

**BOGEN COMMUNICATIONS INTERNATIONAL, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS**

INDEX

	<u>PAGE</u>
• Consolidated Balance Sheets as of September 30, 2004, and December 31, 2003	1
• Consolidated Statements of Operations for the three and nine months ended September 30, 2004 and 2003	2
• Consolidated Statement of Changes in Stockholders' Equity for the nine months ended September 30, 2004	3
• Consolidated Statements of Cash Flows for the nine months ended September 30, 2004 and 2003	4
• Notes to Consolidated Financial Statements	5-13

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

	<u>September 30,</u> 2004 (Unaudited)	<u>December 31,</u> 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,103	\$ 6,183
Trade receivables (net of allowance for doubtful accounts of \$462 and \$550 at September 30, 2004, and December 31, 2003, respectively)	5,577	6,845
Other receivables	29	158
Inventories	7,715	9,016
Prepaid expenses and other current assets	475	455
Current deferred income taxes	<u>2,872</u>	<u>2,894</u>
TOTAL CURRENT ASSETS	21,771	25,551
Equipment and leasehold improvements, net	2,093	2,638
Goodwill	15,154	15,310
Other intangible assets, net	485	582
Deferred income taxes	1,497	1,766
Other assets	<u>170</u>	<u>176</u>
TOTAL ASSETS	<u>\$ 41,170</u>	<u>\$ 46,023</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ -	\$ 2,135
Current maturities of long-term debt	1,501	750
Accounts payable	2,063	3,106
Accrued expenses	4,367	5,059
Income taxes payable	<u>812</u>	<u>435</u>
TOTAL CURRENT LIABILITIES	8,743	11,485
Long-term debt, less current maturities	4,125	6,750
Minority interest	233	253
Other long-term liabilities	<u>507</u>	<u>176</u>
TOTAL LIABILITIES	<u>13,608</u>	<u>18,664</u>
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized at September 30, 2004, and 1,000,000 shares authorized at December 31, 2003; none issued and outstanding at September 30, 2004, and December 31, 2003	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at September 30, 2004, and 50,000,000 shares authorized at December 31, 2003; 3,438,584 shares issued and 3,428,227 shares outstanding at September 30, 2004, and 3,398,084 shares issued and 3,390,383 shares outstanding at December 31, 2003	3	3
Additional paid-in-capital	20,415	20,229
Deferred compensation	(399)	(295)
Retained earnings	6,360	5,976
Accumulated other comprehensive income	1,243	1,493
Treasury stock at cost - 10,357 shares at September 30, 2004, and 7,701 shares at December 31, 2003	<u>(60)</u>	<u>(47)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>27,562</u>	<u>27,359</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 41,170</u>	<u>\$ 46,023</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in Thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2004	September 30, 2003	September 30, 2004	September 30, 2003
Net sales	\$ 14,847	\$ 14,615	\$ 40,778	\$ 40,336
Cost of goods sold	<u>8,130</u>	<u>8,632</u>	<u>22,377</u>	<u>22,607</u>
Gross profit	6,717	5,983	18,401	17,729
Operating expenses:				
Research and development	1,021	1,092	3,179	3,243
Selling, general and administrative	4,391	4,791	13,162	14,540
Amortization of intangibles	30	89	93	263
Union pension fund withdrawals	-	-	314	-
Income (loss) from operations	<u>1,275</u>	<u>11</u>	<u>1,653</u>	<u>(317)</u>
Other (income) expenses:				
Interest income	(6)	(18)	(12)	(49)
Interest expense	76	20	225	61
Minority interest of consolidated subsidiaries	6	(9)	(20)	(10)
Other income	<u>(12)</u>	<u>(14)</u>	<u>(29)</u>	<u>(49)</u>
Income (loss) before income taxes	1,211	32	1,489	(270)
Income tax expense (benefit)	<u>466</u>	<u>(274)</u>	<u>1,105</u>	<u>(312)</u>
Net income	<u>\$ 745</u>	<u>\$ 306</u>	<u>\$ 384</u>	<u>\$ 42</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004
(Dollars in Thousands, Except Share Amounts)
(Unaudited)

