

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003, 2002 and 2001

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and Board of Directors
Bogen Communications International, Inc:

We have audited the consolidated balance sheets of Bogen Communications International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bogen Communications International, Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the Consolidated Financial Statements, the Company adopted Statement of Financial Accounting Standard No. 141, "Business Combinations", and Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets", as of January 1, 2002.

/s/ KPMG LLP

Short Hills, New Jersey
February 20, 2004

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2003 AND 2002
(Dollars in Thousands, Except Share Amounts)

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,183	\$ 5,379
Trade receivables (net of allowance for doubtful accounts of \$550 and \$462 at December 31, 2003 and 2002, respectively)	6,845	5,787
Other receivables	158	370
Inventories	9,016	10,712
Prepaid expenses and other current assets	455	571
Current deferred income taxes	2,894	3,314
TOTAL CURRENT ASSETS	25,551	26,133
Equipment and leasehold improvements, net	2,638	3,152
Goodwill	15,310	15,344
Other intangible assets, net	582	834
Deferred income taxes	1,766	289
Other assets	176	181
TOTAL ASSETS	\$ 46,023	\$ 45,933
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ 2,135	\$ 1,751
Current maturities of long-term debt	750	-
Current maturities of capital lease obligations	5	5
Accounts payable	3,106	2,386
Accrued expenses	5,053	5,834
Income taxes payable	435	1,004
TOTAL CURRENT LIABILITIES	11,484	10,980
Long-term debt, less current maturities	6,750	-
Capital lease obligations, less current maturities	1	6
Minority interest	253	251
Other long-term liabilities	176	122
TOTAL LIABILITIES	18,664	11,359
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 1,000,000 shares authorized; none issued and outstanding at December 31, 2003 and 2002	-	-
Common stock - \$.001 par value; 50,000,000 shares authorized; 3,398,084 shares issued and 3,390,383 shares outstanding at December 31, 2003, and 5,217,743 shares issued and 5,214,171 shares outstanding at December 31, 2002	3	5
Additional paid-in-capital	20,229	29,599
Deferred compensation	(295)	(489)
Retained earnings	5,976	5,589
Accumulated other comprehensive income (loss)	1,493	(98)
Treasury stock at cost - 7,701 shares at December 31, 2003, and 3,572 shares at December 31, 2002	(47)	(32)
TOTAL STOCKHOLDERS' EQUITY	27,359	34,574
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 46,023	\$ 45,933

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, and 2001
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net sales	\$ 55,488	\$ 59,077	\$ 57,143
Cost of goods sold	<u>30,840</u>	<u>31,397</u>	<u>30,178</u>
Gross profit	24,648	27,680	26,965
Operating expenses:			
Research and development	4,355	3,968	3,756
Selling, general and administrative	18,645	20,353	21,052
Amortization of goodwill	-	-	936
Amortization of intangibles	345	264	171
Asset impairment	-	-	1,409
Restructuring and other charges	<u>255</u>	<u>-</u>	<u>1,062</u>
Income (loss) from operations	1,048	3,095	(1,421)
Other (income) expenses:			
Interest income	(51)	(183)	(472)
Interest expense	63	129	122
Minority interest of consolidated subsidiaries	2	31	(96)
Other (income) expense, net	<u>(64)</u>	<u>(137)</u>	<u>68</u>
Income (loss) before income taxes	1,098	3,255	(1,043)
Income tax expense (benefit)	<u>711</u>	<u>1,256</u>	<u>(315)</u>
Net income (loss)	<u>\$ 387</u>	<u>\$ 1,999</u>	<u>\$ (728)</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, and 2001
(Dollars in Thousands)

	Common Stock		Additional	Deferred	Retained	Accumulated	Treasury Stock		Total
	Number of	Amount	Paid-In	Compensation	Earnings	Other	Number of	Amount	
	Shares		Capital			Comprehensive	Shares		
						Income/(Loss)			
Balance at January 1, 2001	10,112,956	\$ 10	\$ 48,283	\$ -	\$ 4,318	\$ (1,032)	3,572	\$ (32)	\$ 51,547
Sale of subsidiary common stock	-	-	414	-	-	-	-	-	414
Common stock repurchase and retirement	(1,012,211)	(1)	(3,132)	-	-	-	-	-	(3,133)
Comprehensive income:									
Net loss	-	-	-	-	(728)	-	-	-	(728)
Translation adjustments	-	-	-	-	-	(354)	-	-	(354)
Other comprehensive loss									(1,082)
Balance at December 31, 2001	9,100,745	9	45,565	-	3,590	(1,386)	3,572	(32)	47,746
Employee restricted stock grants	355,250	-	1,070	(1,070)	-	-	-	-	-
Common stock repurchases and retirements	(4,238,252)	(4)	(17,036)	-	-	-	-	-	(17,040)
Deferred compensation amortization	-	-	-	581	-	-	-	-	581
Comprehensive income:									
Net income	-	-	-	-	1,999	-	-	-	1,999
Translation adjustments	-	-	-	-	-	1,288	-	-	1,288
Other comprehensive income									3,287
Balance at December 31, 2002	5,217,743	\$ 5	\$ 29,599	\$ (489)	\$ 5,589	\$ (98)	3,572	\$ (32)	\$ 34,574
Employee restricted stock grants	2,500	-	10	(10)	-	-	-	-	-
Exercise of stock options	130,863	-	395	-	-	-	-	-	395
Common stock repurchase and retirement	(1,953,022)	(2)	(9,845)	-	-	-	-	-	(9,847)
Tax benefit from vesting of restricted stock grants	-	-	70	-	-	-	-	-	70
Deferred compensation amortization	-	-	-	204	-	-	-	-	204
Purchase of treasury stock	-	-	-	-	-	-	4,129	(15)	(15)
Comprehensive income:									
Net income	-	-	-	-	387	-	-	-	387
Translation adjustments	-	-	-	-	-	1,591	-	-	1,591
Other comprehensive income									1,978
Balance at December 31, 2003	3,398,084	\$ 3	\$ 20,229	\$ (295)	\$ 5,976	\$ 1,493	7,701	\$ (47)	\$ 27,359

