, upon request of the Company, promptly resign from the Board of Directors of the Company and/or any of its subsidiaries.

1.3 *Place of Employment.* The Executive's place of employment shall be Ramsey, New Jersey, or such other location as may be agreed upon by the Executive and the Company, subject to such reasonable travel as the rendering of the services hereunder may require.

2. **Term of Employment and Renewal.** The term of the Executive's employment under this Agreement (the "Term") shall commence on December 1, 2001 (the "Commencement Date") and shall end at 5:00 pm (Eastern Time) on November 30, 2004, unless sooner terminated as herein provided. The Term will be automatically renewed for successive one year periods expiring on November 30 of each year *unless* either the Company or the Executive has notified the other in writing at least 180 days prior to the expiration of the initial Term (or any renewal Term) that the Company, or the Executive, as the case may be, is electing to terminate this Agreement on the then applicable expiration date, in which case this Agreement shall (unless terminated sooner in accordance with the provisions hereof) terminate on such date. Where the Term has been extended as provided herein, reference to "Term" shall include any renewal Term unless otherwise indicated.

3. **Compensation.**

3.1 *Base Salary.* As compensation for all services to be rendered pursuant to this Agreement, the Company shall pay the Executive, during each year of the Term, a salary of not less than \$225,000 per annum (the "Annual Salary"), payable in accordance with the executive payroll policies of the Company as from time to time in effect, less such deductions as shall be required to be withheld by applicable law and regulations. On each anniversary of the Commencement Date, the Annual Salary shall be increased by an amount equal to the Annual Salary for the twelve months preceding such date multiplied by the greater of (i) 5% or (ii) the annual increase in the Consumer Price Index for such year, as most recently reported by the Bureau of Labor Statistics of the U.S. Department of Labor.

3.2 *Retirement Benefits.* The Executive shall be entitled to participate in the Company's 401(k) plan and/or a non-qualified deferred compensation plan or any similar arrangement which may be established by the Company (the "Deferred Plan") and that employee shall be entitled to make contributions to such 401(k) plan and the Deferred Plan (in such combination as the Company may direct to be consistent with its plans) up to an aggregate amount of \$30,000 annually; provided, however, that if for any year the Executive is eligible for, and the Company makes, matching contributions to its 401(k) plan (the "Matched Amount"), the amount of the Executive's compensation to be paid for such year into the Deferred Plan shall be reduced by the Matched Amount divided by the Executive's individual combined city, state and federal tax rate.

3.3 *Equity Compensation.* (a) *Stock Options.* The Executive shall be granted, as soon as practicable following the execution of this Agreement, a non-qualified option to purchase 220,750 shares of Common Stock, \$.001 par value per share (the "Shares"), of the Company (the "Option"). The per Share exercise price of the Option shall be the market price on the date of grant. The Option shall be issued on terms and provisions set forth in the form of Option Certificate approved by the Board, and shall otherwise have terms and conditions no less favorable to Executive as those set forth in options heretofore granted to the Executive, or as set forth herein requiring vesting in full upon a Change of Control or in the event the Executive's employment is terminated by the Company, other than for "cause" under Section 4.3. The Executive shall be eligible to participate in any cashless exercise plan made available to any other holders of options of the Company, or if none, the Company shall provide for Executive a cashless exercise plan to facilitate the exercise of Executive of any and all options and warrants held by him, or by entities of which he is a controlling person, on such terms and conditions as may be approved by the Board. Options shall vest according to the schedule set forth on Exhibit A.

