

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008, 2007 and 2006

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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, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 9 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, LLP

March 18, 2009
Edison, New Jersey

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 and 2007
(Dollars in Thousands, Except Share Amounts)

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,630	\$ 7,470
Trade receivables (net of allowance for doubtful accounts of \$259 and \$250 at December 31, 2008 and 2007, respectively)	7,728	7,173
Other receivables	47	37
Inventories	6,138	6,371
Prepaid expenses and other current assets	587	607
Current deferred income taxes	1,812	2,180
TOTAL CURRENT ASSETS	22,942	23,838
Equipment, furniture, and leasehold improvements, net	1,793	1,651
Goodwill	14,951	15,080
Other intangible assets, net	193	246
Receivables from related parties	672	700
Other assets	145	143
TOTAL ASSETS	\$ 40,696	\$ 41,658
LIABILITIES, COMMITMENTS, AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,947	\$ 2,713
Accrued expenses	3,744	3,809
Dividends payable	3,062	2,042
Income taxes payable	181	197
TOTAL CURRENT LIABILITIES	8,934	8,761
Deferred income taxes	90	94
Minority interest	296	285
Other long-term liabilities	358	386
TOTAL LIABILITIES	9,678	9,526
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized; none issued and outstanding at December 31, 2008 or 2007	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at December 31, 2008 and 2007; 4,109,489 shares issued and 4,082,474 shares outstanding at December 31, 2008, and 4,109,489 shares issued and 4,084,828 shares outstanding at December 31, 2007	4	4
Additional paid-in-capital	22,342	22,280
Retained earnings	6,439	7,152
Accumulated other comprehensive income	2,392	2,842
Treasury stock at cost - 27,015 shares at December 31, 2008, and 24,661 shares at December 31, 2007	(159)	(146)
TOTAL STOCKHOLDERS' EQUITY	31,018	32,132
TOTAL LIABILITIES, COMMITMENTS, AND STOCKHOLDERS' EQUITY	\$ 40,696	\$ 41,658

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, and 2006
(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net sales	\$ 59,406	\$ 55,065	\$ 50,772
Cost of goods sold	<u>28,517</u>	<u>27,298</u>	<u>24,818</u>
Gross profit	30,889	27,767	25,954
Operating expenses:			
Research and development	6,185	5,445	4,931
Selling, general and administrative	21,322	19,418	15,954
Amortization of intangibles	<u>53</u>	<u>53</u>	<u>53</u>
Income from operations	3,329	2,851	5,016
Other (income) expenses:			
Interest income	(181)	(151)	(107)
Interest expense	22	22	149
Minority interest of consolidated subsidiaries	11	17	26
Other income	<u>(19)</u>	<u>(21)</u>	<u>(100)</u>
Income before income taxes	3,496	2,984	5,048
Income tax expense	<u>1,147</u>	<u>1,392</u>	<u>1,809</u>
Net income	<u>\$ 2,349</u>	<u>\$ 1,592</u>	<u>\$ 3,239</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, 2008, 2007, and 2006
(Dollars in Thousands, Except Share Amounts)

	Common Stock		Additional Paid-In Capital	Deferred Compensation	Retained Earnings	Accumulated	Accumulated	Treasury Stock		
	Number of Shares	Amount				Other Comprehensive Income	Total Comprehensive Income	Number of Shares	Amount	Total
Balance at January 1, 2006	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			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			2,662
Balance at December 31, 2007	4,109,489	\$ 4	\$ 22,280	\$ -	\$ 7,152	\$ 2,842		24,661	\$ (146)	\$ 32,132
Stock-based compensation	-	-	58	-	-	-		-	-	58
Tax benefit from vesting of restricted stock grants	-	-	4	-	-	-		-	-	4
Common stock dividend	-	-	-	-	(3,062)	-		-	-	(3,062)
Treasury stock	-	-	-	-	-	-		2,354	(13)	(13)
Comprehensive income:										
Net income	-	-	-	-	2,349	-	2,349	-	-	
Translation adjustments	-	-	-	-	-	(450)	(450)	-	-	
Total comprehensive income							\$ 1,899			1,899
Balance at December 31, 2008	4,109,489	\$ 4	\$ 22,342	\$ -	\$ 6,439	\$ 2,392		27,015	\$ (159)	\$ 31,018

