

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

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

	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,412	\$ 6,376
Trade receivables (net of allowance for doubtful accounts of \$248 and \$320 at March 31, 2006, and December 31, 2005, respectively)	6,165	9,290
Other receivables	711	717
Inventories	7,534	8,009
Prepaid expenses and other current assets	719	602
Current deferred income taxes	3,046	2,848
TOTAL CURRENT ASSETS	23,587	27,842
Equipment, furniture, and leasehold improvements, net	1,566	1,610
Goodwill	14,991	14,991
Other intangible assets, net	339	352
Deferred income taxes	131	112
Other assets	143	143
TOTAL ASSETS	\$ 40,757	\$ 45,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ -	\$ 788
Current maturities of long-term debt	1,500	1,500
Accounts payable	1,523	1,805
Accrued expenses	2,707	3,575
Dividends payable	-	2,047
Income taxes payable	966	1,078
TOTAL CURRENT LIABILITIES	6,696	10,793
Long-term debt, less current maturities	1,875	2,250
Minority interest	239	242
Other long-term liabilities	424	427
TOTAL LIABILITIES	9,234	13,712
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized at March 31, 2006, and December 31, 2005; none issued and outstanding at March 31, 2006, or December 31, 2005	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at March 31, 2006, and December 31, 2005; 4,109,489 shares issued and 4,092,317 shares outstanding at March 31, 2006, and 4,109,489 shares issued and 4,094,688 shares outstanding at December 31, 2005	4	4
Additional paid-in-capital	22,272	22,272
Deferred compensation	(200)	(228)
Retained earnings	8,528	8,453
Accumulated other comprehensive income	1,012	917
Treasury stock at cost - 17,172 shares at March 31, 2006, and 14,801 shares at December 31, 2005	(93)	(80)
TOTAL STOCKHOLDERS' EQUITY	31,523	31,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 40,757	\$ 45,050

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2006	2005
Net sales	\$ 11,312	\$ 11,956
Cost of goods sold	5,816	6,354
Gross profit	5,496	5,602
Operating expenses:		
Research and development	1,263	1,166
Selling, general and administrative	4,054	4,462
Amortization of intangibles	13	30
Income (loss) from operations	166	(56)
Other (income) expenses:		
Interest income	(37)	(19)
Interest expense	60	67
Minority interest of consolidated subsidiaries	(3)	(19)
Other income	(6)	(6)
Income (loss) before income taxes	152	(79)
Income tax expense	77	13
Net income (loss)	\$ 75	\$ (92)

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(Dollars in Thousands, Except Share Amounts)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated	Treasury Stock		Total
	Number of Shares	Amount				Other Comprehensive Income	Number of Shares	Amount	
Balance at January 1, 2006	4,109,489	\$ 4	\$ 22,272	\$ (228)	\$ 8,453	\$ 917	14,801	\$ (80)	\$ 31,338
Deferred compensation amortization	-	-	-	28	-	-	-	-	28
Treasury stock	-	-	-	-	-	-	2,371	(13)	(13)
Comprehensive income:									
Net income	-	-	-	-	75	-	-	-	75
Translation adjustments	-	-	-	-	-	95	-	-	95
Other comprehensive income									170
Balance at March 31, 2006	<u>4,109,489</u>	<u>\$ 4</u>	<u>\$ 22,272</u>	<u>\$ (200)</u>	<u>\$ 8,528</u>	<u>\$ 1,012</u>	<u>17,172</u>	<u>\$ (93)</u>	<u>\$ 31,523</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 75	\$ (92)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	161	252
Amortization of intangible assets	13	30
Deferred compensation amortization	28	29
Provision for doubtful accounts	-	30
Utilization of pre-acquisition NOL charged to goodwill	19	19
Deferred income taxes	(184)	(281)
Loss on disposal of equipment and leasehold improvements	-	26
Minority interest	(3)	(19)
Change in operating assets and liabilities:		
Receivables	3,225	5,203
Inventories	505	(366)
Prepaid expenses and other current assets	(112)	(155)
Accounts payable and accrued expenses	(1,309)	(2,467)
Other	(2)	(4)
Net cash provided by operating activities	2,416	2,205
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment and leasehold improvements	(112)	(256)
Proceeds from sale of equipment and leasehold improvements	7	8
Net cash used in investing activities	(105)	(248)
CASH FLOW FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	(14)	(9)
Dividends paid	(2,047)	-
Principal payments of long-term debt	(375)	(375)
Net (decrease) increase in borrowings under revolving credit agreements	(796)	8
Net cash used in financing activities	(3,232)	(376)
Effects of foreign exchange rate on cash	(43)	(243)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(964)	1,338
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,376	5,897
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,412	\$ 7,235
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 60	\$ 65
Cash paid for income taxes	372	269