(b) **Restricted Stock Grant.** Promptly following the execution of this Agreement, the Company shall grant and deliver to the Executive 105,000 shares of Restricted Stock of the Company's common stock, par value \$.0001 per share (the "Restricted Shares"), such Restricted Shares to vest in a single installment on the fifth anniversary of the date of grant; provided, however that such Restricted Shares shall earlier vest as follows: if at any time the Initial Value Target (as defined below) is achieved, then 65,625 Restricted Shares shall immediately vest and become non-forfeitable, and if at any time the Additional Value Target is achieved, then 39,375 Restricted Shares (together with any Restricted Shares not earlier vested) shall immediately vest and become non-forfeitable. Unless otherwise requested by the Executive, the Company shall provide cashless delivery of such Restricted Shares to the Executive by delivering to the Executive the net number of Restricted Shares, after withholding Restricted Shares with a value sufficient to satisfy withholding and other tax liabilities.

For purposes hereof, the Initial Value Target shall be \$4 per share of Common Stock, and the Additional Value Target shall be \$5 per share, in each case subject to adjustment for splits, reverse splits, stock dividends and similar matters, or as otherwise determined by the Board to reflect any spin-off, split-up or similar extraordinary or unanticipated transaction or condition. The targets amounts shall be deemed achieved if either (a) the closing market price of the Company's Common Stock closes at or higher than the target value for ten (10) or more consecutive days of trading, or there is any Change of Control transaction, or other sale, merger or combination of the Company, or a sale of its assets, that is consummated at a price above such target price.

3.4 *Limitations Imposed by Law.* Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Agreement relating to the compensation to be paid to the Executive shall be subject to any limitations provided by law or regulation which may from time to time limit the compensation payable to the Executive.

3.5 *Participation in Employee Benefits.* Subject to the acceptance of the Executive and his dependents by any applicable insurance company or applicable benefit provider, the Executive shall be permitted during the Term, if and to the extent eligible, to participate in any group life, hospitalization or disability insurance plan, health program, loan program, pension plan or similar benefit plan of the Company, and shall be entitled to such vacation, personal time, car allowance and the like, which may be available to other executives of the Company and generally on the same terms as such other executives. In addition to the benefit programs set forth above, the Company shall use reasonable efforts, consistent with the Company's overall business interests, to assist the Executive in accomplishing the effective exercise of the vested portion of the Option, whether by cashless exercise, loans or otherwise, at the Company's discretion.

3.6 *Expenses; Reimbursement of Travel and Lodging Expenses.*

3.6.1 Reimbursement for Travel and Lodging Expenses. Notwithstanding anything to the contrary contained herein, the Executive shall be entitled to reimbursement of all reasonable out-of-pocket travel expenses actually incurred by the Executive in connection with his travel between his home and the Company's New Jersey office and reasonable lodging expenses actually incurred for lodging in the vicinity of the Company's New Jersey office. The Executive shall keep an accounting of all such expenses and reasonable evidence or other supporting information with respect thereto.

3.6.2 Other Expenses. Except as set forth in Section 3.6.1 above, subject to such policies as may from time to time be established by the Company's Board of Directors, the Company shall pay or reimburse the Executive for all reasonable expenses actually incurred or paid by the Executive during the Term in the performance of the Executive's services under this Employment Agreement upon presentation of expense statements or vouchers or such other supporting information as it may require.

3.7 *Change of Control*.

3.7.1 Right to Change of Control Benefits. The Company agrees that the Executive shall have the right to terminate this Agreement and receive the severance benefits set forth in subsection 3.7.2 below in the event of a Change of Control (as defined in subsection 3.7.3 below) under the circumstances described in this Section 3.7. No right to terminate or benefits shall be applicable or payable under subsection 3.7.2 below unless there shall have been a Change of Control.

