

**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)

	September 30, 2006	December 31, 2005
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 5,857	\$ 6,376
Trade receivables (net of allowance for doubtful accounts of \$250 and \$320 at September 30, 2006, and December 31, 2005, respectively)	5,404	9,290
Other receivables	717	717
Inventories	7,017	8,009
Prepaid expenses and other current assets	590	602
Current deferred income taxes	3,286	2,848
<b>TOTAL CURRENT ASSETS</b>	<b>22,871</b>	<b>27,842</b>
Equipment, furniture, and leasehold improvements, net	1,486	1,610
Goodwill	15,004	14,991
Other intangible assets, net	312	352
Deferred income taxes	170	112
Other assets	151	143
<b>TOTAL ASSETS</b>	<b>\$ 39,994</b>	<b>\$ 45,050</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Amounts outstanding under revolving credit agreements	\$ -	\$ 788
Current maturities of long-term debt	-	1,500
Accounts payable	1,648	1,805
Accrued expenses	3,044	3,575
Dividends payable	-	2,047
Income taxes payable	1,170	1,078
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,862</b>	<b>10,793</b>
Long-term debt, less current maturities	-	2,250
Minority interest	237	242
Other long-term liabilities	416	427
<b>TOTAL LIABILITIES</b>	<b>6,515</b>	<b>13,712</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$.001 par value; 800,000 authorized at September 30, 2006, and December 31, 2005; none issued and outstanding at September 30, 2006, or December 31, 2005		-
Common stock - \$.001 par value; 10,000,000 shares authorized at September 30, 2006, and December 31, 2005; 4,109,489 shares issued and 4,089,785 shares outstanding at September 30, 2006, and 4,109,489 shares issued and 4,094,688 shares outstanding at December 31, 2005	4	4
Additional paid-in-capital	22,292	22,272
Deferred compensation	(141)	(228)
Retained earnings	10,048	8,453
Accumulated other comprehensive income	1,388	917
Treasury stock at cost - 19,704 shares at September 30, 2006, and 14,801 shares at December 31, 2005	(112)	(80)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>33,479</b>	<b>31,338</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 39,994</b>	<b>\$ 45,050</b>

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, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Net sales	\$ 12,988	\$ 14,272	\$ 37,040	\$ 40,221
Cost of goods sold	<u>6,565</u>	<u>7,302</u>	<u>18,739</u>	<u>20,736</u>
Gross profit	6,423	6,970	18,301	19,485
Operating expenses:				
Research and development	1,145	1,134	3,634	3,503
Selling, general and administrative	3,933	4,230	12,048	12,958
Amortization of intangibles	<u>13</u>	<u>26</u>	<u>40</u>	<u>86</u>
Income from operations	1,332	1,580	2,579	2,938
Other (income) expenses:				
Interest income	(46)	(92)	(122)	(134)
Interest expense	20	60	139	199
Minority interest of consolidated subsidiaries	1	5	(5)	(33)
Other income	<u>(91)</u>	<u>(8)</u>	<u>(90)</u>	<u>(29)</u>
Income before income taxes	1,448	1,615	2,657	2,935
Income tax expense	<u>581</u>	<u>593</u>	<u>1,062</u>	<u>1,219</u>
Net income	<u>\$ 867</u>	<u>\$ 1,022</u>	<u>\$ 1,595</u>	<u>\$ 1,716</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, 2006**  
(Dollars in Thousands, Except Share Amounts)  
(Unaudited)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock		Total
	Number of Shares	Amount					Number of Shares	Amount	
Balance at January 1, 2006	4,109,489	\$ 4	\$ 22,272	\$ (228)	\$ 8,453	\$ 917	14,801	\$ (80)	\$ 31,338
Tax benefit from vesting of restricted stock grants	-	-	20	-	-	-	-	-	20
Deferred compensation amortization	-	-	-	87	-	-	-	-	87
Treasury stock	-	-	-	-	-	-	4,903	(32)	(32)
Comprehensive income:									
Net income	-	-	-	-	1,595	-	-	-	1,595
Translation adjustments	-	-	-	-	-	471	-	-	471
Other comprehensive income									2,066
Balance at September 30, 2006	<u>4,109,489</u>	<u>\$ 4</u>	<u>\$ 22,292</u>	<u>\$ (141)</u>	<u>\$ 10,048</u>	<u>\$ 1,388</u>	<u>19,704</u>	<u>\$ (112)</u>	<u>\$ 33,479</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,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,595	\$ 1,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	484	707
Amortization of intangible assets	40	86
Deferred compensation amortization	87	82
Provision for doubtful accounts	-	(9)
Utilization of pre-acquisition NOL charged to goodwill	57	57
Deferred income taxes	(377)	(536)
Loss on disposal of equipment and leasehold improvements	13	41
Minority interest	(5)	(33)
Change in operating assets and liabilities:		
Receivables	4,259	2,019
Inventories	1,103	(1,527)
Prepaid expenses and other current assets	30	(2)
Accounts payable and accrued expenses	(777)	(1,643)
Other	(19)	15
Net cash provided by operating activities	6,490	973
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment and leasehold improvements	(333)	(589)
Proceeds from sale of equipment and leasehold improvements	-	8
Net cash used in investing activities	(333)	(581)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
Cost of subsidiary common shares repurchased and retired	-	(42)
Purchases of treasury stock	(32)	(20)
Dividends paid	(2,047)	-
Principal payments of long-term debt	(3,750)	(1,125)
Net decrease in borrowings under revolving credit agreements	(826)	(31)
Net cash used in financing activities	(6,655)	(1,218)
Effects of foreign exchange rate on cash	(21)	(374)
DECREASE IN CASH AND CASH EQUIVALENTS	(519)	(1,200)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,376	5,897
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,857	\$ 4,697
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 155	\$ 205
Cash paid for income taxes	1,321	1,090

