

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007, 2006 and 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Bogen Communications International, Inc.

We have audited the consolidated balance sheets of Bogen Communications International, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, applying the modified-prospective method.

As discussed in Notes 2 and 8 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Interpretation ("FIN") 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of Financial Accounting Standards No. 109*.

/s/ Amper, Politziner & Mattia, P.C.

March 13, 2008
Edison, New Jersey

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Dollars in Thousands, Except Share Amounts)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,470	\$ 6,192
Trade receivables (net of allowance for doubtful accounts of \$250 and \$242 at December 31, 2007 and 2006, respectively)	7,173	7,875
Other receivables	37	2
Inventories	6,371	6,539
Prepaid expenses and other current assets	607	655
Current deferred income taxes	2,180	2,508
TOTAL CURRENT ASSETS	23,838	23,771
Equipment, furniture, and leasehold improvements, net	1,651	1,532
Goodwill	15,080	15,028
Other intangible assets, net	246	299
Deferred income taxes	-	46
Receivables from related parties	700	700
Other assets	143	143
TOTAL ASSETS	\$ 41,658	\$ 41,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,713	\$ 1,836
Accrued expenses	3,809	3,384
Dividends payable	2,042	4,090
Income taxes payable	197	79
TOTAL CURRENT LIABILITIES	8,761	9,389
Deferred income taxes	94	-
Minority interest	285	268
Other long-term liabilities	386	414
TOTAL LIABILITIES	9,526	10,071
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized at December 31, 2007 and 2006; none issued and outstanding at December 31, 2007 or 2006	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at December 31, 2007 and 2006; 4,109,489 shares issued and 4,084,828 shares outstanding at December 31, 2007, and 4,109,489 shares issued and 4,089,785 shares outstanding at December 31, 2006	4	4
Additional paid-in-capital	22,280	22,182
Retained earnings	7,152	7,602
Accumulated other comprehensive income	2,842	1,772
Treasury stock at cost - 24,661 shares at December 31, 2007, and 19,704 shares at December 31, 2006	(146)	(112)
TOTAL STOCKHOLDERS' EQUITY	32,132	31,448
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 41,658	\$ 41,519

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, and 2005
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales	\$ 55,065	\$ 50,772	\$ 56,023
Cost of goods sold	<u>27,298</u>	<u>24,818</u>	<u>27,422</u>
Gross profit	27,767	25,954	28,601
Operating expenses:			
Research and development	5,445	4,931	4,797
Selling, general and administrative	19,418	15,954	16,949
Amortization of intangibles	53	53	100
Union pension fund withdrawals	-	-	-
Income from operations	<u>2,851</u>	<u>5,016</u>	<u>6,755</u>
Other (income) expenses:			
Interest income	(151)	(107)	(172)
Interest expense	22	149	270
Minority interest of consolidated subsidiaries	17	26	(58)
Other income	<u>(21)</u>	<u>(100)</u>	<u>2</u>
Income before income taxes	2,984	5,048	6,713
Income tax expense	<u>1,392</u>	<u>1,809</u>	<u>2,460</u>
Net income	<u>\$ 1,592</u>	<u>\$ 3,239</u>	<u>\$ 4,253</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, and 2005
(Dollars in Thousands, Except Share Amounts)