3.7.2 Benefit. In the event that (i) within six months of a Change of Control the Executive dies or his employment is terminated by reason of disability pursuant to Section 4.2 or, (ii) within twelve months of a Change of Control the Executive terminates his employment with the Company for Good Reason (as hereinafter defined), or (iii) within twelve months after a Change of Control the Executive's employment with the Company is terminated by the Company for any reason other than for Cause as defined in Section 4.3, (including, without limitation, death or disability), the Executive shall receive a lump sum compensation, payable within five days after termination of his employment, equal to one half (1/2) his Annual Salary immediately prior to such termination in the case of a termination under (i), and one times such Annual Salary in the event of a termination under (ii) or (iii). In addition, the Company shall maintain in full force and effect, for the continued benefit of the Executive and/or his family for one year after the date his employment terminates or, if earlier, the date the Executive receives comparable coverage from a new employer, all medical and dental insurance plans in which he was entitled to participate immediately prior to the Change of Control, provided that his continued participation is possible under the general terms and provisions of such plans (in the event that his participation in any such plan is barred, the Company shall arrange to provide the Executive with benefits substantially similar to those which he is entitled to receive under such plans).

3.7.3 Definition of Change of Control. For purposes of this Agreement, a "Change of Control" shall mean a change of control of the Company of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), whether or not the Company is in fact required to comply therewith; provided, that, without limitation, such a change of control shall be deemed to have occurred if:

- (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, any corporation controlled by or under common control with any entity which as of the date hereof holds in excess of five percent (5%) of the Company's common stock, or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 50.01% or more of the combined voting power of the Company's then outstanding securities;

- (ii) the Company shall have consummated a merger or consolidation or sale of assets or significant subsidiaries with any other corporation, other than a merger or consolidation which results in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 50% (but less than 80%) of the combined voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or
- (iii) the Company shall have liquidated or sold all or substantially all of the Company's assets.

3.7.4 Definition of Good Reason. For purposes of this Agreement, "Good Reason" means:

- (i) the assignment to the Executive of any duties inconsistent with his position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as in effect on the date of the Change of Control, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice from the Executive;
- (ii) any reduction of the Executive's Annual Salary or the failure by the Company to provide him with benefits which in the aggregate are no less favorable than the benefits to which he was entitled prior to the Change of Control;
- (iii) the Company's requiring the Executive to be based at any office or location other than the office and location at which he is employed on the date of the Change of Control, except for travel reasonably required in the performance of his responsibilities; or
- (iv) any action taken or suffered by the Company as of or following the Change of Control (such as, without limitation, transfer or encumbrance of assets or incurring of indebtedness) which materially impairs the ability of the Company to make any payments due or which may become due to the Executive under this Agreement.

4. **Termination.**

4.1 *Termination upon Death.* If the Executive dies during the Term, this Agreement shall terminate, except that the Executive's legal representatives shall be entitled to receive all compensation and benefits provided for under this Agreement accrued, earned, called for or vested as of the period ending on the last day of the sixth (6th) month after the month in which the Executive's death occurs; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof.

4.2 *Termination upon Disability.* If, during the Term, the Executive becomes physically or mentally disabled, whether totally or partially, so that the Executive is unable substantially to perform his services hereunder for (i) a period of three consecutive months, or (ii) for shorter periods aggregating three months during any six month period, the Company (as directed by a vote of the Board of Directors, excluding the Executive and Jonathan Guss) may at any time after the last day of the three consecutive months of disability or the day on which the shorter periods of disability equal an aggregate of three months, by ten days' prior written notice to the Executive, terminate the Term of the Executive's employment hereunder. Nothing in this Section 4.2 shall be deemed to extend the Term. The Executive shall be entitled to all compensation and benefits provided for under this Agreement accrued, earned, called for or vested for a period ending on the last day of the third (3d) month after the month in which the Executive's employment is terminated; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof.

4.3 *Termination for Cause.* The Company (as directed by a vote of the Board of Directors, excluding the Executive and Jonathan Guss, but for which vote each of the Executive and Mr. Fleischer are given at least one (1) day's prior written notice) may at any time by written notice to the Executive terminate the Term of the Executive's employment under this Agreement for "cause" (as defined herein) and the Executive shall have no right to receive any compensation or benefit hereunder on and after the effective date of such notice, other than compensation accrued, earned or vested through the date of termination; provided, however, that nothing herein shall be construed as providing for the vesting of options other than as set forth in Section 3.3 hereof. For purposes of this Agreement, "cause" shall mean