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002, and 2001
(Dollars in Thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ 387	\$ 1,999	\$ (728)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,524	1,693	1,706
Goodwill impairment	-	-	1,409
Amortization of goodwill	-	-	936
Amortization of intangible assets	345	264	171
Deferred compensation amortization	204	581	-
Provision for doubtful accounts	(9)	23	315
Utilization of pre-acquisition NOL charged to goodwill	208	183	183
Deferred income taxes	(580)	(1,315)	(1,591)
Minority interest	2	31	(95)
Change in operating assets and liabilities:			
Receivables	(345)	537	1,322
Inventories	1,767	1,991	2,098
Prepaid expenses and other current assets	133	(33)	509
Accounts payable and accrued expenses	(1,344)	1,820	515
Other	56	8	108
Net cash provided by operating activities	<u>2,348</u>	<u>7,782</u>	<u>6,858</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment and leasehold improvements	(435)	(875)	(1,193)
Purchase of marketable securities	-	-	(3,970)
Proceeds from sale of marketable securities	-	3,970	-
Acquisition of intangibles	(53)	(357)	-
Net cash (used in) provided by investing activities	<u>(488)</u>	<u>2,738</u>	<u>(5,163)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock	395	-	-
Cost of common shares repurchased and retired	(9,847)	(17,040)	(3,133)
Purchases of treasury stock	(15)	-	-
Proceeds from long-term debt	7,500	-	-
Net proceeds from sale of subsidiary common stock	-	-	661
Principal payments under capital lease obligations	(5)	(267)	(251)
Net increase (decrease) in borrowings under revolving credit agreements	156	715	(145)
Net cash used in financing activities	<u>(1,816)</u>	<u>(16,592)</u>	<u>(2,868)</u>
Effects of foreign exchange rate on cash	<u>760</u>	<u>450</u>	<u>16</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	804	(5,622)	(1,157)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>5,379</u>	<u>11,001</u>	<u>12,158</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 6,183</u>	<u>\$ 5,379</u>	<u>\$ 11,001</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	\$ 53	\$ 123	\$ 112
Cash paid for income taxes	1,692	1,958	1,168
NON-CASH FINANCING ACTIVITIES:			
Forgiveness of notes payable to related parties	-	128	-

See accompanying notes to consolidated financial statements.

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

1. ORGANIZATION

Bogen Communications International, Inc., together with its subsidiaries, (the "Company") is engaged in the development, manufacturing and marketing of audio and communication products. Product lines sold by the Company include Telephone Paging Products, Voicemail, and Unified Messaging products and services ("Telco"), Commercial Audio Products ("Commercial Audio") and Intercom/Paging Equipment ("Engineered Systems"). The Company's operations are located in the United States, Germany, Switzerland and Israel.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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"); and Speech Design's wholly-owned subsidiaries: Satelco AG (Satelco) (effective June 30, 2002), Speech Design (Israel), Ltd., and Speech Design Carrier Systems GmbH ("Carrier Systems"), formerly Digitronic Computersysteme GmbH. Inter-company balances and transactions have been eliminated in consolidation.

The ownership interest of minority owners in the equity and earnings of the Company's less than 100 percent-owned consolidated subsidiaries are recorded as minority interest. The Company records all losses in its consolidated financial statements after the minority interest liability is reduced to zero, as the minority interest holders have no obligation to fund losses.

CASH AND CASH EQUIVALENTS

Cash includes cash on-hand and all highly liquid investment instruments purchased with original or remaining maturities of three months or less.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience by industry and takes into account national economic data. The Company reviews its allowances for doubtful accounts quarterly. Past due balances over 90 days and a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by line of business. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

INVENTORIES

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

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements are recorded at cost, less accumulated depreciation and amortization. Depreciation of equipment is provided using the straight-line method over the estimated useful lives of the related assets.

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

Leasehold improvements are amortized on a straight-line basis over the shorter of the remaining term of the lease or the estimated useful life of the improvement. The estimated useful lives used in computing depreciation of equipment and leasehold improvements are:

- Machinery, equipment and tooling 3-17 years
- Furniture and office equipment 4-7 years
- Computer software 3-5 years
- Leasehold improvements lesser of 10 years or remaining lease term

Expenditures for maintenance, repairs and renewals of minor items are charged to operations as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation is removed from the accounts and the resulting gain or loss is reflected in operations for the period.

GOODWILL

Goodwill represents the excess of cost over the fair value of net assets acquired in purchase business combinations transactions. Goodwill was being amortized using the straight-line method over periods of between 7 to 40 years up until December 31, 2001. Through December 31, 2001, the Company assessed the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life could be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate, reflecting the Company's projected average cost of funds over the assessment period. The assessment of the recoverability of goodwill would be impacted if estimated future operating cash flows were not achieved.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS 141") and SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated 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, but instead be tested for impairment at least annually in accordance with the provisions of SFAS 142 and more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. SFAS 142 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. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001, continued to be amortized until the Company's adoption of SFAS No. 142 on January 1, 2002. The Company has approximately \$15,310 of unamortized goodwill as of December 31, 2003, which is subject to the provisions of SFAS 142. The Company's reporting units are the same as its reported segments - domestic and foreign.

Amortization expense related to goodwill was \$936 for the year ended December 31, 2001. In addition, the Company's loss from operations for the year ended December 31, 2001, includes the effect of the \$1,409 write-down of all goodwill associated with Apogee's acquired assets.

IMPAIRMENT OF LONG-LIVED ASSETS

SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset as held for sale and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not effect the Company's consolidated financial statements.

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

In accordance with SFAS No. 144, long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*.

REVENUE RECOGNITION

The Company derives its revenue primarily from 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 product revenue, net of discounts and rebates, where persuasive evidence of sales arrangements exist, title of risk of loss has transferred, the buyer's price is fixed or determinable, contractual obligations have been satisfied, and collectibility is reasonably assured. These requirements are met for a majority of the Company's products upon shipment. 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 the case of support or maintenance contracts. The Company adopted EITF Issue No. 00-21, *"Multiple Element Arrangements"*, effective July 1, 2003. The adoption has no financial impact, as the Company's revenue recognition policy has been historically consistent with this EITF Issue. For multiple element arrangements, we allocate revenue to be earned under the arrangement among the various elements based on their relative fair value, which is generally the price charged for that element based on pricing for substantially similar arrangements sold separately to similar customer groups. We also recognize revenue at the date installation is complete and where all of the other revenue recognition criteria are met and customer acceptance is reasonably assured. In situations where customer acceptance is not reasonably assured, we recognize revenue upon the earlier of a written receipt of customer acceptance or expiration of the acceptance period.

