

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009, 2008 and 2007**

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## **INDEPENDENT AUDITORS' 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, 2009 and 2008, 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, 2009. 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, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ Amper, Politziner & Mattia, LLP

May 24, 2010  
Edison, New Jersey

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2009 and 2008**  
(Dollars in Thousands, Except Share Amounts)

	2009	2008
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 2,273	\$ 6,630
Marketable securities	124	-
Trade receivables (net of allowance for doubtful accounts of \$246 and \$259 at December 31, 2009, and December 31, 2008, respectively)	5,021	7,728
Federal and state income tax receivables	2,709	46
Other receivables	1	1
Inventories	4,984	6,138
Prepaid expenses and other current assets	870	587
Current deferred income taxes	4,209	1,812
<b>TOTAL CURRENT ASSETS</b>	<b>20,191</b>	<b>22,942</b>
Equipment, furniture, and leasehold improvements, net	1,850	1,793
Goodwill	14,447	14,951
Other intangible assets, net	145	193
Deferred income taxes, net of current portion	489	-
Receivables from related parties	672	672
Other assets	100	145
<b>TOTAL ASSETS</b>	<b>\$ 37,894</b>	<b>\$ 40,696</b>
<b>LIABILITIES, COMMITMENTS, AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Amounts outstanding under revolving credit agreements	\$ 750	\$ -
Short-term debt	3,000	-
Current maturities of long-term debt	1,200	-
Accounts payable	1,913	1,947
Accrued expenses	5,953	3,744
Dividends payable	-	3,062
Income taxes payable	320	181
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,136</b>	<b>8,934</b>
Long-term debt, net of current maturities	4,800	-
Deferred income taxes	-	90
Other long-term liabilities	302	358
<b>TOTAL LIABILITIES</b>	<b>18,238</b>	<b>9,382</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$.001 par value; 800,000 authorized; none issued or outstanding at December 31, 2009, or December 31, 2008	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at December 31, 2009 and December 31, 2008; 4,109,489 shares issued and 4,080,110 shares outstanding at December 31, 2009, and 4,109,489 shares issued and 4,082,474 shares outstanding at December 31, 2008	4	4
Additional paid-in-capital	22,364	22,342
Retained earnings (deficit)	(5,192)	6,439
Accumulated other comprehensive income	2,418	2,392
Treasury stock at cost - 29,379 shares at December 31, 2009, and 27,015 shares at December 31, 2008	(169)	(159)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>19,425</b>	<b>31,018</b>
Non-controlling interest	231	296
<b>TOTAL EQUITY</b>	<b>19,656</b>	<b>31,314</b>
<b>TOTAL LIABILITIES, COMMITMENTS, AND EQUITY</b>	<b>\$ 37,894</b>	<b>\$ 40,696</b>