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, 2005, 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 may 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, 2005.

2. **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of the Company's wholly-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, profits and losses, 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 is 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 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 a cost of goods sold.

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

4. Segments

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign). The domestic segment is primarily engaged in the development and sale of commercial and engineered sound equipment and telecommunications peripherals. The foreign segment focuses on digital voice processing systems for the mid-sized PABX market and on 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, 2005. The Company evaluates segment performance based on several measures, including income or loss before income taxes.

The following tables present information about the Company by segment area. Inter-segment revenues and transfers have been eliminated:

Three Months Ended

	<u>March 31, 2006</u>		<u>March 31, 2005</u>	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers	\$8,473	\$2,839	\$8,745	\$3,211
Gross profit	3,737	1,759	3,782	1,820
Income (loss) before income taxes	556	(418)	628	(647)

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

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
Total income (loss) before income taxes for reportable segments	\$138	\$ (19)
Other corporate income (expense)	<u>14</u>	<u>(60)</u>
Income (loss) before income taxes	<u>\$152</u>	<u>\$ (79)</u>

5. Inventories

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

	<u>March 31,</u>	<u>December 31,</u>
	<u>2006</u>	<u>2005</u>
Raw materials and supplies	\$1,450	\$1,291
Work in progress	342	290
Finished goods	<u>5,742</u>	<u>6,248</u>
Total	<u>\$7,534</u>	<u>\$8,009</u>

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. **Goodwill and Intangible Assets**

The Company accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to an annual impairment test, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

In accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, all goodwill is assigned to either of the Company's two reporting units, which are the same as our reporting segments - Domestic and Foreign. Annually, the Company considers 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 and based upon a discounted cash flow methodology. 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, 2005, upon completion and approval of the Company's financial operating plan for 2006. 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 operating segment for the period from December 31, 2005, to March 31, 2006:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Balance at December 31, 2005	\$9,945	\$5,046	\$14,991
Utilization of pre-acquisition net operating losses charged to goodwill	0	(19)	(19)
Foreign currency translation adjustments	<u>0</u>	<u>19</u>	<u>19</u>
Balance at March 31, 2006	<u>\$9,945</u>	<u>\$5,046</u>	<u>\$14,991</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 March 31, 2006:				
Patents	10 years	\$ 26	\$ (16)	\$ 10
Trademarks	15 years	662	(357)	305
Deferred Financing	5.5 years	<u>55</u>	<u>(31)</u>	<u>24</u>
		<u>\$743</u>	<u>\$(404)</u>	<u>\$339</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, 2005:				
Patents	10 years	\$ 26	\$ (16)	\$ 10
Trademarks	15 years	662	(346)	316
Deferred Financing	5.5 years	55	(29)	26
Brandnames	7 years	156	(156)	0
Technology	7 years	186	(186)	0
Customer Lists	3 years	<u>168</u>	<u>(168)</u>	<u>0</u>
		<u>\$1,253</u>	<u>\$(901)</u>	<u>\$352</u>

The aggregate acquired intangible amortization was \$13 and \$30, respectively, for the three months ended March 31, 2006 and 2005. The estimated acquired intangible asset amortization expense for the fiscal year ending December 31, 2006, and for the four subsequent years is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2006	\$ 53
2007	\$ 53
2008	\$ 53
2009	\$ 49
2010	\$ 43

7. **Revolving Credit Agreements**

Effective December 11, 2003, the Company and BCI entered into a credit facility (the "Facility") with KeyBank National Association ("Key"). The Facility includes a five-year term loan for \$7,500 and a \$2,500 working capital line of credit, which was increased to \$4,500 effective December 19, 2005. 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 Facility bears interest at either Key's rate or, at the borrower's option, LIBOR plus from 150 to 275 basis points. The Company is repaying the term 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. In 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 2005, 2006, 2007, and 2008, and \$750 in 2009. The working capital line of credit will expire on June 30, 2006. The Company and Key are currently discussing the terms of extending the expiration date.