The Company reports all amounts billed to a customer related to shipping and handling costs as revenue and reports all costs incurred for shipping and handling as cost of goods sold.

In 2001, the Company adopted the provisions of EITF Issue No. 01-09 "Accounting for Consideration from a Customer", 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 \$673 for the year ended December 31, 2001. There is no effect on operating income.

SEGMENT INFORMATION

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign). (See Note 16.) 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.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology, marketing and distribution strategies.

The accounting policies of the segments are the same as those described in this summary of significant accounting policies. The Company evaluates performance based on income or loss before income taxes.

RESEARCH AND DEVELOPMENT

Internal research and development costs are expensed as incurred.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on tax deferred assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

No provision has been made for U.S. Federal income or withholding taxes which may be payable on the remittance of undistributed retained earnings of foreign subsidiaries. These earnings have been reinvested to meet future operating requirements and the Company intends to continue such policy for the foreseeable future. Such cumulative undistributed earnings were \$463 and \$1,871 at December 31, 2003 and 2002, respectively.

ALLOWANCE FOR SALES RETURNS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Specifically, management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends, and changes in customer demand and acceptance of our products when evaluating the adequacy of the sales returns and other allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and other allowances in any accounting period. Differences may result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates. The provision for sales returns and other allowances amounted to \$236 in 2003 and \$277 in 2002.

PRODUCT WARRANTY

The Company's warranty policy generally covers its products for a period from 1 to 5 years. Certain products have limited lifetime warranties. The Company believes that its warranty policy is competitive with other companies within the industry. The Company accrues for product warranty costs at the time of sale. The Company considers its reserve for projected future warranty liability to be adequate, based on historical trends of warranted products serviced annually. The warranty provision is immaterial to the consolidated balance sheet for the year ended December 31, 2003 and 2002.

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

STOCK-BASED COMPENSATION

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations, including FASB Interpretation No. 44, “Accounting for Certain Transactions Involving Stock Compensation; an interpretation of APB Opinion No. 25”, to account for its fixed plan stock options granted to employees and directors and for restricted stock grants. Under this method, compensation expense is recorded on the date of the grant only if the current fair value of the underlying common stock exceeds the exercise price of the option. No compensation expense is recorded in the consolidated statements of operations for the years ended December 31, 2003, 2002 and 2001. Restricted stock grants do not result in the receipt of any consideration from the employee to the Company and the fair value of the common stock is charged to operations over the vesting period.

SFAS No. 123, “Accounting for Stock-Based Compensation”, established accounting and disclosure requirements using a fair value-basis method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148, “Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123”. Had the Company elected to recognize compensation cost based on fair value of the stock options at the date of grant under SFAS 123, such costs would have been recognized ratably over the vesting period of the underlying instruments and the Company’s net income (loss) would have decreased to the pro forma amounts indicated in the table below.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Net income (loss) as reported	\$ 387	\$ 1,999	\$ (728)
Pro forma after-tax impact of options at fair value	<u>(333)</u>	<u>(26)</u>	<u>(488)</u>
Pro forma net income (loss) adjusted	<u>\$ 54</u>	<u>\$1,973</u>	<u>\$(1,216)</u>

The fair value of stock options is estimated on the date of grant using the Black-Scholes option-pricing calculation model. The following table outlines the assumptions used in the Black-Scholes model.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	3.36%	4.67%	6.91%
Expected option life in years	6.09%	6.34%	7.50%
Expected volatility	63.26%	32.64%	55.53%

The weighted-average fair value of the options granted was \$2.35, \$3.01, and \$5.00 per share for the years ended December 31, 2003, 2002, and 2001, respectively.

COMPREHENSIVE INCOME

SFAS No. 130, “Reporting Comprehensive Income” establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. The Company’s comprehensive income consists of net income and translation adjustments and is presented in the consolidated statements of stockholder’s equity. The Statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company’s financial position or results of operations.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates made by management involve the reserve for doubtful accounts, provision for slow moving inventory, and the evaluation of the

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

recoverability of goodwill, intangible assets, equipment, leasehold improvements and deferred tax assets. Actual results could differ from those estimates.

CREDIT RISK

The Company develops, manufactures, markets and sells commercial audio, paging, communications and other equipment and telecommunications peripherals. The Company performs on-going credit evaluations of its customers. The Company provides reserves for potential losses from these receivables.

TRANSLATION OF FOREIGN CURRENCIES

Foreign denominated assets and liabilities of the Company are translated from local currencies into U.S. dollars at the exchange rates in effect at the end of the period. Revenues and expenses are translated at average exchange rates prevailing during the period. Translation adjustments that arise from translation of subsidiary financial statements denominated in foreign currency are accumulated in a separate component of accumulated other comprehensive income (loss). Transaction gains and losses that arise from exchange rate changes on transactions denominated in a currency other than local currencies are included in operations as incurred.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The recorded amount of cash and cash equivalents, trade and other receivables, accounts payable, accrued expenses, and revolving credit agreements approximates fair value due to the short-term maturities of these assets and liabilities and the variable interest rate of others. Long-term debt, including current maturities, under the Company's credit facility with KeyBank National Association (see Note 7) have variable rates that reflect currently available terms and conditions for similar debt. The carrying amount of this debt is a reasonable estimate of its fair value.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company accounts for its derivative instruments, including those embedded in other contracts, in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities", and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." These statements 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 at December 31, 2003 and 2002, or for the years ending December 31, 2003, 2002, and 2001.

COMMITMENTS AND CONTINGENCIES

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

ISSUANCE OF SHARES BY SUBSIDIARIES

Gains or losses arising from the issuances of shares by subsidiaries, due to changes in the Company's proportionate share of the value of the issuer's equity, are recorded as a component of Stockholders' Equity, pursuant to U.S. Securities and Exchange Commission Staff Accounting Bulletin Topic 5H, "Accounting for Sales of Stock by a Subsidiary".