See accompanying notes to consolidated financial statements.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, and 2007**  
(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net sales	\$ 44,854	\$ 59,406	\$ 55,065
Cost of goods sold	<u>24,760</u>	<u>28,517</u>	<u>27,298</u>
Gross profit	20,094	30,889	27,767
Operating expenses:			
Research and development	5,428	6,185	5,445
Selling, general and administrative	31,424	21,322	19,418
Amortization of intangibles	49	53	53
Goodwill impairment	511	-	-
Income (loss) from operations	<u>(17,318)</u>	<u>3,329</u>	<u>2,851</u>
Other (income) expenses:			
Interest income	(60)	(181)	(151)
Interest expense	64	22	22
Other income	(14)	(19)	(21)
Income (loss) before income taxes	<u>(17,308)</u>	<u>3,507</u>	<u>3,001</u>
Income tax expense (benefit)	<u>(5,612)</u>	<u>1,147</u>	<u>1,392</u>
Net income (loss) before non-controlling interest	(11,696)	2,360	1,609
Net income (loss) attributable to non-controlling interest	<u>(65)</u>	<u>11</u>	<u>17</u>
Net income (loss) attributable to Bogen Communications International, Inc.	<u>(11,631)</u>	<u>2,349</u>	<u>1,592</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, 2009, 2008, and 2007**  
(Dollars in Thousands, Except Share Amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Accumulated Total Comprehensive Income (Loss)	Treasury Stock		Total Stock- holders' Equity	Non- controlling Interest	Total Equity
	Number of Shares	Amount					Number of Shares	Amount			
Balance at January 1, 2007	4,109,489	\$ 4	\$ 22,182	\$ 7,602	\$ 1,772		19,704	\$ (112)	\$ 31,448	\$ 268	\$ 31,716
Stock-based compensation	-	-	78	-	-		-	-	78		78
Tax benefit from vesting of restricted stock grants	-	-	20	-	-		-	-	20		20
Common stock dividend	-	-	-	(2,042)	-		-	-	(2,042)		(2,042)
Treasury stock	-	-	-	-	-		4,957	(34)	(34)		(34)
Comprehensive income:											
Net income	-	-	-	1,592	-	1,592	-	-		17	17
Translation adjustments	-	-	-	-	1,070	1,070	-	-			-
Other comprehensive income						2,662			2,662		2,662
Balance at December 31, 2007	4,109,489	\$ 4	\$ 22,280	\$ 7,152	\$ 2,842		24,661	\$ (146)	\$ 32,132	\$ 285	\$ 32,417
Stock-based compensation	-	-	58	-	-		-	-	58		58
Tax benefit from vesting of restricted stock grants	-	-	4	-	-		-	-	4		4
Common stock dividend	-	-	-	(3,062)	-		-	-	(3,062)		(3,062)
Treasury stock	-	-	-	-	-		2,354	(13)	(13)		(13)
Comprehensive income:											
Net income	-	-	-	2,349	-	2,349	-	-		11	11
Translation adjustments	-	-	-	-	(450)	(450)	-	-			-
Total comprehensive income						\$ 1,899			1,899		1,899
Balance at December 31, 2008	4,109,489	\$ 4	\$ 22,342	\$ 6,439	\$ 2,392		27,015	\$ (159)	\$ 31,018	\$ 296	\$ 31,314
Stock-based compensation	-	-	23	-	-		-	-	23		23
Tax deficiency from vesting of restricted stock grants	-	-	(1)	-	-		-	-	(1)		(1)
Treasury stock	-	-	-	-	-		2,364	(10)	(10)		(10)
Comprehensive loss:											
Net loss	-	-	-	(11,631)	-	(11,631)	-	-		(66)	(66)
Translation adjustments	-	-	-	-	26	26	-	-		1	1
Total comprehensive loss						\$ (11,605)			(11,605)		(11,605)
Balance at December 31, 2009	4,109,489	\$ 4	\$ 22,364	\$ (5,192)	\$ 2,418		29,379	\$ (169)	\$ 19,425	\$ 231	\$ 19,656

See accompanying notes to consolidated financial statements.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, and 2007**  
(Dollars in Thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss) attributable to Bogen Communications International, Inc.	\$ (11,631)	\$ 2,349	\$ 1,592
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	674	778	729
Amortization of intangible assets	49	53	53
Goodwill impairment	511	-	-
Stock-based compensation	23	58	78
Provision for doubtful accounts	-	-	7
Utilization of pre-acquisition NOL charged to goodwill	-	76	76
Deferred income taxes	(2,327)	336	596
Gain on disposal of equipment	20	-	(2)
Income (loss) attributable to non-controlling interest	(65)	11	17
Change in operating assets and liabilities:			
Receivables	68	(768)	1,134
Inventories	1,167	206	308
Prepaid expenses and other current assets	(296)	9	84
Accounts payable and accrued expenses	1,700	(765)	1,209
Other	(56)	(30)	(28)
Net cash provided by (used in) operating activities	<u>(10,163)</u>	<u>2,313</u>	<u>5,853</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of equipment, furniture, and leasehold improvements	(733)	(965)	(768)
Proceeds from sale of equipment	3	-	11
Purchase of marketable securities	(121)	-	-
Net cash used in investing activities	<u>(851)</u>	<u>(965)</u>	<u>(757)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Purchases of treasury stock	(10)	(13)	(34)
Dividends paid	(3,062)	(2,042)	(4,090)
Proceeds from short-term debt	3,000	-	-
Proceeds from long-term debt	6,000	-	-
Net increase in borrowings under revolving credit agreements	750	-	-
Net cash provided by (used in) financing activities	<u>6,678</u>	<u>(2,055)</u>	<u>(4,124)</u>
Effects of foreign exchange rate on cash	<u>(21)</u>	<u>(133)</u>	<u>306</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,357)	(840)	1,278
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>6,630</u>	<u>7,470</u>	<u>6,192</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 2,273</u>	<u>\$ 6,630</u>	<u>\$ 7,470</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Cash paid for interest	\$ 55	\$ 37	\$ 36
Cash paid for income taxes	\$ 30	\$ 782	705

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") develops, manufactures, markets, and sells telecommunications peripherals, sound processing and audio amplification equipment, and Unified Messaging products and services to commercial, industrial, professional, educational and institutional customers worldwide. 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), and Speech Design Carrier Systems GmbH ("Carrier Systems"). Inter-company balances, profits and losses, and transactions have been eliminated in consolidation.