	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			
Balance at January 1, 2004	3,398,084	\$ 3	\$ 20,229	\$ (295)	\$ 5,976	\$ 1,493	7,701	\$ (47)	\$ 27,359
Employee restricted stock grants	40,500	-	186	(186)	-	-	-	-	-
Deferred compensation amortization	-	-	-	82	-	-	-	-	82
Treasury stock	-	-	-	-	-	-	2,656	(13)	(13)
Comprehensive income:									
Net income	-	-	-	-	384	-	-	-	384
Translation adjustments	-	-	-	-	-	(250)	-	-	(250)
Other comprehensive income									134
Balance at June 30, 2004	<u>3,438,584</u>	<u>\$ 3</u>	<u>\$ 20,415</u>	<u>\$ (399)</u>	<u>\$ 6,360</u>	<u>\$ 1,243</u>	<u>10,357</u>	<u>\$ (60)</u>	<u>\$ 27,562</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
(Unaudited)

	Nine Months Ended	
	September 30, 2004	September 30, 2003
	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 384	\$ 42
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	939	1,189
Amortization of intangible assets	93	263
Deferred compensation amortization	82	182
Provision for doubtful accounts	147	203
Utilization of pre-acquisition NOL charged to goodwill	138	138
Deferred income taxes	231	(1,725)
Loss on disposal of equipment and leasehold improvements	27	-
Minority interest	(20)	(10)
Change in operating assets and liabilities:		
Receivables	1,114	106
Inventories	1,259	1,831
Prepaid expenses and other current assets	(22)	119
Accounts payable and accrued expenses	(1,225)	(896)
Other	338	4
Net cash provided by (used in) operating activities	<u>3,485</u>	<u>1,446</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(437)	(723)
Proceeds from sale of equipment and leasehold improvements	15	-
Net cash used in investing activities	<u>(422)</u>	<u>(723)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	(13)	(15)
Principal payments of long-term debt	(1,875)	-
Principal payments under capital lease obligations	(4)	(4)
Net decrease in borrowings under revolving credit agreements	(2,059)	(1,730)
Net cash used in financing activities	<u>(3,951)</u>	<u>(1,749)</u>
Effects of foreign exchange rate on cash	<u>(192)</u>	<u>364</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,080)	(662)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,183</u>	<u>5,379</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 5,103</u>	<u>\$ 4,717</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 207	\$ 44
Cash paid for income taxes	357	618

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)
(Unaudited)

1. **Basis of Presentation**

The consolidated balance sheet of Bogen Communications International, Inc. and its subsidiaries (the "Company") as of December 31, 2003, has been derived from the audited consolidated balance sheet and is presented for comparative purposes. The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. 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. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2003.

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"); and Speech Design's wholly-owned subsidiaries: Satelco AG (Satelco), Speech Design (Israel), Ltd., and Speech Design Carrier Systems GmbH ("Carrier Systems"). 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.

3. **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.

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

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.

4. **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 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 the notes herein and in the notes to our consolidated financial statements for the year ended December 31, 2003. The Company evaluates segment performance based on income or loss before income taxes.

The following tables present information about the Company by segment/geographic area. Inter-segment revenues and transfers are immaterial:

Three Months Ended

	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers	\$10,861	\$3,986	\$11,443	\$3,172
Gross profit	4,177	2,540	4,796	1,187
Income (loss) before income taxes	894	391	1,367	(1,230)

Nine Months Ended

	<u>September 30, 2004</u>		<u>September 30, 2003</u>	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers	\$29,697	\$11,081	\$30,045	\$10,291
Gross profit	12,156	6,245	12,917	4,812
Income (loss) before income taxes	2,050	(327)	2,725	(2,694)