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, and 2006
(Dollars in Thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,349	\$ 1,592	\$ 3,239
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	778	729	643
Amortization of intangible assets	53	53	53
Stock-based compensation	58	78	117
Provision for doubtful accounts	-	7	-
Utilization of pre-acquisition NOL charged to goodwill	76	76	76
Deferred income taxes	336	596	568
Gain on disposal of equipment	-	(2)	17
Minority interest	11	17	26
Change in operating assets and liabilities:			
Receivables	(768)	1,134	2,076
Inventories	206	308	1,629
Prepaid expenses and other current assets	9	84	(22)
Accounts payable and accrued expenses	(765)	1,209	(1,428)
Other	(30)	(28)	(12)
Net cash provided by operating activities	<u>2,313</u>	<u>5,853</u>	<u>6,982</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of equipment, furniture, and leasehold improvements	(965)	(768)	(514)
Proceeds from sale of equipment	-	11	-
Net cash used in investing activities	<u>(965)</u>	<u>(757)</u>	<u>(514)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Purchases of treasury stock	(13)	(34)	(32)
Dividends paid	(2,042)	(4,090)	(2,047)
Principal payments of long-term debt	-	-	(3,750)
Net increase in borrowings under revolving credit agreements	-	-	(835)
Net cash used in financing activities	<u>(2,055)</u>	<u>(4,124)</u>	<u>(6,664)</u>
Effects of foreign exchange rate on cash	<u>(133)</u>	<u>306</u>	<u>12</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(840)	1,278	(184)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>7,470</u>	<u>6,192</u>	<u>6,376</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 6,630</u>	<u>\$ 7,470</u>	<u>\$ 6,192</u>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest	\$ 37	\$ 36	\$ 171
Cash paid for income taxes	\$ 782	\$ 705	2,004

See accompanying notes to consolidated financial statements.

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 six months or less.

CONCENTRATIONS OF CREDIT RISK

The Company's domestic operations maintain banking relationships at two financial institutions with locations throughout the northeast United States. The balances at each institution are each insured by the Federal Deposit Insurance Corporation. Bogen's overnight investments are not insured. At December 31, 2008 and 2007, those investments totaled \$2,801 and \$2,590, respectively. The Company's foreign operations maintain banking relationships with several financial institutions in Germany and Switzerland. The institutions in Germany are members of the Deposit Protection Fund of the Association of German Banks (Einlagensicherungsfond des Bundesverbandes deutscher Banken e.V.), whose By-laws include the protection of all liabilities which are required to be shown in the balance sheet item "Liabilities to customers", up to a certain protection ceiling established and regularly calculated for each institution. Among these are demand, term and savings deposits, including registered savings certificates. The respective protection ceiling applies for each creditor. Not protected are claims in respect of the institutions have issued bearer instruments, e.g. bearer bonds and bearer certificates of deposit, as well as liabilities to banks. Speech Design's balances are under the protection ceiling and therefore are 100% insured at December 31, 2008.

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

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.

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 2008 and 2007, the Company completed goodwill impairment tests prescribed by SFAS No. 142 and concluded that no impairment of goodwill existed. The Company has approximately \$14,951 of goodwill as of December 31, 2008, 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.

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

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 2008 and 2007, the Company did not record any impairment charges.

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.

The Company also accounts for certain development projects in accordance with Accounting Research Bulletin No. 45 (As Amended), "*Long-term Construction-Type Contracts*", using the Percentage-of-Completion Method, which recognizes income as work on a contract progresses. The Company measures the cost incurred to-date as a percentage of estimated total costs and accrues cumulative revenue as that percentage of the contract price, as adjusted for revenues recognized in prior periods. In such cases, the Company receives confirmation of performance or progress from its customers.

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 \$281 in 2008, \$102 in 2007, and \$108 in 2006.

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.

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

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 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 this summary of significant accounting policies. The Company evaluates segment performance based on several measures, including income or loss before income taxes.

RESEARCH AND DEVELOPMENT

Internal research and development costs are expensed as incurred.

INCOME TAXES

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

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 \$5,026 and \$3,985 at December 31, 2008 and 2007, respectively.

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

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. At December 31, 2008 and 2007, the warranty reserve was \$174 and \$163, respectively.

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

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 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.

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

	<u>2006</u>
Dividend yield	0.00%
Risk-free interest rate	4.34%
Expected option life in years	7.50
Expected volatility	52.45%

The weighted-average fair value of the options issued was \$3.97 for the year ended December 31, 2006. No options were granted in either 2007 or 2008.

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

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, other equipment and telecommunications peripherals, digital voice processing systems, and unified messaging products and services. 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.