- (i) an act or acts of personal dishonesty taken by the Executive at the expense of or against the interests of the Company;
- (ii) violation by the Executive of his obligations under this Agreement, including, without limitation, any failure or refusal to comply with the oral or written policies or directives of the Company's Board of Directors; provided, however, that if such violation may be substantially cured, the Executive may not be terminated for cause unless the Executive fails to cure such violation within a reasonable period of time (not to exceed 30 days) after receipt of notice from the Company of such violation;
- (iii) any direct or indirect disclosure of any confidential information or other special knowledge of the finances, business or other affairs of the Company contrary to his obligations under Section 5.1.2;
- (iv) the conviction of the Executive of a felony; or
- (v) the conviction of the Executive of a serious misdemeanor involving illegal use, possession or sale of drugs, larceny, crimes of violence or sex offenses.

4.4 *Involuntary Termination.* Notwithstanding anything herein to the contrary, the Company (as directed by a vote of the Board of Directors, excluding the Executive and Jonathan Guss) shall have the right, at any time upon 90 days' prior notice to the Executive, to terminate the Term of the Executive's employment hereunder. If during the Term, the Company terminates the Executive's employment other than for the reasons set forth in Sections 4.1, 4.2 and 4.3 hereof, it shall be deemed to be an involuntary termination and the Company shall pay to the Executive (in addition to any accrued compensation or expense reimbursements otherwise due) within ten business days following the date of termination as a full and final severance payment the lesser of (i) the balance of the Annual Salary payable to the Executive for the remainder of the Term (or any renewal term called for), and (ii) one year of the then-current Annual Salary; provided, however, that if any payment is due the Executive pursuant to Section 3.7 hereof, then the Executive shall not be entitled to any payment under this Section 4.4.

4.5 *Voluntary Termination.* The Executive agrees to provide the Company with 90 days notice prior to voluntarily terminating the Term of the Executive's employment hereunder. At the end of such 90-day period, this Agreement shall terminate automatically and, except as provided under Section 3.7 hereof, the Company shall have no further obligations to the Executive under this Agreement, other than those obligations accrued, earned or vested by the Executive as of the date of the termination.

4.6 *Notice of Termination.* Any notice of termination by the Company for any reason or by the Executive for any reason shall be communicated by a written notice which indicates (i) the specific termination provision in this Agreement relied upon, (ii) the facts and circumstances claimed to provide a basis for such termination, and (iii) the date or proposed date of termination.

5. **Certain Covenants of the Executive.**

5.1 *Covenants Against Competition.* The Executive acknowledges that (i) the principal business of the Company and its subsidiaries is the development, assembly and distribution of sound processing equipment and telecommunication peripherals (together with other related businesses which the Company and its subsidiaries are in currently and which the Company and its subsidiaries may become involved with during the Term, the "Company Business"); (ii) the Company Business is international in scope; (iii) his work for the Company will bring him, into close contact with many confidential affairs not readily available to the public; and (iv) the Company would not enter into this Agreement but for the agreements and covenants of the Executive contained herein. In order to induce the Company to enter into this Agreement, the Executive covenants and agrees that:

5.1.1 Non-Compete. During the Term and for a period of two years following the termination (whether for cause or otherwise) of the Executive's employment with the Company or any of its affiliates (the "Restricted Period"), the Executive shall not, in the United States of America or in any foreign country, directly or indirectly, (i) engage in whole or in part in the Company Business for his own account; (ii) enter the employ of, or render any services to, any person engaged in whole or in part in the Company Business; and (iii) become interested in any person engaged in the Company Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, employee, trustee, consultant or in any other relationship or capacity; provided, however, that the Executive may own, directly or indirectly, solely as an investment, securities of any person which are traded on any national securities exchange or the Nasdaq National Market System, if the Executive (a) is not a controlling person of, or a member of a group which controls, such person, or (b) does not, directly or indirectly, own 1% or more of any class of securities of such person.