	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, 2005	4,104,489	\$ 4	\$ 22,247	\$ (326)	\$ 6,350	\$ 2,359	10,357	\$ (60)	\$ 30,574
Employee restricted stock grants	5,000	-	20	(20)	-	-	-	-	-
Subsidiary stock dividend					(61)	-	-	-	(61)
Subsidiary common stock repurchase and retirement	-	-	-	-	(41)	-	-	-	(41)
Tax benefit from vesting of restricted stock grants	-	-	5	-	-	-	-	-	5
Common stock dividend	-	-	-	-	(2,048)	-	-	-	(2,048)
Deferred compensation amortization	-	-	-	118	-	-	-	-	118
Treasury stock	-	-	-	-	-	-	4,444	(20)	(20)
Comprehensive income:									
Net income	-	-	-	-	4,253	-	-	-	4,253
Translation adjustments	-	-	-	-	-	(1,442)	-	-	(1,442)
Other comprehensive income									2,811
Balance at December 31, 2005	4,109,489	\$ 4	\$ 22,272	\$ (228)	\$ 8,453	\$ 917	14,801	\$ (80)	\$ 31,338
Stock-based compensation	-	-	117	-	-	-	-	-	117
Tax benefit from vesting of restricted stock grants	-	-	21	-	-	-	-	-	21
Adoption of SFAS No. 123(R)	-	-	(228)	228	-	-	-	-	-
Common stock dividend	-	-	-	-	(4,090)	-	-	-	(4,090)
Treasury stock	-	-	-	-	-	-	4,903	(32)	(32)
Comprehensive income:									
Net income	-	-	-	-	3,239	-	-	-	3,239
Translation adjustments	-	-	-	-	-	855	-	-	855
Other comprehensive income									4,094
Balance at December 31, 2006	4,109,489	\$ 4	\$ 22,182	\$ -	\$ 7,602	\$ 1,772	19,704	\$ (112)	\$ 31,448
Stock-based compensation	-	-	78	-	-	-	-	-	78
Tax benefit from vesting of restricted stock grants	-	-	20	-	-	-	-	-	20
Common stock dividend	-	-	-	-	(2,042)	-	-	-	(2,042)
Treasury stock	-	-	-	-	-	-	4,957	(34)	(34)
Comprehensive income:									
Net income	-	-	-	-	1,592	-	-	-	1,592
Translation adjustments	-	-	-	-	-	1,070	-	-	1,070
Other comprehensive income									2,662
Balance at December 31, 2007	4,109,489	\$ 4	\$ 22,280	\$ -	\$ 7,152	\$ 2,842	24,661	\$ (146)	\$ 32,132

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, and 2005
(Dollars in Thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 1,592	\$ 3,239	\$ 4,253
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	729	643	912
Amortization of intangible assets	53	53	100
Deferred compensation amortization	-	-	118
Stock-based compensation	78	117	-
Provision for doubtful accounts	7	-	35
Utilization of pre-acquisition NOL charged to goodwill	76	76	76
Deferred income taxes	596	568	1,013
(Gain)/Loss on disposal of equipment	(2)	17	127
Minority interest	17	26	(58)
Change in operating assets and liabilities:			
Receivables	1,134	2,076	(426)
Inventories	308	1,629	(936)
Prepaid expenses and other current assets	84	(22)	(79)
Accounts payable and accrued expenses	1,209	(1,428)	(2,593)
Other	(28)	(12)	16
Net cash provided by operating activities	<u>5,853</u>	<u>6,982</u>	<u>2,558</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment, furniture, and leasehold improvements	(768)	(514)	(791)
Proceeds from sale of equipment	11	-	8
Net cash used in investing activities	<u>(757)</u>	<u>(514)</u>	<u>(783)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Cost of subsidiary common shares repurchased and retired	-	-	(42)
Purchases of treasury stock	(33)	(32)	(20)
Dividends paid	(4,090)	(2,047)	(61)
Principal payments of long-term debt	-	(3,750)	(1,500)
Net decrease in borrowings under revolving credit agreements	-	(835)	746
Net cash used in financing activities	<u>(4,123)</u>	<u>(6,664)</u>	<u>(877)</u>
Effects of foreign exchange rate on cash	<u>305</u>	<u>12</u>	<u>(419)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,278	(184)	479
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,192</u>	<u>6,376</u>	<u>5,897</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 7,470</u>	<u>\$ 6,192</u>	<u>\$ 6,376</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	\$ 36	\$ 171	\$ 330
Cash paid for income taxes	705	2,004	1,903

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands of Dollars, Except 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 and Switzerland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 mbH ("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.

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.

CONCENTRATIONS OF CREDIT RISK

The Company maintains cash balances at two financial institutions with locations throughout the northeast United States. The balances at each institution are each insured up to \$100 by the Federal Deposit Insurance Corporation. At December 31, 2007, the Company's uninsured cash balances total \$3,624.

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 business channel 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 distribution channel. 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.