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
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3. INVENTORIES

Inventories, net of reserves are, as follows:

	December 31,	
	<u>2003</u>	<u>2002</u>
Raw materials and supplies	\$2,230	\$ 3,324
Work in progress	489	717
Finished goods	<u>6,297</u>	<u>6,671</u>
	<u>\$9,016</u>	<u>\$10,712</u>

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements is comprised of the following items:

	December 31,	
	<u>2003</u>	<u>2002</u>
Machinery, equipment, vehicles, and tooling	\$ 5,531	\$ 5,654
Furniture and office equipment	6,958	7,458
Leasehold improvements	<u>891</u>	<u>974</u>
	13,380	14,086
Less: accumulated depreciation and amortization	<u>(10,742)</u>	<u>(10,934)</u>
	<u>\$ 2,638</u>	<u>\$ 3,152</u>

In 2003 and 2002, furniture and office equipment includes \$925 under capital lease obligations (see Note 9).

Depreciation and amortization expense was \$1,524, \$1,693, and \$1,706 for the years ended December 31, 2003, 2002, and 2001, respectively.

5. ACQUISITIONS

Effective June 30, 2002, Speech Design acquired the remaining 33% of Satelco it did not already own. Previously, Satelco had been included in the Company's consolidated financial statements and, when applicable, minority interest expense was recorded and the related liability reported. Purchase price for the minority share was 250 Swiss Francs, approximately \$170 as of the date of acquisition, which represents payment for a non-compete agreement with the former minority shareholders. This intangible asset was amortized over its assessed useful life, which management determined to be 18 months.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill totaling \$10,052 and \$5,258 at December 31, 2003, is allocated to Domestic and Foreign segments, respectively. In December 2001, the Company wrote down the remaining Apogee goodwill to zero.

Pursuant to the terms of the Carrier Systems acquisition agreement, approximately \$200 related to an earnout agreement was recorded as additional goodwill on June 30, 2002. The terms of the acquisition agreement provided for additional cash consideration to be paid if Carrier Systems sales exceeded certain targeted levels for the two years ended December 31, 2001.

In accordance with SFAS 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized but rather tested for impairment annually. In accordance with the provisions of SFAS 142, all goodwill is assigned to the Company's two reporting units, which are the same as the Company's reporting segments - Domestic and Foreign. Annually, we consider whether or not goodwill is impaired by comparing the carrying value of the reporting unit, including goodwill, to the fair value of the reporting unit. The fair values of the reporting units are based on management estimates using discounted cash flow assumptions. Such estimates include a considerable amount of management judgment and there is potential for material impact to our financial position and results of operations in the event that such estimates significantly change.

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The Company performed its annual impairment test as of December 31, 2003, upon completion and approval of the Company's financial operating plan for 2004. The impairment test indicated that no goodwill impairment existed as of that date.

The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period from December 31, 2001, to December 31, 2003:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Balance at December 31, 2001	\$ 10,290	\$ 4,899	\$ 15,189
Effect of adoption of SFAS No. 141:			
Brandname reclassification to Intangible Assets	-	(66)	(66)
Technology reclassification to Intangible Assets	-	(80)	(80)
Workforce reclassification from Intangible Assets	<u>-</u>	<u>171</u>	<u>171</u>
Balance at January 1, 2002	10,290	4,924	15,214
Increase to Carrier Systems earnout agreement	-	200	200
Utilization of pre-acquisition NOLs charged to goodwill	(107)	(76)	(183)
Foreign currency translation adjustments	<u>-</u>	<u>113</u>	<u>113</u>
Balance at December 31, 2002	\$ 10,183	\$ 5,161	\$ 15,344
Utilization of pre-acquisition NOLs charged to goodwill	(131)	(77)	(208)
Foreign currency translation adjustments	<u>-</u>	<u>174</u>	<u>174</u>
Balance at December 31, 2003	<u>\$ 10,052</u>	<u>\$ 5,258</u>	<u>\$ 15,310</u>

Amortization expense related to goodwill was \$936 for the year ended December 31, 2001. A reconciliation of net income (loss) as if the Company adopted SFAS No. 141 and No. 142 as of January 1, 2001 follows:

	Years Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Reported net income (loss)	\$ 387	\$ 1,999	\$ (728)
Add back: Goodwill amortization, net of tax	<u>-</u>	<u>-</u>	<u>887</u>
Adjusted net income	<u>\$ 387</u>	<u>\$ 1,999</u>	<u>\$ 159</u>

The following disclosure presents certain information on the Company's acquired intangible assets as of December 31, 2003 and 2002. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual values.

<u>Acquired Intangible Assets</u>	<u>Weighted-Average Amortization Period</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
At December 31, 2003				
Amortized acquired intangible assets:				
Patents	10 years	\$ 27	\$ (11)	\$ 16
Trademarks	15 years	667	(261)	406
Deferred Financing	5.5 years	55	0	55
Brandnames	7 years	165	(121)	44
Technology	4 years	582	(529)	53
Non-compete Agreements	1.5 years	216	(216)	0
Customer Lists	7 years	<u>178</u>	<u>(170)</u>	<u>8</u>
		<u>\$ 1,890</u>	<u>\$ (1,308)</u>	<u>\$ 582</u>

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<u>Acquired Intangible Assets</u>	<u>Weighted-Average Amortization Period</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
At December 31, 2002				
Amortized acquired intangible assets:				
Patents	10 years	\$ 28	\$ (8)	\$ 20
Trademarks	15 years	667	(218)	449
Brandnames	7 years	138	(79)	59
Technology	4 years	486	(310)	176
Non-compete agreements	1.5 years	180	(63)	117
Customer lists	7 years	<u>160</u>	<u>(147)</u>	<u>13</u>
		<u>\$ 1,659</u>	<u>\$(825)</u>	<u>\$ 834</u>

The aggregate acquired intangible amortization expense for the years ended December 31, 2003, 2002, and 2001, was approximately \$345, \$264, and \$171, respectively. The estimated acquired intangible asset amortization expense for the fiscal year ended December 31, 2004, and for the four subsequent years is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2004	\$ 120
2005	\$ 108
2006	\$ 54
2007	\$ 54
2008	\$ 54

7. 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 extended the provisions, warranties, certifications, and other criteria of the expired Facility to June 30, 2002, and reduced the number of financial covenants required to be met. Effective June 30, 2002, the parties agreed to extend the Agreement to June 30, 2003, and increase the working capital line to \$7,000. The Agreement bore interest at either Key's rate or, at the borrower's option, LIBOR plus 125 to 200 basis points (3.41% at December 31, 2002).