The ownership interest of minority owners in the equity and earnings of the Company's less than 100 percent-owned consolidated subsidiaries are recorded as non-controlling interest.

**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'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, 2009 and 2008, those investments totaled \$1,216 and \$2,801, 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, 2009.

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

**MARKETABLE SECURITIES**

The Company has invested some of its cash balances in short-term, highly liquid, available for sale marketable securities, which are carried on its consolidated balances sheets at fair value as a Level 1 input under ASC 820. Unrealized gains and losses are reported in stockholders' equity as a component of accumulated other comprehensive income (loss), unless the Company concludes that unrealized losses represent an other-than-temporary impairment. In that circumstance, such losses would be reflected in the consolidated statements of operations. Realized gains and losses are included in other income (expense). Fair value is based upon quoted market prices for these or similar instruments.

**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 ninety 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 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.

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

**GOODWILL**

Goodwill is tested at the end of each fiscal year, or as circumstances dictate, for impairment. The Company has determined that it operates four reporting units for purposes of evaluating goodwill, and as such, impairment is tested at the reporting unit's level. During fiscal year 2008, the Company completed goodwill impairment tests and concluded that no impairment of goodwill existed. During fiscal year 2009, the Company completed goodwill impairment tests and concluded that the goodwill allocated to one of its foreign reporting units was impaired. The write-down was €366 (\$511 at then-current exchange rates). All other goodwill was determined not to be impaired. The Company has approximately \$14,447 of goodwill as of December 31, 2009, which is subject to impairment testing. For the purposes of evaluating goodwill, the domestic segment has one reporting unit and the foreign segment has three reporting units.

**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 2009 and 2008, 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 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 \$208 in 2009, \$281 in 2008, and \$102 in 2007.

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

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 the sale of sound processing and audio amplification equipment and telecommunications peripherals. The foreign segment, which has three reporting units, focuses on digital voice processing systems for the mid-sized PABX – private automatic branch exchange – market and on unified messaging products and services to 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 deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

The Company uses a two-step approach to recognizing and measuring uncertain tax positions to be accounted for. 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.

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. The cumulative retained deficit of foreign subsidiaries was \$736 at December 31, 2009. The cumulative undistributed earnings were \$5,026 at December 31, 2008.

**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 serviced annually. At December 31, 2009 and 2008, the warranty reserve was \$156 and \$174, respectively.

**STOCK-BASED COMPENSATION**

The Company has selected the Black-Scholes method of valuation for share-based compensation and adopted the modified prospective transition method, which required that compensation cost be recorded, as earned, for all unvested stock options outstanding at the beginning of the year of adoption, which was 2006. Prior periods were not restated. The charge was 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.

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.

No options were granted in 2007, 2008, or 2009.

**COMPREHENSIVE INCOME**

The Company's comprehensive income (loss) consists of net income (loss) and translation adjustments and is presented in the consolidated statements of stockholders' 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, equity compensation, 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.

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

**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**

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.

**RECLASSIFICATIONS**

Certain prior year balances and transactions have been reclassified to conform to the current year presentation.