5.1.2 Confidential Information. During the Term of this Agreement and during and after the Restricted Period, the Executive shall keep secret and retain in strictest confidence, and shall not use for the benefit of himself or others except in connection with the business and affairs of the Company, all confidential matters of the Company and its affiliates. Such confidential matters, include, without limitation, trade “know-how,” secrets, customer lists, details of consultant contracts, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition plans, new personnel acquisition plans, methods of manufacture, technical processes, designs and design projects, inventions and research projects and other business affairs of the Company and its affiliates (collectively, “Confidential Information”), learned by or disclosed to the Executive heretofore or hereafter, and shall not disclose them to anyone outside of the Company and its affiliates, either during or after his employment by the Company or any of its affiliates of the Company, except as required in the course of performing duties hereunder.

5.1.3 Property of the Company. All documents and other materials including, without limitation, memoranda, notes, lists, records and other documents made or compiled by or made available to the Executive prior to the commencement of employment hereunder or during the Term by the Company and any copies thereof, whether or not containing Confidential Information, are and shall be the property of the Company and shall, at the request of the Company, be delivered to the Company promptly upon the termination of the Executive’s employment with the Company or any of its affiliates or at any other time on request. Except as required in connection with the services to be performed hereunder, the Executive agrees not to remove from the Company’s premises, without permission, any and all papers or drawings belonging to the Company, including those prepared or worked on by him. All ideas, reports, and other creative works conceived by the Executive during the Term and relating to Company Business, shall be disclosed to the Company and shall be the sole property of the Company.

5.1.4 Employees of the Company. During the Restricted Period, the Executive shall not, directly or indirectly hire, solicit or encourage to leave the employment of the Company or any of its affiliates, any employee of the Company or its affiliates or hire any such employee who has left the employment of the Company or any of its affiliates within one year of the termination of such employee’s employment with the Company or any of its affiliates.

5.1.5 Consultants and Independent Contractors of the Company. During the Restricted Period, the Executive shall not, directly or indirectly, hire, solicit or encourage to cease to work with the Company or any of its affiliates, any consultant, sales representative and other person then under contract with the Company or any of its affiliates; provided, however, that the Executive may hire or solicit consultants who in the ordinary course of such consultant’s business provide services to a broad client base.

5.2 Rights and Remedies Upon Breach. If the Executive breaches, or threatens to commit a breach of, any of the provisions of Section 5.1 (the “Restrictive Covenants”), the Company shall have the right and remedy to have the Restrictive Covenants specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach will cause irreparable injury to the Company and its affiliates and that money damages will not provide an adequate remedy to the Company; provided, however, that such right and remedy shall be in addition to, and not in lieu of, any other rights and remedies available to the Company under law or in equity.

5.3 *Enforceability in Jurisdictions.* The parties intend to and hereby confer jurisdiction to enforce the Restrictive Covenants upon the courts of any jurisdiction within the geographical scope of such Restrictive Covenants. If the courts of any one or more of such jurisdictions hold the Restrictive Covenants wholly unenforceable by reason of the breadth of such scope or otherwise, it is the intention of the parties that such determination not bar or in any way affect the Company's right to the relief provided above in the courts of any other jurisdiction within the geographical scope of such Restrictive Covenants, as to breaches of such Restrictive Covenants in such other respective jurisdictions, such Restrictive Covenants as they relate to each jurisdiction being, for this purpose, severable into diverse and independent covenants.

6. **Executive's Representations.** The Executive represents and warrants to the Company that there are no agreements or arrangements, whether written or oral, in effect which would prevent the Executive from rendering exclusive services to the Company during the Term. The Executive further represents, warrants and agrees with the Company that as of the date hereof he has not made and will not make during the Term any commitment to do any act in conflict with this Agreement, or take any action that might divert from the Company any opportunity which would be in the scope of any present or future business of the Company or any affiliate thereof.