Effective December 11, 2003, the Company and BCI entered into a new credit facility (the "New Facility") with Key. The New Facility includes a five-year term loan for up to \$8,500 and a \$2,500 working capital line of credit. The amount of the term loan was conditioned upon and was issued in conjunction with the Company's self-tender offer (see Note 13) and the final amount of \$7,500 was determined by the total number of shares repurchased under the offer. The Company has pledged as collateral all the issued and outstanding capital stock of the Company as well as all of its tangible and intangible assets. The Company will repay the loan in equal quarterly installments of \$375, beginning July 1, 2004. The annual repayment amounts are \$750 in 2004, \$1,500 per year in 2006, 2007, and 2008, and \$750 in 2009. Prior to the closing of the New Facility, the Company and Key had extended the Agreement to November 14, 2003.

As of December 31, 2002, Bogen had \$1,750 of short-term borrowings outstanding under the Agreement. At December 31, 2003, the Company had \$7,500 of long-term debt, including current maturities, outstanding under the New Facility. The New Facility bears interest at either Key's rate or, at the borrower's option, LIBOR plus 150 to 275 basis points. The interest rate at December 31, 2003, was 4.875%. The Company was in compliance with the financial covenants as set forth under the New Facility for the period ended December 31, 2003.

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Within the working capital line of credit, Bogen has a conditional letter of credit with Key for \$600, which is renewable every six months. Approximately \$377 was utilized at December 31, 2003.

Speech Design and its subsidiaries have credit lines and overdraft facilities of approximately 1,887 Euros (approximately \$2,392 at December 31, 2003) from four banks. Short-term lines of credit are collateralized by all the accounts receivable and inventory of Speech Design and its subsidiaries. At December 31, 2003 and 2002, Speech Design had short-term borrowings amounting to \$2,135 and \$1, respectively. The amounts available under Speech Design's credit lines were approximately \$257 at December 31, 2003, with rates tied to short-term bank notes and Euromarket loans. At December 31, 2003 and 2002, these rates ranged from 6.5% to 16.0%.

Speech Design had a 7,669 Euro (approximately \$7,550 at October 31, 2002) credit facility for acquisition financing from D.G. Bank of Frankfurt. The interest rate under the credit facility was up to 200 basis points above the Euribor rate. Speech Design cancelled this acquisition financing facility as of October 31, 2002.

Total outstanding revolving lines of credit are summarized as follows:

	December 31,	
	<u>2003</u>	<u>2002</u>
Domestic Lines of Credit Utilized	\$ -	\$ 1,750
Foreign Lines of Credit Utilized:		
• Speech Design GmbH	2,113	1
• Speech Design Israel	22	-
• Carrier Systems	-	-
• Satelco	-	-
	<u>\$2,135</u>	<u>\$ 1,751</u>

8. NOTES PAYABLE TO RELATED PARTIES

A \$315 note was issued to the minority shareholders of Satelco in July 1994. It was payable in quarterly installments with the initial payment to be in February 1995. The payments of this note were suspended (with the approval of the note holders) in 1995, until such time as the Satelco subsidiary became profitable. Payments resumed in 2000 and the note was classified as short-term at December 31, 2000. In 2001, payments were again suspended and the note was reclassified as long term. The amount outstanding at December 31, 2001 was \$120. Effective June 30, 2002, Speech Design acquired the minority portions of Satelco. At that time, the minority shareholders forgave the balance remaining in the notes payable, resulting in other income of approximately \$128 in 2002.

9. LEASES

The Company is obligated under various capital leases for certain office equipment that expire over the next four years. The gross amount of assets and related accumulated amortization recorded under capital leases are as follows:

	December 31,	
	<u>2003</u>	<u>2002</u>
Office equipment	\$925	\$925
Less: accumulated amortization	(911)	(726)
	<u>\$ 14</u>	<u>\$199</u>

Amortization of assets held under capitalized leases is included with depreciation expense. The Company occupies its plant and office facilities and operates certain equipment and vehicles under operating leases expiring at various dates through 2010. The facility leases contain escalation clauses and provide for payments of taxes and expenses over base rent. The facility leases also contain renewal options of varying lengths.

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Future minimum annual lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2003, are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	<u>CAPITAL LEASES</u>	<u>OPERATING LEASES</u>
2004	\$6	\$1,874
2005	1	1,208
2006	-	656
2007	-	613
2008	-	610
Thereafter	<u>-</u>	<u>1,112</u>
Total minimum lease payments	7	<u>\$6,073</u>
Less: amount representing interest (at 10.0%)	(1)	
Present value of net minimum capital lease payments	6	
Less: current installments of obligations		
under capital leases	(5)	
Obligations under capital leases, excluding		
Current installments	<u>\$1</u>	

The facility leases include scheduled rent increases over the lease terms. Rent expense has been recorded on a straight-line basis and the related deferred rent obligation was \$136 and \$92 at December 31, 2003 and 2002, respectively.

Rent expense charged to operations totaled approximately \$2,088, \$1,884 and \$1,907 for the years ended December 31, 2003, 2002, and 2001, respectively.