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

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, FURNITURE, AND LEASEHOLD IMPROVEMENTS

Equipment, furniture, and leasehold improvements are recorded at cost, less accumulated depreciation and amortization. Depreciation of equipment and furniture is provided using the straight-line method over the estimated useful lives of the related assets. 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 and hardware 3-5 years
- Leasehold improvements lesser of 10 years or remainder of 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 is tested at the end of each fiscal year, or as circumstances dictate, for impairment, pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Accounting for Goodwill and Other Intangible Assets*. The Company has determined that it operates two reporting units for purposes of evaluating goodwill, and as such, impairment is tested at the reporting unit's level. During fiscal years 2007 and 2006, the Company completed goodwill impairment tests prescribed by SFAS No. 142 and concluded that no impairment of goodwill existed. The Company has approximately \$15,080 of goodwill as of December 31, 2007, which is subject to the provisions of SFAS No. 142. The Company's reporting units are the same as its reported segments - domestic and foreign.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews long-lived assets, on an individual basis, for impairment when circumstances indicate that the carrying amount of an asset may not be recoverable. Such review analyzes the undiscounted estimated future cash flows from such assets to determine if the carrying values of those assets are recoverable from their respective cash flows. If impairment is indicated, it is measured by comparing the discounted cash flows for the long-lived asset to its carrying value. During fiscal years 2007 and 2006, the Company did not record any impairment charges.

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

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 or 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.

Additionally, 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 the Company's 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 the Company's revenue for any period if management made different judgments or utilized different estimates. Sales returns and other allowances recorded against revenues amounted to \$102 in 2007, \$108 in 2006, and \$122 in 2005.

The Company recognizes revenues in accordance with EITF Issue No. 00-21, *Multiple Element Arrangements*. For multiple element arrangements, the Company allocates 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. The Company also recognizes 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, the Company recognizes 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.

SEGMENT INFORMATION

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign). (See Note 14.) 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 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 this summary of significant accounting policies. The Company evaluates segment performance based on several measures, including income or loss before income taxes.

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

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.

Effective January 1, 2007, the Company adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – An Interpretation of SFAS No. 109* (FIN 48). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than fifty percent likely to be realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, and other matters. The Company's adoption did not have an effect on the consolidated financial statements.

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 \$3,985 and \$4,165 at December 31, 2007 and 2006, respectively.

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 service annually.

STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). The Company has selected the Black-Scholes method of valuation for share-based compensation and has adopted the modified prospective transition method under SFAS No. 123(R), which requires that compensation cost be recorded, as earned, for all unvested stock options outstanding at the beginning of the year of adoption of SFAS No. 123(R). As permitted by SFAS No. 123(R), prior periods have not been restated. The charge is generally recognized as non-cash

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

compensation on a straight-line basis over the remaining service period after the adoption date based on the option's original estimated fair value.

Prior to the adoption of SFAS No. 123(R), the Company applied the intrinsic-value-based method of accounting prescribed by APB 25 and related interpretations to account for its fixed plan stock options granted to employees and directors and for the restricted stock grants. Under this method, compensation costs were recorded only if the market price of the underlying stock on the date of the grant 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. As permitted by SFAS No. 123, 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. The fair-value-based method used to determine historical pro forma amounts under SFAS No. 123 was similar in most respects to the method used to determine stock-based compensation under SFAS No. 123(R).

However, in its pro forma disclosures, the Company accounted for option forfeitures as they occurred, rather than based on estimates of future forfeitures.

In connection with the adoption and provisions of SFAS No. 123(R), the Company reversed the deferred compensation balance of \$228 related to the unvested portion of restricted stock issued to employees at January 1, 2006, against Paid-in-Capital. This expense is now superseded by the share-based compensation expense, which is recorded over the vesting period of the restricted stock.

The following table illustrates the pro forma effect on the Company's net income. 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:

	<u>2005</u>
Net income as reported	\$4,253
Add: Stock-based compensation expense included in reported net income, net of related tax effects	67
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of related tax effects	<u>(91)</u>
Pro forma net income	<u>\$4,229</u>

The fair value of each stock option is estimated on the date of grant using the Black-Scholes option-pricing calculation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

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

The following table outlines the assumptions used in the Black-Scholes model.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Dividend yield	0.00%	0.00%	0.00%
Risk-free interest rate	3.75%	4.34%	4.36%
Expected option life in years	7.50	7.50	7.50
Expected volatility	48.50%	52.45%	56.98%

The weighted-average fair value of the options issued was \$3.72, \$3.97, and \$3.33 for the years ended December 31, 2007, 2006, and 2005, 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 allowance for doubtful accounts, the allowance for sale returns, product warranty reserves, provision for slow-moving inventory, and the evaluation of the recoverability of goodwill, intangible assets, equipment, furniture, 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.