FAIR VALUE MEASUREMENTS

On January 1, 2007, the Company adopted the provisions of SFAS No. 157, “*Fair Value Measurements*”, for financial assets and financial liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Company will delay the application of SFAS No. 157 for non-financial assets and non-financial liabilities, except for those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), in accordance with Financial Accounting Standards Board Staff Position (FSP) No. SFAS 157-2, “*Effective Date of FASB Statement No. 157*”, until January 1, 2009.

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

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>2008</u>	<u>2007</u>
Raw materials and supplies	\$ 732	\$ 771
Work in progress	8	351
Finished goods	<u>5,398</u>	<u>5,249</u>
Total inventory	<u>\$6,138</u>	<u>\$6,371</u>

4. EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

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

	December 31,	
	<u>2008</u>	<u>2007</u>
Machinery, equipment, vehicles, and tooling	\$ 6,018	\$ 5,987
Furniture and office equipment	7,861	7,615
Leasehold improvements	<u>685</u>	<u>672</u>
Equipment, furniture, and leasehold improvements, at cost	14,564	14,274
Less: accumulated depreciation and amortization	<u>(12,771)</u>	<u>(12,623)</u>
Net equipment, furniture, and leasehold improvements	<u>\$ 1,793</u>	<u>\$ 1,651</u>

Depreciation and amortization expense was \$778, \$729, and \$643 for the years ended December 31, 2008, 2007, and 2006, respectively.

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.

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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, 2008, upon completion and approval of the Company’s financial operating plan for 2009. 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 \$14,951 at December 31, 2008, 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, 2007, to December 31, 2008:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
Balance at January 1, 2007	\$9,945	\$5,083	\$15,028
Utilization of pre-acquisition NOLs charged to goodwill	-	(76)	(76)
Foreign currency translation adjustments	-	128	128
Balance at December 31, 2007	<u>\$9,945</u>	<u>\$5,135</u>	<u>\$15,080</u>
Utilization of pre-acquisition NOLs charged to goodwill	-	(76)	(76)
Foreign currency translation adjustments	-	(53)	(53)
Balance at December 31, 2008	<u>\$9,945</u>	<u>\$5,006</u>	<u>\$14,951</u>

The following tables present certain information on the Company’s acquired intangible assets as of December 31, 2008 and 2007. 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, 2008				
Amortized acquired intangible assets:				
Patents	10 years	\$ 26	\$ (24)	\$ 2
Trademarks	15 years	662	(474)	188
Deferred Financing	5.5 years	<u>54</u>	<u>(51)</u>	<u>3</u>
		<u>\$742</u>	<u>\$(549)</u>	<u>\$193</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>

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The aggregate acquired intangible amortization expense for the years ended December 31, 2008, 2007, and 2006, was approximately \$53, \$53, and \$53, respectively. The estimated acquired intangible asset amortization expense for the fiscal year ended December 31, 2009 and for the four subsequent years is as follows:

Fiscal Year Ended December 31,	Estimated Amortization Expense
2009	\$49
2010	\$43
2011	\$42
2012	\$42
2013	\$17

6. REVOLVING CREDIT AGREEMENTS

The Company and BCI have a credit facility (the “Facility”) with KeyBank National Association (Key”). The Facility includes a term loan for \$7,500 and a working capital line of credit for \$10,000. 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 interest rate on the facility is either Prime or Libor plus 150 basis points. Effective June 23, 2008, the expiration date was extended to June 30, 2009.

As of December 31, 2008, and December 31, 2007, there was no long-term debt, including current maturities, outstanding under the Facility. As of December 31, 2008, and December 31, 2007, 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 annually. Approximately \$413 was utilized at December 31, 2008.

Speech Design and its subsidiaries have continuously renewing credit lines and overdraft facilities of approximately 1,150 Euros (approximately \$1,625 at December 31, 2008) from six banks, with rates tied to short-term bank notes and Euromarket loans. At December 31, 2008, those rates ranged from 9% to 15%. At December 31, 2008, and December 31, 2007, Speech Design had no short-term borrowings.

7. LEASES

The Company occupies its plant and office facilities and operates certain equipment and vehicles under operating leases expiring at various dates through 2014. 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, 2008, are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	<u>OPERATING LEASES</u>
2009	\$1,497
2010	1,307
2011	608
2012	539
2013	440
Thereafter	<u>3</u>
Total minimum lease payments	<u>\$4,394</u>

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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 \$56 and \$84 at December 31, 2008 and 2007, respectively.

Rent expense charged to operations totaled approximately \$1,572, \$1,691, and \$1,525 for the years ended December 31, 2008, 2007, and 2006, respectively.