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 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 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 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.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in Thousands, Except Per Share Amounts)  
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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 segment 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 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, 2006</u>		<u>September 30, 2005</u>	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers	\$10,416	\$2,572	\$10,688	\$ 3,584
Gross profit	4,591	1,832	4,643	2,327
Income (loss) before income taxes	1,695	(223)	1,541	95

**Nine Months Ended**

	<u>September 30, 2006</u>		<u>September 30, 2005</u>	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers	\$29,231	\$7,809	\$29,702	\$10,519
Gross profit	12,929	5,372	13,154	6,331
Income (loss) before income taxes	3,752	(1,070)	3,783	(707)

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Total income before income				
Taxes for reportable segments	\$1,472	\$1,636	\$2,682	\$3,076
Other corporate expenses	(24)	(21)	(25)	(141)
Income before income taxes	<u>\$1,448</u>	<u>\$1,615</u>	<u>\$2,657</u>	<u>\$2,935</u>

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5. **Inventories**

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

	<b>September 30, <u>2006</u></b>	<b>December 31, <u>2005</u></b>
Raw materials and supplies	\$1,257	\$1,291
Work in progress	350	290
Finished goods	<u>5,410</u>	<u>6,428</u>
	<u>\$7,017</u>	<u>\$8,009</u>

6. **Goodwill and Intangible Assets**

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized but rather tested for impairment annually. In accordance with the provisions of SFAS No. 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, 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 September 30, 2006:

	<b><u>Domestic</u></b>	<b><u>Foreign</u></b>	<b><u>Total</u></b>
Balance at December 31, 2005	\$9,945	\$5,046	\$14,991
Utilization of pre-acquisition NOL's charged to goodwill	0	(57)	(57)
Foreign currency translation adjustments	<u>0</u>	<u>70</u>	<u>70</u>
Balance at September 30, 2006	<u>\$9,945</u>	<u>\$5,059</u>	<u>\$15,004</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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The following disclosure presents certain information on the Company's acquired intangible assets as of September 30, 2006, and December 31, 2005. 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>
<b>At September 30, 2006:</b>				
Patents	10 years	\$ 26	\$ (18)	\$ 8
Trademarks	15 years	662	(378)	284
Deferred Financing	5.5 years	<u>54</u>	<u>(34)</u>	<u>20</u>
		<u>\$742</u>	<u>\$(430)</u>	<u>\$312</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>
<b>At December 31, 2005:</b>				
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 expense was \$13 and \$26, respectively, for the three months ended September 30, 2006 and 2005, and \$40 and \$86, respectively, for the nine months ended September 30, 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

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 included 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 bore interest at either Key's rate or, at the borrower's option, LIBOR plus from 150 to 275 basis points. The term loan called for repayments in equal quarterly installments of \$375, beginning July 1, 2004. The annual scheduled repayment amounts were \$750 in 2004, \$1,500 per year in 2005, 2006, 2007, and 2008, and \$750 in 2009. The Company, at its option, could also make additional repayments. In 2004, the Company exercised this option and made payments totaling \$1,500. On July 31, 2006, the Company paid off the remaining loan balance of \$3,000,000.

As of September 30, 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 \$873 was utilized at September 30, 2006. At September 30, 2006, and December 31, 2005, the Company had \$0 and \$3,750, respectively, of long-term debt, including current maturities, outstanding under the Facility.

Effective September 29, 2006, the Facility's working capital line of credit was increased to \$10,000,000, the expiration date was extended to June 30, 2007, the financial covenants requirements were eliminated, and the interest rate terms were reduced to either Prime or LIBOR plus 150 basis points.

Speech Design and its subsidiaries have continuously renewing credit lines and overdraft facilities of approximately 1,229 Euros (approximately \$1,559 at September 30, 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 September 30, 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>September 30,</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>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 and nine months ended September 30, 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, the Company sold 2% of SDI to a venture capital subsidiary of Deutsche Telekom AG (“DT”). The subsidiary 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 the subsidiary from DT and renamed it Cipio Partners Holding 1 GmbH (CPH1).

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 Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which replaced SFAS No. 123 and superseded 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 are no longer 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 did not grant any stock options in 2005 or in the first nine months of 2006.

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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 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*.

Had the Company elected to recognize compensation cost based on the fair value of the stock options at the date of grant under SFAS No. 123, such costs would have been recognized ratably over the vesting period of the underlying instruments and the Company's net income would have changed to the pro forma amounts indicated in the table below.

	<b>Three Months Ended September 30, 2005</b>	<b>Nine Months Ended September 30, 2005</b>
Net income, as reported	\$1,022	\$1,716
<b>Add:</b> Stock-based employee compensation expense included in reported net income, net of tax	15	51
<b>Deduct:</b> Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax	<u>(13)</u>	<u>(77)</u>
Pro forma net income	<u>\$1,024</u>	<u>\$1,690</u>

In June 2006, the Company acquired all outstanding stock options that had previously been granted to employees in an option-for-cash exchange. Option holders were offered the difference between an option's per-share exercise price and \$8.00, the fair value as determined by the Company's Board of Directors and Management. In total, 83,900 options were exchanged for an aggregate value of approximately \$183,000. Approximately \$87,000 was paid in July 2006. The remainder will be paid equally in July 2007 and 2008, contingent on the individual employee's continued employment.

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, 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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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 end of 2006.