**3. MARKETABLE SECURITIES**

Investments in marketable securities were:

	<u>Market Value</u>	<u>Cost</u>	<u>Unrealized Gain/(Loss)</u>	Transfer to Net Loss (Other than Temporary <u>Impairment)</u>
At December 31, 2009	\$124	\$123	\$1	\$-0-
At December 31, 2008	\$ -0-	N/A	N/A	N/A

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

**4. INVENTORIES**

Inventories are comprised of the following items:

	<b>December 31,</b>	
	<u><b>2009</b></u>	<u><b>2008</b></u>
Raw materials and supplies	\$ 672	\$ 732
Work in progress	11	8
Finished goods	<u>4,301</u>	<u>5,398</u>
Total inventory	<u>\$4,984</u>	<u>\$6,138</u>

**5. EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS**

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

	<b>December 31,</b>	
	<u><b>2009</b></u>	<u><b>2008</b></u>
Machinery, equipment, vehicles, and tooling	\$6,132	\$ 6,018
Furniture and office equipment	8,210	7,861
Leasehold improvements	<u>695</u>	<u>685</u>
Equipment, furniture, and leasehold improvements, at cost	15,037	14,564
Less: accumulated depreciation and amortization	<u>(13,187)</u>	<u>(12,771)</u>
Net equipment, furniture, and leasehold improvements	<u>\$ 1,850</u>	<u>\$ 1,793</u>

Depreciation and amortization expense was \$674, \$778, and \$729 for the years ended December 31, 2009, 2008, and 2007, respectively.

**6. GOODWILL AND INTANGIBLE ASSETS**

All goodwill and intangible assets are assigned to the Company's four reporting units. Annually, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable, 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.

The Company performed its annual impairment tests as of December 31, 2009, upon completion and approval of the Company's financial operating plan for 2010 and concluded that the goodwill allocated to one of its foreign reporting units was impaired. The write-down was €366 (\$511 at the then-current exchange rates). All other goodwill was determined not to be impaired.

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.

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Goodwill totaled \$14,447 at December 31, 2009. The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period from January 1, 2008, to December 31, 2009:

	<u>Bogen</u>	<u>Speech Design</u>	<u>Carrier Systems</u>	<u>Satelco</u>	<u>Total</u>
Balance at January 1, 2008	\$9,945	\$3,901	\$695	\$539	\$15,080
Utilization of pre-acquisition NOLs charged to goodwill		( 76)			(76)
Foreign currency translation adjustments			(30)	(23)	(53)
Balance at December 31, 2008	<u>\$9,945</u>	<u>\$3,825</u>	\$665	\$516	\$14,951
Impairment				(511)	(511)
Foreign currency translation adjustments			<u>12</u>	<u>(5)</u>	<u>7</u>
Balance at December 31, 2009	<u>\$9,945</u>	<u>\$3,825</u>	<u>\$677</u>	<u>\$ -0-</u>	<u>\$14,447</u>

The following tables present certain information on the Company's acquired intangible assets as of December 31, 2009 and 2008. 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, 2009				
Amortized acquired intangible assets:				
Patents	10 years	\$ 26	\$ ( 25)	\$ 1
Trademarks	15 years	<u>662</u>	<u>(518)</u>	<u>144</u>
		<u>\$688</u>	<u>\$ (543)</u>	<u>\$145</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>

The aggregate acquired intangible amortization expense for the years ended December 31, 2009, 2008, and 2007, was approximately \$49, \$53, and \$53, respectively. The estimated acquired intangible asset amortization expense for the fiscal year ended December 31, 2010 and for the four subsequent years is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2010	\$43
2011	\$42
2012	\$42
2013	\$17
2014	0

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**7. REVOLVING CREDIT AGREEMENTS**

The Company and BCI had a credit facility (the “Old Facility”) with KeyBank National Association (“Key”). The Old Facility included a term loan for \$7,500 and a working capital line of credit for \$10,000. The Company 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 Old Facility was either Prime or Libor plus 150 basis points. The Old Facility expired on June 30, 2009.

Effective June 30, 2009, BCI entered into a new credit facility with Key (the “New Facility”). The New Facility included a \$3,500 unconditional working capital line of credit (“WCLC”) and a \$3,500 conditional line of credit, subject to certain criteria. Within the WCLC, BCI had a \$1,000 conditional letter of credit. The Company and its domestic subsidiaries pledged as collateral all of the issued and outstanding capital stock of the Company as well as its tangible and intangible assets. The New Facility matures on June 30, 2010, but can be extended at BCI’s request and Key’s consent. Borrowings under the New Facility bore interest at Libor plus either 4.50% or 6.00%, based on certain financial conditions. The New Facility had several financial covenant, operational, and reporting requirements.