TRANSLATION OF FOREIGN CURRENCIES

Foreign currency-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. Adjustments that arise from the translation of subsidiary financial statements denominated in foreign currency into U.S. Dollars are accumulated as 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 when incurred.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

The recorded amounts of cash and cash equivalents, trade and other receivables, accounts payable, accrued expenses, and revolving credit agreements approximate fair value due to the short-term maturities of these assets and liabilities. Long-term debt, including current maturities, under the Company's credit facility with KeyBank National Association (see Note 6) 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.

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.

3. INVENTORIES

Inventories are as follows:

	December 31,	
	<u>2007</u>	<u>2006</u>
Raw materials and supplies	\$ 771	\$1,037
Work in progress	351	310
Finished goods	<u>5,249</u>	<u>5,192</u>
Total inventory	<u>\$6,371</u>	<u>\$6,539</u>

4. EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

Equipment, furniture, and leasehold improvements are comprised of the following items:

	December 31,	
	<u>2007</u>	<u>2006</u>
Machinery, equipment, vehicles, and tooling	\$ 5,987	\$ 5,561
Furniture and office equipment	7,615	7,051
Leasehold improvements	<u>672</u>	<u>626</u>
Equipment, furniture, and leasehold improvements, at cost	14,274	13,238
Less: accumulated depreciation and amortization	<u>(12,623)</u>	<u>(11,706)</u>
Net equipment, furniture, and leasehold improvements	<u>\$ 1,651</u>	<u>\$ 1,532</u>

Depreciation and amortization expense was \$729, \$643, and \$912 for the years ended December 31, 2007, 2006, and 2005, respectively.

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5. GOODWILL AND INTANGIBLE ASSETS

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 its 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 the Company's financial position and results of operations in the event that such estimates significantly change.

Estimated future cash flows, which are based upon historical results and current projections, are discounted at a rate corresponding to a "market" rate. If the carrying amount of the reporting unit exceeds the estimated fair value determined through that discounted cash flow methodology, goodwill impairment may be present. The Company would measure the goodwill impairment loss based upon the fair value of the underlying assets and liabilities of the reporting unit, including any unrecognized intangible assets, and estimate the implied fair value of goodwill. An impairment loss would be recognized to the extent that a reporting unit's recorded goodwill exceeded the implied fair value of goodwill.

The Company performed its annual impairment test as of December 31, 2007, upon completion and approval of the Company's financial operating plan for 2008. The impairment test indicated that no goodwill impairment existed as of that date. The Company cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the Company's customer base, or a material negative change in its relationships with significant customers.

Goodwill totaling \$15,080 at December 31, 2007, is allocated to its Domestic and Foreign segments. The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period from January 1, 2006, to December 31, 2007:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Balance at January 1, 2006	\$9,945	\$5,046	\$14,991
Utilization of pre-acquisition NOLs charged to goodwill	0	(76)	(76)
Foreign currency translation adjustments	<u>0</u>	<u>113</u>	<u>113</u>
Balance at December 31, 2006	\$9,945	\$5,083	\$15,028
Utilization of pre-acquisition NOLs charged to goodwill	0	(76)	(76)
Foreign currency translation adjustments	<u>0</u>	<u>128</u>	<u>128</u>
Balance at December 31, 2007	<u>\$9,945</u>	<u>\$5,135</u>	<u>\$15,080</u>

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The following tables present certain information on the Company's acquired intangible assets as of December 31, 2007 and 2006. 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, 2007				
Amortized acquired intangible assets:				
Patents	10 years	\$ 26	\$ (21)	\$ 5
Trademarks	15 years	662	(432)	230
Deferred Financing	5.5 years	<u>54</u>	<u>(43)</u>	<u>11</u>
		<u>\$742</u>	<u>\$(496)</u>	<u>\$246</u>
At December 31, 2006				
Amortized acquired intangible assets:				
Patents	10 years	\$ 26	\$ (18)	\$ 8
Trademarks	15 years	662	(389)	273
Deferred Financing	5.5 years	<u>54</u>	<u>(36)</u>	<u>18</u>
		<u>\$742</u>	<u>\$(443)</u>	<u>\$299</u>

The aggregate acquired intangible amortization expense for the years ended December 31, 2007, 2006, and 2005, was approximately \$53, \$53, and \$100, respectively. The estimated acquired intangible asset amortization expense for the fiscal year ended December 31, 2008, and for the four subsequent years is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2008	\$53
2009	\$49
2010	\$43
2011	\$42
2012	\$42

6. REVOLVING CREDIT AGREEMENTS

The Company and BCI entered into a credit facility (the "Facility") with KeyBank National Association (Key") in December 2003. The Facility originally included a term loan for \$7,500 and a working capital line of credit for \$2,500. 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.