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

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Total income before income taxes for reportable segments	\$1,285	\$137	\$1,723	\$ 31
Other corporate expenses	<u>(74)</u>	<u>(105)</u>	<u>(234)</u>	<u>(301)</u>
Income (loss) before income taxes	<u>\$1,211</u>	<u>\$ 32</u>	<u>\$1,489</u>	<u>\$(270)</u>

5. **Inventories**

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

	<u>September,</u>	<u>December 31,</u>
	<u>2004</u>	<u>2003</u>
Raw materials and supplies	\$1,688	\$2,230
Work in progress	511	489
Finished goods	<u>5,516</u>	<u>6,297</u>
Total	<u>\$7,715</u>	<u>\$ 9,016</u>

6. **Goodwill and Intangible Assets**

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.

The Company performed its annual impairment test at 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.

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

The table below reconciles the change in the carrying amount of goodwill by operating segment for the period from December 31, 2003 to September 30, 2004:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Balance at December 31, 2003	\$ 10,052	\$ 5,258	\$ 15,310
Utilization of pre-acquisition NOL's charged to goodwill	(80)	(57)	(137)
Foreign currency translation adjustments	<u>-</u>	<u>(19)</u>	<u>(19)</u>
Balance at September 30, 2004	<u>\$ 9,972</u>	<u>\$ 5,182</u>	<u>\$ 15,154</u>

The following disclosure presents certain information on the Company's acquired intangible assets as of September 30, 2004, and December 31, 2003. 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 September 30, 2004:				
Patents	10 years	\$ 27	\$ (13)	\$ 14
Trademarks	15 years	667	(294)	373
Deferred Financing	5.5 years	55	(13)	42
Brandnames	7 years	162	(137)	25
Technology	7 years	194	(164)	30
Customer Lists	7 years	<u>175</u>	<u>(174)</u>	<u>1</u>
		<u>\$1,280</u>	<u>\$(795)</u>	<u>\$485</u>

<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:				
Patents	10 years	\$ 27	\$ (11)	\$ 16
Trademarks	15 years	667	(261)	406
Deferred Financing	5.5 years	55	-	55
Brandnames	7 years	165	(121)	44
Technology	4 years	582	(529)	53
Non-compete agreements	1.5 years	216	(216)	-
Customer lists	7 years	<u>178</u>	<u>(170)</u>	<u>8</u>
		<u>\$1,890</u>	<u>\$(1,308)</u>	<u>\$ 582</u>

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

The aggregate acquired intangible amortization expense was \$30 and \$89, respectively, for the three months ended September 30, 2004 and 2003, and \$93 and \$263, respectively, for the nine months ended September 30, 2004 and 2003. The estimated acquired intangible asset amortization expense for the fiscal year ending December 31, 2004, and for the four subsequent years is as follows:

Fiscal Year Ended <u>December 31,</u>	Estimated Amortization <u>Expense</u>
2004	\$125
2005	\$112
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.

Effective December 11, 2003, the Company and BCI entered into a new credit facility (the "New Facility") with Key. The New Facility included 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 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 New Facility bears interest at either Key's rate or, at the borrower's option, LIBOR plus 150 to 275 basis points. The Company will repay the loan in equal quarterly installments of \$375, beginning July 1, 2004. The Company, at its option, may also make additional, voluntary repayments in multiples of at least \$100. On June 1 and August 1, 2004, the Company exercised this option and made payments totaling \$1,500. The annual scheduled repayment amounts are \$750 in 2004, \$1,500 per year in 2004, 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 September 30, 2004, and December 31, 2003, Bogen had no short-term borrowings outstanding under the New Facility's working capital line of credit. Bogen has a conditional letter of credit with Key, which is included in the working capital line and is renewable every six months. Approximately \$697 was utilized at September 30, 2004. At September 30, 2004, and December 31, 2003, the Company had \$5,625 and \$7,500, respectively, of long-term debt, including current maturities, outstanding under the New Facility. The Company was in compliance with the financial covenants as set forth under the New Facility for the period ended September 30, 2004.