In December 2009, the New Facility was amended: the WCLC was reduced to \$2,500, the conditional line of credit was eliminated, and a \$3,000 bridge loan and a \$6,000 term loan were established. The bridge loan was due by December 31, 2010, but was repaid by May 2010. The term loan carries quarterly principal repayment terms of \$300 during calendar year 2010, and \$400 during calendar years 2011 through 2013, with final payment due by December 31, 2013. Borrowings against the WCLC bear interest at Libor plus 3.00%, 3.75%, or 4.75%, based on certain financial covenant ratios. Interest rates for the bridge loan are the same as for the WCLC; interest rates for the term loan are 0.25% higher. In addition to adjusting or eliminating the financial covenants in the New Facility, the amendment requires separate audits of and financial statements for BCI.

As of December 31, 2009, BCI had \$750 outstanding under the New Facility, a \$3,000 bridge loan, and a \$6,000 term loan. On December 31, 2008, there were no borrowings outstanding under the Old Facility. At December 31, 2009, BCI had a conditional letter of credit with Key, which was included in the WCLC and renewable annually in February. It was not utilized at December 31, 2009, and was cancelled in February 2010.

Speech Design and its subsidiaries had continuously renewing credit lines and overdraft facilities of approximately €3 (approximately \$75 at December 31, 2009) from two banks, with rates tied to short-term bank notes and Euromarket loans. At December 31, 2009, those rates ranged from 9.75% to 15.00%. At December 31, 2009, and December 31, 2008, Speech Design had no borrowings against these credit lines or facilities and no long-term debt.

**8. 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.

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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, 2009, are as follows:

<u>YEAR ENDING DECEMBER 31,</u>	<u>OPERATING LEASES</u>
2010	1,398
2011	1,188
2012	1,059
2013	1,012
2014	631
Thereafter	<u>0</u>
Total minimum lease payments	<u>\$5,288</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 \$0 and \$56 at December 31, 2009 and 2008, respectively.

Rent expense charged to operations totaled approximately \$1,598, \$1,572, and \$1,691 for the years ended December 31, 2009, 2008, and 2007, respectively.

**9. ACCRUED EXPENSES**

Accrued expenses at December 31, 2009 and 2008, were:

	<u>2009</u>	<u>2008</u>
Accrued salaries and benefits	\$ 998	\$1,589
Legal and other professional fees	467	585
Rebates and commissions	3,351	424
Sales and other taxes	291	225
Customer advance payments	122	149
All other	<u>724</u>	<u>772</u>
Total accrued expenses	<u>\$5,953</u>	<u>\$3,744</u>

**10. INCOME TAXES**

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

	<b>Year Ended December 31,</b>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Domestic operations	\$ (9,199)	\$2,131	\$2,854
Foreign operations	<u>(8,109)</u>	<u>1,376</u>	<u>147</u>
Total	<u>\$(17,308)</u>	<u>\$3,507</u>	<u>\$3,001</u>

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

	<b>Year Ended December 31,</b>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current income tax	\$ (3,237)	\$1,162	\$1,263
Utilization of acquired tax benefits credited to goodwill	0	76	76
Deferred income tax expense (benefit)	<u>(2,375)</u>	<u>(91)</u>	<u>53</u>
Total income tax expense (benefit)	<u>\$(5,612)</u>	<u>\$1,147</u>	<u>\$1,392</u>

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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:

	<b>Year Ended December 31,</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Computed "expected" tax expense	\$(5,863)	\$1,189	\$1,014
State tax expense, net of Federal benefit	(380)	99	119
Non-deductible expenses	54	33	22
NOL utilization	151	(14)	196
Foreign taxes greater (less) than U.S. taxes	400	(54)	13
Adjustments for prior-year taxes	21	(120)	(89)
Other	<u>5</u>	<u>14</u>	<u>117</u>
Income tax expense (benefit) as reported	<u><u>\$(5,612)</u></u>	<u><u>\$1,147</u></u>	<u><u>\$1,392</u></u>

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

	<b>Year Ended December 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Deferred tax assets:		
Foreign loss carryforwards	\$2,997	\$ 648
Domestic loss carryforwards	576	0
Accounts receivable	176	177
Inventory	947	893
Intangibles	218	266
Pension fund	115	116
Deferred rent	0	21
Employee compensation	2	17
Other accrued liabilities	<u>87</u>	<u>77</u>
Total deferred tax assets	<u><u>\$5,118</u></u>	<u><u>\$2,215</u></u>
Deferred tax liabilities:		
Equipment	\$ 159	\$ 156
Goodwill	<u>261</u>	<u>337</u>
Total deferred tax liabilities	<u>420</u>	<u>493</u>
Total net deferred tax assets	<u><u>\$4,698</u></u>	<u><u>\$1,722</u></u>

The Company has domestic state net operating loss ("NOL") carryforwards of approximately \$9,100 as of December 31, 2009. The Company has foreign loss carryforwards of approximately €7,520 (approximately \$10,800) as of December 31, 2009. Approximately \$10,180 of these foreign loss carryforwards have indefinite useful lives.