As of December 31, 2007 and 2006, the Company had no long-term debt, including current maturities, outstanding under the Facility. The term loan had called for equal, quarterly payments from July 2004 to April 2009 and allowed additional payments. In July 2006, the Company paid off the outstanding balance using available cash.

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As of December 31, 2007 and 2006, the Company had no short-term borrowings under the Facility's working capital line of credit. BCI has a conditional letter of credit with Key, which is included in the working capital line and is renewable every six months. Approximately \$350 was utilized at December 31, 2007. Effective September 29, 2006, the Facility's working capital line of credit was increased to \$10,000 and the financial covenant requirements were eliminated, and the interest rate terms were reduced to either Prime or Libor plus 150 basis points. Effective June 20, 2007, the expiration date was extended to June 30, 2008.

Speech Design and its subsidiaries have continuously renewing credit lines and overdraft facilities of approximately 1,332 Euros (approximately \$1,962 at December 31, 2007) from five banks. At December 31, 2007 and 2006, Speech Design had no short-term borrowings. The total amount available under Speech Design's credit lines was approximately \$1,962 at December 31, 2007, with rates tied to short-term bank notes and Euromarket loans. At December 31, 2007, these rates ranged from 8.75% to 15%.

As of December 31, 2007 and 2006, the Company had no outstanding balances, either Domestic or Foreign, on its revolving lines of credit.

7. LEASES

The Company occupies its plant and office facilities and operates certain equipment and vehicles under operating leases expiring at various dates through 2011. 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.

Future minimum annual lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2007, are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	<u>OPERATING LEASES</u>
2008	\$1,493
2009	1,174
2010	916
2011	<u>1</u>
Total minimum lease payments	<u>\$3,584</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 \$84 and \$112 at December 31, 2007 and 2006, respectively.

Rent expense charged to operations totaled approximately \$1,691, \$1,525, and \$1,589 for the years ended December 31, 2007, 2006, and 2005, respectively.

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8. INCOME TAXES

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

	Year Ended December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Domestic U.S. operations	\$2,837	\$4,290	\$4,675
Foreign operations	<u>147</u>	<u>758</u>	<u>2,038</u>
Total	<u>\$2,984</u>	<u>\$5,048</u>	<u>\$6,713</u>

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

	Year Ended December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current income tax	\$1,263	\$1,779	\$1,667
Utilization of acquired tax benefits credited to goodwill	76	76	76
Deferred income tax expense (benefit)	<u>53</u>	<u>(46)</u>	<u>717</u>
Total income tax expense	<u>\$1,392</u>	<u>\$1,809</u>	<u>\$2,460</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>2007</u>	<u>2006</u>	<u>2005</u>
Computed "expected" tax expense	\$1,014	\$1,716	\$2,283
State tax expense, net of Federal benefit	119	144	144
Non-deductible expenses	22	(982)	(884)
NOL utilization	196	(107)	(107)
Foreign taxes greater (less) than U.S. taxes	13	997	1,271
Adjustments for prior-year taxes	(89)	(114)	(388)
Other	<u>117</u>	<u>155</u>	<u>141</u>
Income tax expense as reported	<u>\$1,392</u>	<u>\$1,809</u>	<u>\$2,460</u>

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

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Foreign loss carryforwards	\$1,379	\$1,385
Domestic loss carryforwards	14	121
Accounts receivable	163	159
Inventory	857	888
Intangibles	313	354
Pension fund	116	114
Deferred rent	32	42
Employee compensation	25	45
Other accrued liabilities	<u>81</u>	<u>76</u>
Total deferred tax assets	2,980	3,184
Less: valuation allowances	<u>(325)</u>	<u>0</u>
Net deferred tax assets	<u>\$2,655</u>	<u>\$3,184</u>
Deferred tax liabilities:		
Equipment	\$ 155	\$ 140
Goodwill	<u>414</u>	<u>490</u>
Total deferred tax liabilities	<u>569</u>	<u>630</u>
Total net deferred tax assets	<u>\$2,086</u>	<u>\$2,554</u>

The Company has net operating loss ("NOL") carryforwards of approximately \$40 for U.S. Federal tax purposes as of December 31, 2007, which expire between the years 2008 through 2011. Under Section 381 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.