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

Speech Design and its subsidiaries have continuously renewing credit lines and overdraft facilities of approximately 1,204 Euros approximately \$1,485 at September 30, 2004, from three banks. Short-term lines of credit are collateralized by all the accounts receivable and inventory of Speech Design and its subsidiaries. At September 30, 2004, and December 31, 2003, Speech Design had short-term borrowings amounting to \$0 and \$2,135, respectively.

Total outstanding revolving lines of credit are summarized as follows:

	<u>September 30,</u> <u>2004</u>	<u>December 31,</u> <u>2003</u>
Domestic Lines of Credit Utilized	\$-	\$ -
Foreign Lines of Credit Utilized:		
• Speech Design GmbH	-	2,113
• Speech Design Israel	-	22
• Carrier Systems	-	-
• Satelco	-	-
	<u>\$-</u>	<u>\$2,135</u>

8. **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 deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. Income tax expense (benefit) for the three and nine months ended September 30, 2004 and 2003, differs from the amount computed by applying the U.S. Federal statutory rates primarily because of 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 \$830 and \$442 as of September 30, 2004, and December 31, 2003, respectively. The valuation allowances were 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. **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 that now holds all of the equity of 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 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.

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

10. **Stock-Based Compensation**

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 based on stock price target levels. In the third quarter of 2002, these target levels were achieved and the Company accelerated the accounting for the vesting terms to fully expense the stock compensation by January 2003. Also in April 2002, 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. In February 2004, the Company granted certain key employees 40,500 restricted shares of common stock, which vest ratably over five years.

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 market price of the underlying stock exceeds the exercise price.

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 the 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.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net income, as reported	\$745	\$306	\$384	\$ 42
Add: Stock-based employee compensation expense included in reported net income, net of tax	-	-	-	-
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	<u>(137)</u>	<u>(88)</u>	<u>(415)</u>	<u>(283)</u>
Pro forma net income (loss)	<u>\$(608)</u>	<u>\$218</u>	<u>\$(31)</u>	<u>\$(241)</u>

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

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>2004</u>	<u>2003</u>
Dividend yield	0.00%	0.00%
Risk-free interest rate	3.91%	3.36%
Expected option life in years	7.50	6.09
Expected volatility	58.51%	63.26%
Weighted-average fair value of options granted during the period	\$2.87	\$2.35

11. **Comprehensive Income**

The Company's comprehensive income consists of net income and translation adjustments and is presented in the consolidated statement of changes in stockholders' equity for the nine months ended September 30, 2004.

12. **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.

13. **Withdrawals from Union Pension Funds**

Electronics Local 431 Pension Fund

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 was one of only two remaining contributing employers.

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

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. The Plan's trustees have advised Bogen that the Plan's funding standard account will be depleted during the fiscal year ending June 30, 2007.

Effective June 1, 2004, Bogen has elected, in accordance with the collective bargaining agreement with the International Union of Electronic, Electrical, Technical, Salaried & Machine Workers-CWA Local 485, AFL-CIO (the "Union"), to cease permanently to make contributions or to have any obligation to contribute to the Plan. As a result of this election, Bogen believes that it is subject to a withdrawal liability imposed by ERISA. The withdrawal liability assessed against Bogen will 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, Bogen currently estimates the total withdrawal liability to be approximately \$300, which is the net present value of the anticipated stream of payments, based on the information currently available. Annual withdrawal liability payments 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. The accrual is recorded on the balance sheet in Other Long-term Liabilities.

Teamsters Local 854 Pension Fund

Certain employees of Bogen are participants in the Teamsters Local 854 Pension Fund (the "Fund"). In August 2003, Bogen affected a complete withdrawal from the Fund, in accordance with the Multiemployer Pension Plan Amendments Act of 1980. The Fund has informed Bogen that its total estimated withdrawal liability has been computed to be \$15, payable in ten quarterly installments beginning June 30, 2004. The accrual is recorded on the balance sheet in Accrued Expenses.