8. ACCRUED EXPENSES

Accrued expenses at December 31, 2008 and 2007, were:

	<u>2008</u>	<u>2007</u>
Accrued salaries and benefits	\$1,589	\$1,502
Legal and other professional fees	585	623
Rebates and commissions	424	667
Sales and other taxes	225	314
Customer advance payments	149	107
All other	<u>772</u>	<u>596</u>
Total accrued expenses	<u>\$ 3,744</u>	<u>\$3,809</u>

9. INCOME TAXES

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

	Year Ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Domestic U.S. operations	\$2,120	\$2,837	\$4,290
Foreign operations	<u>1,376</u>	<u>147</u>	<u>758</u>
Total	<u>\$3,496</u>	<u>\$2,984</u>	<u>\$5,048</u>

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

	Year Ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current income tax	\$1,162	\$1,263	\$1,779
Utilization of acquired tax benefits credited to goodwill	76	76	76
Deferred income tax expense (benefit)	<u>(91)</u>	<u>53</u>	<u>(46)</u>
Total income tax expense	<u>\$1,147</u>	<u>\$1,392</u>	<u>\$1,809</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>2008</u>	<u>2007</u>	<u>2006</u>
Computed "expected" tax expense	\$1,189	\$1,014	\$1,716
State tax expense, net of Federal benefit	99	119	144
Non-deductible expenses	33	22	(982)
NOL utilization	(14)	196	(107)
Foreign taxes greater (less) than U.S. taxes	(54)	13	997
Adjustments for prior-year taxes	(120)	(89)	(114)
Other	<u>14</u>	<u>117</u>	<u>155</u>
Income tax expense as reported	<u>\$1,147</u>	<u>\$1,392</u>	<u>\$1,809</u>

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

	Year Ended December 31,	
	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Foreign loss carryforwards	\$ 648	\$1,379
Domestic loss carryforwards	-	14
Accounts receivable	177	163
Inventory	893	857
Intangibles	266	313
Pension fund	116	116
Deferred rent	21	32
Employee compensation	17	25
Other accrued liabilities	<u>77</u>	<u>81</u>
Total deferred tax assets	2,215	2,980
Less: valuation allowances	<u>-</u>	<u>(325)</u>
Net deferred tax assets	<u>\$2,215</u>	<u>\$2,655</u>
Deferred tax liabilities:		
Equipment	\$ 156	\$ 155
Goodwill	<u>337</u>	<u>414</u>
Total deferred tax liabilities	<u>493</u>	<u>569</u>
Total net deferred tax assets	<u>\$1,722</u>	<u>\$2,086</u>

The Company has no domestic net operating loss ("NOL") carryforwards as of December 31, 2008. The Company has foreign loss carryforwards of approximately €1,697 (approximately \$2,392) as of December 31, 2008. Approximately \$2,103 of these foreign loss carryforwards have indefinite useful lives.

The Company does not have valuation allowances at December 31, 2008. The Company had a valuation allowance of €220 (\$325 as of December 31, 2007) covering certain deferred tax assets related to foreign net operating loss carryforwards. 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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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. The adoption did not have any effect on the Company's financials statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, and other matters. There is no liability related to unrecognized tax benefits at December 31, 2008 or 2007, and therefore no effect on the effective tax rate. The Company has identified its Federal consolidated tax return and its state tax return in New Jersey as major tax jurisdictions, as defined. For both jurisdictions, the periods subject to examination are the years 2004 through 2007. Tax returns for the year ended December 31, 2008, are expected to be filed by September 15, 2009. The Company classifies potential interest and penalties related to income taxes in interest expense and within operating expenses, respectively.

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).

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, \$62, and \$42 in 2006, 2007, and 2008, respectively and is expected to be \$7 and \$1 for 2009 and 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 price 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. Related to the stock issuance, at December 31, 2008, the Company has secured loans totaling \$672 with three directors for payroll and other taxes associated with the stock grants. At December 31, 2007, the Company had secured loans totaling \$700 from four directors. 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 \$29 for each year from 2006 to 2008.

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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.

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 was paid in July 2008.