The Company has foreign loss carryforwards of approximately €2,678 (approximately \$3,944) as of December 31, 2007. Approximately \$3,706 of these foreign loss carryforwards have indefinite useful lives.

The Company has established a valuation allowance of €220 (\$325 as of December 31, 2007) covering certain deferred tax assets related to foreign net operating loss carryforwards. The Company did not have valuation allowances covering any of its deferred tax assets at December 31, 2006. 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. 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 that the Company will realize the benefits of these deductible differences. 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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On December 22, 2005, the Company's German subsidiary, Speech Design, sent €2,800 (approximately \$3,343 at that time) to its U.S. parent, SDI. For accounting purposes, the transaction was treated as a return of capital with no effect on the consolidated entity. For tax purposes, the Company is treating the monies received as a dividend under Section 965 of the Internal Revenue Code (the "IRC") as part of the American Jobs Creation Act of 2004. Section 965 allows taxpayers to elect a one-time 85% dividends-received deduction from controlled foreign corporations (as defined in Section 957 of the IRC) if those dividends are reinvested in the United States pursuant to a qualified domestic reinvestment plan (the "Plan"). The Plan must describe the investment with reasonable detail and specificity, including the total dollar amount expected to be incurred for each specific principal investment and the time period during which the investments will be completed. The Board of Directors of the Company, SDI's parent, approved the Plan in a resolution passed in early December 2005. The Plan anticipated expending the repatriated funds on capital investments in computer hardware and software, tooling, dies, and molds, and other equipment, research and development of new products and updates of existing products, and debt repayment.

Effective January 1, 2007, the Company adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (FIN 48)*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, and other matters. The adoption did not have any effect on the Company's financials statements. There is no liability related to unrecognized tax benefits at December 31, 2007, and therefore no effect on the effective tax rate.

9. ACCRUED EXPENSES

Accrued expenses at December 31, 2007 and 2006, were:

	<u>2007</u>	<u>2006</u>
Accrued salaries and benefits	\$1,502	\$1,296
Rebates and commissions	667	508
Legal and other professional fees	623	445
Sales and other taxes	314	590
Customer advance payments	107	16
All other	<u>596</u>	<u>529</u>
Total accrued expenses	<u>\$3,809</u>	<u>\$3,384</u>

10. 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).

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11. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company is authorized to issue 800,000 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

In April 2002, certain key employees and directors 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 received 5,000 restricted shares of common stock, which vest ratably over five years.

The total compensation expense associated with these restricted stock grants was \$118, \$116, and \$62 in 2005, 2006, and 2007, respectively and is expected to be \$42, \$7, and \$1 for the years 2008 through 2010.

In November 2004, the Company issued a total of 683,905 shares of common stock to five members of the Board of Directors. The per-share was established at \$2.75, which was set by an independent valuation and approved by a special committee of the Board. The shares vested immediately, and the Company recorded compensation expense of approximately \$1,881. In a related matter, the Company has secured loans totaling \$781 with the five directors for payroll and other taxes associate with the stock compensation. The loans incur interest annually, which are due on each anniversary, and are payable in full on November 16, 2013. Interest income related to these loans was \$31 in 2005 and \$29 in both 2006 and 2007.

12. 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 has also granted additional stock options to individuals outside of the Plan.

Pursuant to the issuance in November 2004 of common stock to certain directors (see Note 11), the Company cancelled all remaining unexercised stock options, totaling 1,189,522, granted to those directors.

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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. Approximately \$87 was paid in July 2006. Another \$48 was paid in July 2007. The balance will be paid in July 2008, contingent on the individual employee's continued employment.

In November 2006, the Company granted 20,000 stock options to a key employee. The per-share fair value of the options granted was \$3.97 and the options vest ratably over five years. These options have an exercise price of \$6.60, a remaining contractual life of 8.88 years, and 4,000 were exercisable at December 31, 2007. At December 31, 2007, these were the only options outstanding. At December 31, 2007, there were 1,212,020 options available for future grants under the terms of the Plan.