10. INCOME TAXES

The Company's pre-tax book income (loss) is as follows:

	Year Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Domestic U.S. operations	\$3,113	\$3,067	\$ 524
Foreign operations	(2,015)	188	(1,567)
Total	<u>\$1,098</u>	<u>\$3,255</u>	<u>\$(1,043)</u>

The components of income tax expense (benefit) are as follows:

	Year Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Current income tax	\$1,076	\$2,386	\$1,076
Utilization of acquired tax benefits			
credited to goodwill	208	183	183
Deferred income tax benefit	(573)	(1,313)	(1,574)
Total income tax expense (benefit)	<u>\$ 711</u>	<u>\$1,256</u>	<u>\$(315)</u>

The difference between the provision for income taxes computed at the U.S. Federal income tax rate of 34% and the provision as reported are as follows:

	Year Ended December 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
Computed "expected" tax expense	\$374	\$1,107	\$ (355)
State tax expense, net of Federal benefit	106	185	115
Non-deductible expenses	(33)	109	122
Change in valuation allowance	(132)	(352)	11
Foreign taxes greater (less) than U.S. taxes	22	(67)	(261)
Utilization of acquired tax benefits			
credited to goodwill	208	183	183
Adjustments for prior-year taxes	77	-	-
Other	<u>89</u>	<u>91</u>	<u>(130)</u>
Income tax expense (benefit) as reported	<u>\$ 711</u>	<u>\$1,256</u>	<u>\$(315)</u>

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The components of deferred tax assets and liabilities are as follows:

	Year Ended December 31,	
	<u>2003</u>	<u>2002</u>
Deferred tax assets:		
NOL carryforwards	\$ 442	\$ 550
Foreign loss carryforwards	3,057	1,473
Accounts receivable	232	192
Inventory	1,121	1,000
Equipment	39	117
Intangibles	502	551
Accrued liabilities	279	273
Deferred revenues	237	530
Employee compensation	42	224
Contributions	68	139
Deferred rent	<u>52</u>	<u>35</u>
Total deferred tax assets	\$ 6,071	\$ 5,084
Less: valuation allowance	<u>(442)</u>	<u>(574)</u>
Net deferred tax assets	<u>\$ 5,629</u>	<u>\$ 4,510</u>
Deferred tax liabilities:		
Goodwill	\$ 719	\$ 795
Equipment	162	-
Marketing costs	88	73
Other, net	<u>-</u>	<u>39</u>
Total deferred tax liabilities	\$ 969	\$ 907
Total net deferred tax assets	<u>\$ 4,660</u>	<u>\$ 3,603</u>

The Company has net operating loss ("NOL") carryforwards of approximately \$1,301 for U.S. Federal tax purposes as of December 31, 2003, which expire between the years 2004 through 2010. Under Section 382 of the Internal Revenue Code of 1986, as amended, these operating loss carryforwards are subject to certain limitations on their utilization as a result of the changes in control of the Company in 1991 and 1995. Subsequently recognized tax benefits, in the amount of \$442, relating to the reduction of the valuation allowance as these NOL carryforwards are realized, will be allocated to goodwill. The Company has foreign loss carryforwards of approximately €7,079 (approximately \$8,900) as of December 31, 2003. Approximately \$8,200 of these loss carryforwards have indefinite useful lives.

The Company has established valuation allowances covering certain of its deferred tax assets. These allowances were \$442 and \$574 as of December 31, 2003 and 2002, respectively. The net change in the total valuation allowance for the year ended December 31, 2003, was a decrease of \$132. The net change in the total valuation allowance for the year ended December 31, 2002, was a decrease of \$374. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, certain limitations on the utilization of operating loss carryforwards and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, by jurisdiction, over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2003. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

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11. ACCRUED EXPENSES

Accrued expenses at December 31, 2003 and 2002, were:

	<u>2003</u>	<u>2002</u>
Customer Advance Payments	\$ 988	\$1,775
Accrued Salaries and Benefits	1,301	1,696
Legal and Other Professional Fees	799	690
Sales and Other Taxes	387	466
Rebates and Commissions	582	417
Restructuring	164	-
All Other	<u>831</u>	<u>790</u>
	<u>\$5,053</u>	<u>\$5,834</u>

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, to sell 2% of SDI, a Company subsidiary which holds all equity in Speech Design, to T-Venture. Sale of the SDI common stock minority holding was for approximately 842 Euros, about \$765 as of the date of the agreement, 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 the second or 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.

Separately, T-Venture signed a marketing agreement entitling it to receive 1% of SDI stock if T-Venture assisted Speech Design in attaining certain Unified Messaging sales objectives by December 31, 2001. The marketing agreement expired without being exercised.

13. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company is authorized to issue 1,000,000 shares of preferred stock with such designations, voting and other rights, and preferences as may be determined from time to time by the Board of Directors.

COMMON STOCK AND WARRANTS

As a result of the self-tender offer announced November 3, 2003, and which expired on December 11, 2003, the Company repurchased 1,953,022 shares of its common stock at a price of \$5.00 per share plus transaction costs of \$82. The total cost of this transaction was approximately \$9,850. The Company utilized approximately \$2,350 of its available cash and secured a \$7,500 term loan with Key to finance the self-tender offer (see Note 7). The repurchased shares were cancelled and reclassified as authorized but unissued common stock.

From July 1st to the 3rd, 2002, the Company repurchased 1,607,174 shares of its common stock in privately negotiated transactions with two shareholder groups at a price of \$4.00 per share. As a result of the self-tender offer announced on June 24, 2002, and which expired on August 13, 2002, the Company repurchased 2,631,078 shares of its common stock at a price of \$4.00 per share. The combined cost of these transactions was approximately \$17,000. The Company utilized approximately \$14,500 of its available cash resources and drew down \$2,500 from its \$7,000 working capital line with Key to finance these transactions. The repurchased shares were cancelled and reclassified as authorized but unissued common stock.

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On November 26, 1997, D&S Capital, LLC, a limited liability company whose interests are owned by the Chief Executive Officer and the President of the Company, acquired 46,295 shares of common stock and warrants to purchase 250,000 shares of restricted common stock at an exercise price of \$5.00 per share, for an aggregate purchase price of \$250. The warrants expired on January 1, 2003. 575,885 warrants to purchase common stock were issued on November 28, 1997, to Helix Capital II, LLC and subsequently distributed to its former owners and employees. These warrants had an exercise price of \$5.50 per share and expired in November 2002.