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As of March 31, 2006, and December 31, 2005, Bogen had no short-term borrowings outstanding under the 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 \$728 was utilized at March 31, 2006. At March 31, 2006, and December 31, 2005, the Company had \$3,375 and \$3,750, respectively, of long-term debt, including current maturities, outstanding under the Facility. The Company was in compliance with the financial covenants as set forth under the Facility for the period ended March 31, 2006.

Speech Design and its subsidiaries have continuously renewing credit lines and overdraft facilities of approximately 1,229 Euros (approximately \$1,484 at March 31, 2006) from four banks. Short-term lines of credit are collateralized by all the accounts receivable and inventory of Speech Design and its subsidiaries. At March 31, 2006, and December 31, 2005, Speech Design had short-term borrowings amounting to \$0 and \$788, respectively.

Total outstanding revolving lines of credit are summarized as follows:

	<u>March 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Domestic Lines of Credit Utilized	\$ 0	\$ 0
Foreign Lines of Credit Utilized:		
• Speech Design GmbH	0	740
• Speech Design Israel	<u>0</u>	<u>48</u>
	<u>\$ 0</u>	<u>\$788</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 for the three months ended March 31, 2006 and 2005, 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.

9. **Minority Interest**

In September 2001, 2.T-Telematik Venture Beteiligungsgesellschaft mgH ("T-Venture"), venture capital subsidiary of Deutsche Telekom AG ("DT"), purchased 2% of SDI. 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. In September 2004, Cipio Partners, an investment management firm, purchased T-Venture from DT and renamed it Cipio Partners Holding 1 GmbH (CPH1).

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

10. **Stock-Based Compensation**

In April 2002, certain 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. In March 2005, a key employee was granted 5,000 restricted shares of common stock, which vest ratably over five years.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all companies to measure compensation cost for all share-based payments (including employee stock options) at fair value and recognize the cost in the financial statements beginning with the first interim or annual reporting period that begins after December 15, 2005. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition.

The Company adopted SFAS No. 123(R) effective January 1, 2006. This statement applies to all awards granted after the date of adoption and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying SFAS No. 123(R), if any, was required to be recognized as of the date of adoption.

The Company has evaluated the impact of SFAS No. 123(R) on its financial position and results of operations and has determined that there will not be any material financial impact.

Prior to 2006, the Company applied 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 Financial Accounting Standards Board (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 was recorded on the date of the option grant only if the current market price of the underlying stock exceeded the exercise price. Restricted stock grants do not result in any consideration made by the employee to the Company and the fair value of the common stock is charged to operations over the vesting period. The Company did not grant any stock options in 2005 or in the first quarter of 2006.

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, prior to 2006, the Company elected to continue to apply the intrinsic value-based method of accounting described above, and 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*.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 loss would have changed to the pro forma amounts indicated in the table below.

	Three Months Ended March 31, <u>2005</u>
Net loss, as reported	\$ (92)
Add: Stock-based employee compensation expense included in reported net loss, net of tax	17
Deduct: Total stock-based employee compensation expense determined under fair value-based Method for all awards, net of tax	<u>(46)</u>
Pro forma net loss	<u>\$(121)</u>

11. **Comprehensive Income**

The Company's comprehensive income consists of net income (loss) and translation adjustments and is presented in the consolidated statement of changes in stockholders' equity for the three months ended March 31, 2006.

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. **Subsidiary Closing**

Effective December 31, 2005, the Company's subsidiary in Israel was shut down, with production activities transferred to Speech Design and most of its assets disposed of and liabilities paid by year-end. Any remaining operations, capital and financial assets, and liabilities will be transferred to Speech Design by the second quarter of 2006.