The Company does not have valuation allowances at December 31, 2009. 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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The Company uses a two-step approach to recognizing and measuring uncertain tax positions to be accounted for. 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. There is no liability related to unrecognized tax benefits at December 31, 2009 or 2008, 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 2008. All tax returns for the year ended December 31, 2009, are expected to be filed by October 15, 2010. The Company classifies potential interest and penalties related to income taxes in interest expense and within operating expenses, respectively.

#### **11. NON-CONTROLLING 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).

#### **12. 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**

In April 2002, certain key employees and directors received approximately 145,000 restricted shares of common stock, which vested ratably over five years. In March 2003, a key employee received 2,500 restricted shares of common stock, which vested ratably over five years. In February 2004, the Company granted certain key employees 40,500 restricted shares of common stock, which vested 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 \$62, \$42, and \$7 in 2007, 2008, and 2009, respectively and is expected to be \$1 and \$0 for 2010 and 2011, respectively.

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, 2009 and 2008, the Company has secured loans totaling \$670 with three directors for payroll and other taxes associated with the stock grants. 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 of the fiscal years 2007 and 2008 and \$28 for fiscal year 2009.

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**13. 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 6.88 years, and 12,000 were exercisable at December 31, 2009. The unrecognized compensation cost at December 31, 2009, was \$30, which will be expensed over the next two years. At December 31, 2009, these were the only options outstanding. At December 31, 2009, 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, 2007	1,212,020	20,000	-	\$6.60	\$6.60
Outstanding at December 31, 2007	1,212,020	20,000	4,000	\$6.60	\$6.60
Outstanding at December 31, 2008	1,212,020	20,000	8,000	\$6.60	\$6.60
Outstanding at December 31, 2009	1,212,020	20,000	12,000	\$6.60	\$6.60

**14. 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 2010. The management agreements with the two Managing Directors of Speech Design expire in December 2010. 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 \$1,510 in 2010 and \$538 in 2011.

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**LABOR AGREEMENTS**

At December 31, 2009, approximately 3% of the Company's 160 employees work under a collective bargaining agreement with Local 854 of the International Brotherhood of Teamsters. This labor agreement expires on June 30, 2012.

**LITIGATION**

On July 18, 2006, the Company and BCII were sued by a former contractor, Tri-Signal Integration, Inc., in Los Angeles County Superior Court, case number BC355591. The litigation was settled by agreement between the parties dated December 24, 2009. The terms of the settlement are confidential and no further action is expected. These financial statements include the substantial settlement and related legal costs in Selling, General and Administrative expense.

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.

**15. SEGMENTS**

The following tables present the Company's financial information by its two reportable business segments. Any inter-segment revenues and transfers are immaterial:

	<b><u>BOGEN</u></b>	<b><u>SPEECH DESIGN</u></b>
<b>2009:</b>		
Net sales.....	\$36,052	\$ 8,802
Gross Profit.....	13,842	6,252
Depreciation and amortization.....	261	462
Loss from operations.....	(9,275)	(8,123)
Total assets.....	21,979	15,129
Expenditures for segment assets.....	158	575
<b>2008:</b>		
Net sales.....	\$41,108	\$18,298
Gross Profit.....	16,839	14,050
Depreciation and amortization.....	283	548
Income from operations.....	2,035	1,243
Total assets.....	21,721	18,278
Expenditures for segment assets.....	317	648
<b>2007:</b>		
Net sales.....	\$40,783	\$14,282
Gross Profit.....	17,218	10,549
Depreciation and amortization.....	317	465
Income from operations.....	2,752	97
Total assets.....	23,413	18,211
Expenditures for segment assets.....	226	542