In April 2002, the Company granted the President and the Chief Executive Officer 105,000 restricted shares of common stock each, pursuant to their employment agreements. The initial vesting period was five years, but subject to certain acceleration clauses. If the stock price closed at or over \$4.00 per share for ten consecutive days, the two officers would vest in 65,625 shares, if the stock price closed at or over \$5.00 per share for ten consecutive days, the two officers would vest in the remaining 39,375 shares. The vesting terms were amended in the third quarter of 2002 to delay vesting of the shares until the later of the date on which the stock price target levels were achieved or January 29, 2003. In the third quarter of 2002, these stock price levels were achieved and the Company accelerated the accounting for the vesting terms to fully expense the stock compensation by January 2003. Other key employees received approximately 145,000 restricted shares of common stock, which vest ratably over five years. In March 2003, a key employee received 2,500 restricted shares of common stock, which vest ratably over five years.

The total compensation expense associated with all of these restricted stock grants will be approximately \$1,080, of which \$581 and \$204 were expensed in 2002 and 2003, respectively, and \$90, \$90, \$90, and \$25 for the years 2004 through 2007, respectively.

The Company had the following warrants outstanding:

	DECEMBER 31,				
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>EXERCISE PRICE</u>	<u>EXPIRATION</u>
WARRANTS TO PURCHASE COMMON STOCK:					
1997 warrants:	-	-	575,885	\$5.50	November 2002
	<u>-</u>	<u>250,000</u>	<u>250,000</u>	\$5.00	January 2003
	<u><u>0</u></u>	<u><u>250,000</u></u>	<u><u>825,885</u></u>		

14. STOCK OPTIONS

The Company has a Stock Option Incentive Plan (the "Plan") under which shares of the Company's Common Stock are reserved for issuance pursuant to the Plan. As of May 29, 2002, the stockholders of the Company approved an amendment to increase the shares under the Plan to 2,000,000. Under the Plan, the Board of Directors or Compensation Committee can award stock options to eligible employees of the Company and its subsidiaries (including employee directors), non-employee directors, and independent contractors and consultants who perform services for the Company. The options generally vest over a period of five years and are exercisable at prices determined on a case-by-case basis but not less than the fair market value of the stock at the date of grant. None may be exercised more than 10 years from the date of grant. From time to time, the Company grants additional stock options to individuals outside of the Plan. During 1997, the Company granted a total of 325,885 options outside the Plan to both the Company's newly appointed CEO and the President. These options were granted at an exercise price of \$5.00 per share, were fully vested in 2000, and will expire 10 years from the date of grant.

In April 2002, the Company granted 166,500 non-qualified options at the grant date value of the Company's stock under the Company's Stock Incentive Plan to each of two Board members for their Board services from 2000 through 2004. Approximately half of the options vested immediately and the remainder vest in equal quarterly increments through 2004.

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As part of the three-year employment agreement effective December 2001, the CEO and the President each received 220,750 non-qualified options. Approximately 25% of the options vested immediately and the remainder vest in equal quarterly increments through September 2004.

Information with respect to the Company's stock options under the 1996 Plan and discretionary grants are as follows:

<u>Stock Options</u>	<u>Shares Available for Grant</u>	<u>Options Outstanding</u>	<u>Options Exercisable at End of Year</u>	<u>Exercise Price Range</u>	<u>Weighted-Average Exercise Price</u>
Outstanding at December 31, 2000	361,253	1,230,765	<u>667,105</u>		\$6.37
Granted	(5,000)	5,000		\$5.00	\$5.00
Forfeited	<u>7,330</u>	<u>(7,330)</u>		\$5.63-\$6.69	\$6.06
Outstanding at December 31, 2001	363,583	1,228,435	<u>973,915</u>		\$6.37
Reserved	500,000			-	-
Restricted stock issuance	(355,250)			-	-
Granted	(799,500)	799,500		\$3.00-\$3.05	\$3.01
Forfeited	75,700	(75,700)		\$5.81-\$6.00	\$6.00
Cancelled	<u>480,000</u>	<u>(480,000)</u>		\$5.50-\$8.50	\$7.21
Outstanding at December 31, 2002	264,533	1,472,235	<u>1,043,071</u>		\$4.29
Restricted stock issuance	(2,500)			-	-
Granted	(16,000)	16,000		\$3.98-\$3.88	\$3.87
Exercised		(130,863)		\$3.02-\$3.05	\$3.02
Forfeited	55,150	(55,150)		\$3.05-\$7.625	\$4.86
Cancelled	-	-			
Outstanding at December 31, 2003	<u>301,183</u>	<u>1,302,222</u>	<u>1,110,277</u>		\$4.39

The weighted-average fair value per share of options granted in fiscal years 2003, 2002, and 2001 were \$2.35, \$3.01, and \$5.00, respectively.

The number of shares and weighted average price of options exercisable at December 31, 2003, was 1,110,277 shares at \$4.56 per share and had a weighted average contractual life remaining of 5.9 years. At December 31, 2003, 301,183 options were available for future grants under the terms of the Plan. Outstanding options expire prior to December 31, 2010, and are exercisable at prices ranging from \$3.00 to \$7.625 per share.

A summary of options outstanding and exercisable as of December 31, 2003, follows:

	<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Options Outstanding</u>		<u>Options Exercisable</u>	
			<u>Weighted Average Remaining Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$	3.00 - 4.99	664,637	8.44	\$3.03	490,802	\$3.02
\$	5.00 - 5.99	421,285	4.06	\$5.15	409,185	\$5.13
\$	6.00 - 6.99	8,750	6.54	\$6.42	5,250	\$6.42
\$	7.00 - 7.99	<u>207,550</u>	6.09	\$7.10	<u>205,040</u>	\$7.10
	TOTAL	<u>1,302,222</u>			<u>1,110,277</u>	

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15. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

The Company has entered into employment contracts with several officers of the Company. The employment contracts of the Chief Executive Officer and the President of the Company both expire in November 2004. The management agreements with the two Managing Directors of Speech Design expire in June 2004. The management agreements with the two managing directors at Speech Design's subsidiary, Carrier Systems, expire in December 2003 and are currently being renegotiated. Compensation accrues to the officers over the term of the contract as their respective services are provided. Such amounts total \$784 in 2004.

LITIGATION

The Company develops and utilizes technology for substantially all of the products it offers and intends to offer and has, from time to time, been the subject of infringement claims related thereto. It is difficult to predict the outcome of such litigation and the amount of damages that may be awarded in these types of cases. The Company does not believe that the results of any pending or threatened litigation related to the Company's technology or use thereof would have a material adverse effect on its financial position, results of operations, or liquidity.