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 January 1, 2005	1,135,820	101,200	<u>97,190</u>		\$5.81
Restricted stock issuance	(5,000)			-	-
Forfeited	<u>17,900</u>	<u>(17,900)</u>		\$5.500-\$5.875	\$5.74
Outstanding at December 31, 2005	1,148,720	83,300	<u>97,190</u>		\$5.81
Granted	(20,000)	20,000		\$6.60	\$6.60
Retroactive issuance	(1,000)	1,000		\$5.50	\$5.50
Forfeited	400	(400)		\$5.625-\$5.812	\$5.72
Cancelled	<u>83,900</u>	<u>(83,900)</u>		\$3.980-\$7.625	\$5.82
Outstanding at December 31, 2006	1,212,020	20,000	<u>0</u>		\$6.60
Granted	0				N.A.
Forfeited	<u>0</u>				N.A.
Outstanding at December 31, 2007	<u>1,212,020</u>	<u>20,000</u>	<u>4,000</u>		\$6.60

13. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT CONTRACTS

The Company has entered into employment contracts with several officers of the Company and its subsidiaries. The employment contracts of the Chief Executive Officer and the President of the Company both expire in November 2008. The management agreements with the two Managing Directors of Speech Design expire in December 2008. The management agreements with the two managing directors at Speech Design's subsidiary, Carrier Systems, expire in December 2011. Compensation accrues to the officers over the term of the contract as their respective services are provided. Such amounts total \$1,574 in 2008, \$505 in 2009, \$528 in 2010, and \$553 in 2011.

LABOR AGREEMENTS

At December 31, 2007, approximately 7% of the Company's 175 employees work under collective bargaining agreements with various unions. These labor agreements expire on various dates in 2009.

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LITIGATION

The Company's wholly-owned subsidiary, BCI, has been sued by a former contractor, Tri-Signal Integration, Inc., filed on July 18, 2006, in Los Angeles County Superior Court, case number BC355591, relating to BCI's termination of their contractor agreement. The suit alleges multiple causes of action for breach of contract and various torts, and seeks an award of compensatory and punitive damages. BCI has filed a Cross-Complaint, also alleging multiple causes of action for breach of contract and various torts, and seeks an award of compensatory and punitive damages. BCI believes the case against it is without merit and is vigorously defending the case, which is still in the discovery and law and motion phase. The Company is unable to predict with any certainty the outcome of the case.

The Company is party, from time to time in the ordinary course of business, to various legal actions and claims (in addition to that described above) that relate to its products, intellectual property, employee matters, or other aspects of its operations. In addition, 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. The Company is unable to predict when these cases may arise, the outcome of any litigation related to them and/or the amount of damages that may be awarded in these types of cases.

14. SEGMENTS

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

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

	<u>BOGEN</u>	<u>SPEECH DESIGN</u>
2007:		
Revenue from external customers.....	\$40,783	\$14,282
Gross Profit.....	17,218	10,549
Depreciation and amortization.....	317	465
Operating profit.....	2,752	97
Total assets.....	23,413	18,211
Expenditures for segment assets.....	226	542
2006:		
Revenue from external customers.....	\$37,813	\$12,959
Gross Profit.....	16,424	9,530
Depreciation and amortization.....	369	327
Operating profit.....	4,314	659
Total assets.....	24,857	16,622
Expenditures for segment assets.....	145	369
2005:		
Revenue from external customers.....	\$38,356	\$17,667
Gross Profit.....	16,788	11,813
Depreciation and amortization.....	430	582
Operating profit.....	4,962	1,949
Total assets.....	25,777	15,958
Expenditures for segment assets.....	399	392

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating profit			
Total operating profit for reportable segments.....	\$2,849	\$ 4,973	\$6,911
Other corporate income (expenses).....	<u>2</u>	<u>43</u>	<u>(156)</u>
Operating profit	<u>\$2,851</u>	<u>\$5,016</u>	<u>\$6,755</u>
Assets			
Total assets for reportable segments.....	\$41,624	\$41,479	\$41,735
Other unallocated amounts.....	<u>34</u>	<u>40</u>	<u>3,315</u>
Consolidated total.....	<u>\$41,658</u>	<u>\$41,519</u>	<u>\$45,050</u>

15. ECONOMIC CONCENTRATION

In 2007, Speech Design had revenues of \$6,230 from one customer, accounting for more than 10% of consolidated net sales. Bogen had revenues of \$5,573 from one customer, accounting for more than 10% of consolidated net sales. The Company's receivables from these two customers comprised approximately 15% and 8%, respectively, of consolidated trade receivables.