7. **Indemnification.** The Company shall indemnify and hold harmless the Executive from all claims, losses, liabilities, damages and causes of action relating to or arising out of the Executive's performance, duties and responsibilities to, for, or on behalf of the Company to the extent provided by the Company's certificate of incorporation and by-laws, as the same may be amended from time to time.

8. **Other Provisions.**

8.1 *Notices.* Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, by facsimile transmission, or sent by certified, registered or express mail, postage prepaid, and shall be deemed given when so delivered personally, transmitted by facsimile transmission, or if mailed, two days after the date of mailing, as follows:

(i) if to the Company:

Bogen Communications International, Inc.
50 Spring Street
Ramsey, New Jersey 07446
Attention: Ms. Maureen Flotard
Telecopy: (201) 995-2078

with a copy to:

Attention:
Telecopy:

(ii) if to the Executive, to:

Mr. Michael Fleischer

Telecopy:

with a copy to:

Attention:

Telecopy:

8.2 *Entire Agreement.* This Agreement contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements, written or oral, with respect thereto.

8.3 *Waivers and Amendments.* This Agreement may be amended, modified, superseded, cancelled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

8.4 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed entirely within such State.

8.5 *Assignment.* Except as otherwise agreed to by the Company, this Agreement, and the Executive's rights and obligations hereunder, may not be assigned by the Executive. The Company may assign this Agreement and its rights, together with its obligations hereunder, in connection with any sale, transfer or other disposition of all or substantially all of its assets or business, whether by merger, consolidation or otherwise.

8.6 *Counterparts.* This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The delivery of a signature page of this Agreement by one party to the other via facsimile transmission shall constitute the execution and delivery of this Agreement by the transmitting party.

8.7 *Headings.* The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

8.8 *Severability.* If any term, provision, covenant or restriction contained in this Agreement, or any part thereof, is held by a court of competent jurisdiction or any foreign,

federal, state, county or local government or any other governmental regulatory or administrative agency or authority to be invalid, void, unenforceable or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and in no way shall be affected, impaired or invalidated. If any court construes any of the terms, provisions, covenants or restrictions contained in this Agreement, including, without limitation, the Restrictive Covenants, or any part thereof, to be unenforceable because of the duration of such provision or the area covered thereby, such court shall have the power to reduce the duration or area of such provision and, in its reduced form, such provision shall then be enforceable and shall be enforced.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

BOGEN COMMUNICATIONS
INTERNATIONAL, INC.

By: /s/ Yoav Stern
Name: Yoav Stern
Title: Co-Chairman of the Board

/s/ Michael Fleischer
Michael Fleischer

EXHIBIT A

Vesting Schedule

Portion of Option Immediately Vested: 56,682 shares

Portion of Option Vesting Cumulatively
on the Last Day of Each Fiscal
Quarter Beginning June 30, 2002
and Ending September 30, 2004(1): 16,406.8 shares

(1) The option may not be exercised for fractional shares.

Vesting Schedule—Special Circumstances

Notwithstanding the foregoing:

- (i) in the event of a Change of Control, the unvested portion of the Option shall immediately vest;
- (ii) in the event that the Executive's employment under this Agreement is terminated by the Company for any reason other than pursuant to Section 4.3 hereof, the unvested portion of the Option shall vest on the date notice of termination is given to the Executive and shall expire on the sooner of (a) ten (10) years from the date of grant, or (b) one year after the Executive ceases to render services to the Company, either as an employee or as a consultant; and
- (iii) in the event that the Agreement is terminated by the Company pursuant to Section 4.3 hereof, or by reason of the voluntary resignation of the Executive (X) the Option, other than with respect to that portion of the Option which has vested as of or prior to the date of termination, shall be cancelled, and (Y) the portion of the Option vested hereunder shall not expire sooner than the sooner of (a) ten (10) years from the date of grant, or (b) 90 days after the Executive ceases to render services to the Company, either as an employee or as a consultant.