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.

16. SEGMENTS

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign).

The following table presents information about the Company by segment/geographic area. Inter segment revenues and transfers immaterial:

	<u>BOGEN</u>	<u>SPEECH DESIGN</u>
2003:		
Revenue from external customers.....	\$39,094	\$16,394
Gross Profit.....	16,279	8,369
Depreciation and amortization.....	683	1,186
Operating profit (loss).....	3,493	(2,033)
Total assets.....	26,703	19,155
Expenditures for segment assets.....	325	110
2002:		
Revenue from external customers.....	\$41,809	\$17,268
Gross Profit.....	17,831	9,849
Depreciation and amortization.....	984	973
Operating profit	3,267	148
Total assets.....	27,960	17,872
Expenditures for segment assets.....	569	306
2001:		
Revenue from external customers.....	\$40,208	\$16,935
Gross Profit.....	17,530	9,435
Depreciation and amortization.....	1,555	1,012
Operating profit (loss).....	1,141	(1,525)
Total assets.....	39,515	14,047
Expenditures for segment assets.....	458	735

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A reconciliation of reportable segment operating profit and assets to the Company's consolidated totals are as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Operating profit (loss)			
Total operating profit (loss) for reportable segments...	\$ 1,460	\$3,415	\$ (384)
Other corporate expenses.....	<u>(412)</u>	<u>(320)</u>	<u>(1,037)</u>
Operating profit (loss).....	<u>\$ 1,048</u>	<u>\$3,095</u>	<u>\$(1,421)</u>
Assets			
Total assets for reportable segments.....	\$45,858	\$45,832	
Other unallocated amounts.....	<u>165</u>	<u>101</u>	
Consolidated total.....	<u>\$46,023</u>	<u>\$45,933</u>	

17. CREDIT CONCENTRATION

In 2003, Speech Design had revenues of \$6,140 from one customer. Bogen had no customer that individually accounted for more than 10% of consolidated net sales.

In 2002, Speech Design had revenues of \$6,364 from one customer. Bogen had no customers that individually accounted for more than 10% of consolidated net sales.

The Company had no customers that individually accounted for more than 10% of total consolidated net sales in 2001.

18. EMPLOYEE CONTRIBUTION PLAN

Employees of the Company are eligible to participate in a Company-sponsored defined contribution 401(k) plan. The Company provides a matching contribution to a portion of funds contributed by employees. Amounts charged to expense were \$147, \$135, and \$124, for the years ended December 31, 2003, 2002, and 2001, respectively.

19. RESTRUCTURING AND OTHER CHARGES

In 2003, Speech Design recorded restructuring charges, primarily for cost associated with personnel reductions, of approximately \$255 in the fourth quarter for its voicemail business. As of December 31, 2003, payments of approximately \$109 had been made for charges incurred in 2003. The remaining liability of \$164 is scheduled to be paid in 2004.

In 2001, Speech Design recorded restructuring charges, primarily for costs associated with personnel reductions, of approximately \$176 in the third quarter for its Unified Messaging business and approximately \$305 in the fourth quarter for its voicemail business. In addition, the Company wrote off all remaining costs, approximately \$581 of legal fees, incurred to date in connection with its exploration of alternatives for enhancing shareholder value, which had included a possible separation of the domestic and foreign businesses. Restructuring and other charges are reported on a separate line in the Consolidated Statements of Operations.

20. UNION PENSION PLANS

Bogen participates in multi-employer pension plans, which cover all union employees. Contributions for the periods ended December 31, 2003, 2002, and 2001, were approximately \$14, \$16, and \$15, respectively.

Certain employees of Bogen are participants in the Electronics Local 431 Pension Fund (the "Plan"), a multiemployer plan within the meaning of Section 3(37) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Bogen's annual contributions to the Plan have been less than \$15 during each of the past five years. As a result of the withdrawal of other employers from the Plan, Bogen is one of only two remaining contributing employers.

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ERISA imposes, among other things, minimum funding requirements. Failure to meet these requirements could subject the Plan to disqualification and/or subject the contributing employers to penalties. Bogen has been advised by the Plan's trustees that the Plan's funding standard account will be depleted during the fiscal year ending June 30, 2007. Bogen and the other contributing employer are exploring their options with respect to the Plan, including the possibility of withdrawing from the Plan.

In the event that Bogen withdraws from the Plan, Bogen will be subject to withdrawal liability imposed by ERISA. In light of the variables involved in the calculation of withdrawal liability, we do not believe that it is possible to determine with any meaningful degree of accuracy what the aggregate liability of the Company would be in the event of withdrawal. The withdrawal liability, if any, assessed against Bogen would likely be scheduled for payment in annual installments, each such installment being the product of (i) the average annual number of hours worked by Bogen's Plan participants during the 3-year period in which these hours were the highest during the ten Plan years ending prior to the withdrawal, and (ii) Bogen's highest contribution rate during that same 10-year period. Bogen has requested the Plan's actuary to calculate the amount of these annual installments and is currently awaiting these figures. At this time, based on the hours worked by Bogen's Plan participants during the preceding decade and the highest rate at which Bogen was obliged to contribute to the Plan during that period, we currently estimate that Bogen's annual withdrawal liability payment would be less than \$20 per year; however, such annual payments would likely continue for a period of not less than 20 years and possibly much longer.

21. DEREGISTRATION AND DELISTING

On December 31, 2003, the Company filed a Form 15 with the Securities and Exchange Commission, which deregistered the Company's common stock under Section 12 of the Securities Exchange Act of 1934. As a result and upon the effectiveness of such filing, which is expected to be no later than 90 days after filing, the Company will no longer be subject to the reporting requirements of the Securities Exchange Act. The requirement under the Exchange Act to file Forms 10-K, 10-Q, or 8-K, proxy statements, or other similar filings with the SEC was suspended immediately upon the filing of Form 15. The Company will also no longer be obligated to mail an annual report to its stockholders.

Furthermore, the Company's common stock will no longer be eligible to be quoted on Nasdaq, and with the filing of the Form 15, the Company's shares are eligible for quotation only on the "pink sheets", an over-the-counter quotation service.