In 2006, Speech Design had revenues of \$5,875 from one customer, accounting for more than 10% of consolidated net sales. Bogen had revenues of \$5,767 from one customer, accounting for more than 10% of consolidated net sales.

In 2005, Speech Design had revenues of \$13,369 from two customers, each one individually accounting for more than 10% of consolidated net sales. Bogen had no customers that individually accounted for more than 10% of consolidated net sales.

In 2007, Bogen made purchases of \$5,630 from one vendor, accounting for more than 10% of consolidated net purchases. Speech Design had no vendor that individually accounted for more than 10% of consolidated net purchases.

In 2006, Bogen made purchases of \$4,866 from one vendor, accounting for more than 10% of consolidated net purchases. Speech Design had no vendor that individually accounted for more than 10% of consolidated net purchases.

In 2005, Bogen made purchases of \$5,057 from one vendor, accounting for more than 10% of consolidated net purchases. Speech Design had no vendor that individually accounted for more than 10% of consolidated net purchases.

16. 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 \$131, \$142, and \$148 for the years ended December 31, 2007, 2006, and 2005, respectively.

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17. UNION PENSION PLANS

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 were less than \$15 during each of the five years prior to 2004. As a result of the withdrawal of other employers from the Plan, Bogen was one of only two remaining contributing employers.

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 had previously advised Bogen that the Plan's funding standard account would be depleted during the fiscal year ending June 30, 2007.

Effective June 1, 2004, Bogen 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 is subject to a withdrawal liability imposed by ERISA. In 2005, the Plan's Fund Manager informed Bogen that its total withdrawal liability is approximately \$1,311, payable in equal monthly installments totaling \$15 annually over the next 86 years, beginning on September 15, 2005.

In June 2004, Bogen calculated the net present value of the anticipated stream of payments for the withdrawal liability to be approximately \$300. The accrual is recorded on the balance sheet in Other Long-term Liabilities. Bogen believes that this estimate is appropriate based on the withdrawal liability and schedule of payments provided by the Plan.

Teamsters Local 854 Pension Fund

Certain employees of Bogen are participants in the Teamsters Local 854 Pension Fund (the "Fund"). In August 2003, Bogen effected a complete withdrawal from the Fund, in accordance with the Multiemployer Pension Plan Amendments Act of 1980. In 2004, the Fund informed Bogen that its total estimated withdrawal liability was computed to be \$15, payable in ten quarterly installments beginning June 30, 2004. The accrual was recorded on the balance sheet in Other Long term Liabilities. The final payment was made in September 2006.

18. RECENT ACCOUNTING PRONOUNCEMENTS

On December 4, 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R will significantly change accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with only limited exceptions. SFAS No.141R also includes a substantial number of new disclosure requirements. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, a calendar year-end company will be required to record and disclose business combinations following existing GAAP until January 1, 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands of Dollars, Except Share Amounts)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is applicable under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007. Earlier application is permitted provided that the reporting entity has not yet issued financial statements for that fiscal year. The Company adopted the provisions of SFAS No. 157 effective January 1, 2007. There was no impact to its financial statements upon adoption.

In January 2008, The FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* which permits an entity to measure certain financial assets and financial liabilities at fair value. The Statement's objective is to improve financial reporting by allowing entities to reduce volatility in reported earnings, caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting rules. Under SFAS No. 159, entities that elect the Fair Value Option ("FVO") will report unrealized gains and losses in earnings as of each subsequent reporting date. The FVO may be elected on an instrument-by-instrument basis with a few exceptions, as long as it is applied to the instrument in its entirety. The FVO election is irrevocable, unless a new election date occurs. Statement 159 establishes presentation and disclosure requirements to help financial statement users understand the effect of the entity's election on its earnings, but it does not eliminate disclosure requirements of other accounting standards. Assets and liabilities that are measured at fair value must be displayed on the face of the balance sheet. SFAS No.159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Its provisions may be applied to an earlier period (as of the beginning of the fiscal year) only if certain conditions are met.

19. 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. Effective March 30, 2004, the Company is no longer 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 is also not obligated to mail an annual report to its stockholders.

Furthermore, 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.