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 7.88 years, and 8,000 were exercisable at December 31, 2008. The unrecognized compensation cost at December 31, 2008, was \$46, which will be expensed over the next three years. At December 31, 2008, these were the only options outstanding. At December 31, 2008, 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, 2006	1,148,720	83,300	<u>82,700</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	-		\$6.60
Granted	-				
Forfeited	-				
Outstanding at December 31, 2007	1,212,020	20,000	<u>4,000</u>		\$6.60
Granted	-				
Forfeited	-				
Outstanding at December 31, 2008	<u>1,212,020</u>	<u>20,000</u>	<u>8,000</u>		\$6.60

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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 2009. The management agreements with the two Managing Directors of Speech Design expired 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 \$1,079 in 2009, \$506 in 2010, and \$529 in 2011.

LABOR AGREEMENTS

At December 31, 2007, approximately 7% of the Company's 195 employees work under collective bargaining agreements with various unions. These labor agreements expire on various dates in 2009.

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 also seeks an award of compensatory and punitive damages. The plaintiff is seeking damages in excess of \$30 million; the actual claimed amount will be determined at trial. BCI believes the case against it is without merit and is vigorously defending the case. The discovery phase of the case has been completed and the pre-trial phase of the case is nearly completed. The trial was scheduled to start in late January 2009 but was continued. A new trial date has not yet been scheduled. 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.

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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>
2008:		
Revenue from external customers.....	\$41,108	\$18,298
Gross Profit.....	16,839	14,050
Depreciation and amortization.....	283	548
Operating profit.....	2,035	1,243
Total assets.....	22,393	18,278
Expenditures for segment assets.....	317	648
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

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating profit			
Total operating profit for reportable segments.....	\$ 3,278	\$ 2,849	\$ 4,973
Other corporate income (expenses).....	<u>51</u>	<u>2</u>	<u>43</u>
Operating profit	\$ <u>3,329</u>	\$ <u>2,851</u>	\$ <u>5,016</u>
Assets			
Total assets for reportable segments.....	\$40,671	\$41,624	\$41,479
Other unallocated amounts.....	<u>25</u>	<u>34</u>	<u>40</u>
Consolidated total.....	\$ <u>40,696</u>	\$ <u>41,658</u>	\$ <u>41,519</u>

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15. ECONOMIC CONCENTRATION

In 2008, Speech Design had revenues of \$8,885 from one customer, accounting for more than 10% of consolidated net sales. The Company's receivables from this customer comprised approximately 9% of consolidated trade receivables. Bogen had no customer that accounted for more than 10% of consolidated net sales.

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.

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 2008, Bogen made purchases of \$5,193 from one vendor, accounting for more than 10% of consolidated net purchases. This vendor has recently experienced economic strain. The vendor has informed Bogen that it has restructured its costs and is in the process of obtaining additional capital. Bogen has developed and is continuing to develop alternate sources for products made by this vendor, a process that began prior to the onset of the vendor's strains noted above. Nonetheless, Bogen cannot rule out the possibility of delays in receipt of products, or changes in the cost of goods. Speech Design had no vendor that individually accounted for more than 10% of consolidated net purchases.

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.

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 \$138, \$131, and \$142 for the years ended December 31, 2008, 2007, and 2006, 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 affected 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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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. The Company adopted the provisions of SFAS No. 159 effective January 1, 2008. There was no impact to its financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 160, *“Non-controlling Interests in Consolidated Financial Statements – an Amendment of ARB No.51”*. SFAS No. 160 establishes accounting and reporting standards for the non-controlling interest (formerly known as minority interest) in a subsidiary (which may include variable interest entities) and for the deconsolidation of a subsidiary. Significant changes include: Balance sheet and income statement presentation and expanded disclosures; Accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation; Recognition and measurement of a gain or loss when a subsidiary is deconsolidated. Upon adoption of SFAS No. 160, for balance sheet presentation, minority interests will be recorded within equity and so-called "mezzanine" display will not be permitted. In income statements, the amount of income attributable to the minority interest will not be a deduction that impacts net income. As a result of these requirements, various financial statements ratios will be impacted. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Statement requires prospective application except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented.

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In March 2008, the FASB issued SFAS No. 161, “*Disclosures about Derivative Instruments and Hedging Activities*”. SFAS No. 161 requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. Entities must provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. The Statement requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. This disclosure better conveys the purpose of derivative use in terms of the risks that the entity is intending to manage. Disclosing the fair values of derivative instruments and their gains and losses in a tabular format should provide a more complete picture of the location in an entity’s financial statements of both the derivative positions existing at period end and the effect of using derivatives during the reporting period. Disclosing information about credit-risk-related contingent features should provide information on the potential effect on an entity’s liquidity from using derivatives. Finally, this Statement requires cross-referencing within the footnotes, which should help users of financial statements locate important information about derivative instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption.

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.