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Income (loss) from operations:</b>			
Income (loss) from operations for reportable segments.	\$(17,398)	\$ 3,278	\$ 2,849
Other corporate income.....	<u>80</u>	<u>51</u>	<u>2</u>
Total income (loss) from operations.....	<u>\$(17,318)</u>	<u>\$ 3,329</u>	<u>\$ 2,851</u>
<b>Assets</b>			
Total assets for reportable segments.....	\$ 37,108	\$39,999	\$41,624
Other unallocated amounts.....	<u>786</u>	<u>697</u>	<u>34</u>
Consolidated total.....	<u>\$ 37,894</u>	<u>\$40,696</u>	<u>\$41,658</u>

**16. ECONOMIC CONCENTRATION**

In 2009, Speech Design had no customer that individually accounted for more than 10% of consolidated net sales. Bogen had sales of \$4,438 to one customer that accounted for more than 10% of consolidated net sales.

In 2008, Speech Design had sales of \$8,885 to one customer that accounted 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 individually accounted for more than 10% of consolidated net sales.

In 2007, Speech Design had sales of \$6,230 to one customer that accounted for more than 10% of consolidated net sales. Bogen had sales of \$5,573 to one customer that accounted for more than 10% of consolidated net sales.

In 2009, Bogen made purchases totaling \$9,428 from three vendors, each of which accounted 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 2008, Bogen made purchases of \$5,193 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 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.

**17. EMPLOYEE CONTRIBUTION PLAN**

Employees of the Company are eligible to participate in a Company-sponsored defined contribution 401(k) plan. The Company provides an elective contribution to a portion of funds contributed by some employees. Amounts charged to expense were \$6, \$138, and \$131 for the years ended December 31, 2009, 2008, and 2007, respectively.

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**18. 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.

**19. RELATED PARTIES**

Several members of the Company's Board of Directors and executives of Speech Design and its subsidiaries have formed a syndicate (the "Pool") for the purposes of advancing up to €600 (approximately \$860 as of December 31, 2009) at any one time to purchase outstanding trade accounts receivables, primarily from Siemens Enterprise Communications and Avaya. Kasimir Arciszewski, a Managing Director of Speech Design, was appointed the Pool's manager, to act as its agent and attorney in connection with the purchase of any receivables.

Funding of the Pool was made in two installments: 60% by December 21, 2009, and 40% by January 15, 2010. Each Pool member committed specific funds based upon an agreed-upon quota. The Pool's investment period is six months, with the acquisition of specific customer receivables at a 15% discount, assuming the risk of non-payment and collection. After the later of the expiration of the investment period or collection of the acquired receivables, funds will be distributed to the Pool members net of any costs incurred.

As of December 31, 2009, Speech Design had sold approximately €424 of gross receivables to the Pool and received approximately €360.

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**20. RECENT ACCOUNTING PRONOUNCEMENTS**

**Codification**

In June 2009, the FASB issued FASB ASC 105, "Generally Accepted Accounting Principles", which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the Company has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of ASB ASC 105 had no effect on the Company's financial position or results of operations.

**Accounting for Uncertainty in Income Taxes**

Uncertain tax positions are now required to be recognized in the financial statements for positions that are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. Pursuant to the new accounting guidance concerning provisions for uncertain income tax positions contained in ASC 740-10, there are no uncertain income tax positions (see Note 2).

**Subsequent Events**

New accounting guidance requires the company to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. The Company has evaluated subsequent events through May 24, 2010, which is the date the financial statements were available to be issued.

**Fair Value**

On January 1, 2009, the Company adopted the provisions of FASB ASC Section 820-10-65 for the nonfinancial assets and liabilities that are not required to be measured at fair value on a recurring basis. The adoption of FASB ASC Section 820-10-65 for the nonfinancial assets and liabilities did not have a significant effect on the company's results of operations or financial condition.

**Non-controlling Interests**

On January 1, 2009, the Company adopted the provisions of FASB ASC Section 810-10-65 related to the accounting for non-controlling interests in consolidated financial statements. This guidance establishes accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance requires that non-controlling interests in subsidiaries be reported in the equity section of the controlling company's balance sheet. It also changes the manner in which the net income or loss of the subsidiary is reported and disclosed in the controlling company's income statement. The adoption of this standard had no material effect on the Company's consolidated financial position or results of operations.

The Company has implemented all new accounting pronouncements that are in effect and that may impact its financial statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

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

**21. 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.