

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

INDEX

	<u>PAGE</u>
• Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009	1
• Consolidated Statements of Operations for the three months ended March 31, 2010 and 2009	2
• Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2010	3
• Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and 2009	4
• Notes to Consolidated Financial Statements	5-14

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2010, AND DECEMBER 31, 2009
(Dollars in Thousands, Except Share Amounts)

	March 31, 2010 <u>(Unaudited)</u>	December 31, 2009 <u></u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,226	\$ 2,273
Marketable securities	117	124
Trade receivables (net of allowance for doubtful accounts of \$250 and \$246 at March 31, 2010, and December 31, 2009, respectively)	4,421	5,021
Federal and state income tax receivables	2,709	2,709
Other receivables	1	1
Inventories	5,319	4,984
Prepaid expenses and other current assets	614	870
Current deferred income taxes	4,263	4,209
TOTAL CURRENT ASSETS	<u>18,670</u>	<u>20,191</u>
Equipment, furniture, and leasehold improvements, net	1,719	1,850
Goodwill	14,404	14,447
Other intangible assets, net	134	145
Deferred income taxes, net of current portion	508	489
Receivables from related parties	675	672
Other assets	100	100
TOTAL ASSETS	<u>\$ 36,210</u>	<u>\$ 37,894</u>
LIABILITIES, COMMITMENTS, AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ -	\$ 750
Short-term debt	3,000	3,000
Current maturities of long-term debt	1,300	1,200
Accounts payable	1,465	1,913
Accrued expenses	5,839	5,953
Income taxes payable	607	320
TOTAL CURRENT LIABILITIES	<u>12,211</u>	<u>13,136</u>
Long-term debt, net of current maturities	4,400	4,800
Other long-term liabilities	298	302
TOTAL LIABILITIES	<u>16,909</u>	<u>18,238</u>
COMMITMENTS AND CONTINGENCIES		
	-	-
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized; none issued or outstanding at March 31, 2010, or December 31, 2009	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at March 31, 2010, and December 31, 2009; 4,109,489 shares issued and 4,079,740 shares outstanding at March 31, 2010, and 4,109,489 shares issued and 4,080,110 shares outstanding at December 31, 2009	4	4
Additional paid-in-capital	22,369	22,364
Retained earnings (deficit)	(5,178)	(5,192)
Accumulated other comprehensive income	2,112	2,418
Treasury stock at cost - 29,749 shares at March 31, 2010, and 29,379 shares at December 31, 2009	(169)	(169)
TOTAL STOCKHOLDERS' EQUITY	<u>19,138</u>	<u>19,425</u>
Non-controlling interest	163	231
TOTAL EQUITY	<u>19,301</u>	<u>19,656</u>
TOTAL LIABILITIES, COMMITMENTS, AND EQUITY	<u>\$ 36,210</u>	<u>\$ 37,894</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2010	2009
Net sales	\$ 9,461	\$ 10,087
Cost of goods sold	5,184	5,593
Gross profit	4,277	4,494
Operating expenses:		
Research and development	1,173	1,406
Selling, general and administrative	2,874	4,995
Amortization of intangibles	11	13
Income (loss) from operations	219	(1,920)
Other (income) expenses:		
Interest income	(7)	(27)
Interest expense	237	7
Other income	(3)	(2)
Loss before income taxes	(8)	(1,898)
Income tax expense (benefit)	46	(592)
Net loss before non-controlling interest	(54)	(1,306)
Net income attributable to non-controlling interest	(68)	(35)
Net income (loss) attributable to Bogen Communications International, Inc.	\$ 14	\$ (1,271)

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2010
(Dollars in Thousands, Except Share Amounts)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated	Accumulated	Treasury Stock		Total Stock- holders' Equity	Non- controlling Interest	Total Equity
	Number of Shares	Amount			Other Comprehensive Income	Total Comprehensive Income (Loss)	Number of Shares	Amount			
Balance at January 1, 2010	4,109,489	\$ 4	\$ 22,364	\$ (5,192)	\$ 2,418		29,379	\$ (169)	\$ 19,425	\$ 231	\$ 19,656
Stock-based compensation	-	-	5	-	-		-	-	5		5
Treasury stock	-	-	-	-	-		370	-	-		-
Comprehensive loss:											
Net loss	-	-	-	14	-	14	-	-		(62)	(62)
Translation adjustments	-	-	-	-	(306)	(306)	-	-		(6)	(6)
Total comprehensive loss						\$ (292)			(292)		(292)
Balance at March 31, 2010	<u>4,109,489</u>	<u>\$ 4</u>	<u>\$ 22,369</u>	<u>\$ (5,178)</u>	<u>\$ 2,112</u>		<u>29,749</u>	<u>\$ (169)</u>	<u>\$ 19,138</u>	<u>\$ 163</u>	<u>\$ 19,301</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, and 2008
(Dollars in Thousands)
(Unaudited)

	Three Months Ended March 31,	
	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to Bogen Communications International, Inc.	\$ 14	\$ (1,271)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	137	180
Amortization of intangible assets	11	13
Stock-based compensation	5	8
Deferred income taxes	(263)	(429)
Income (loss) attributable to non-controlling interest	(68)	(35)
Change in operating assets and liabilities:		
Receivables	435	2,245
Inventories	(383)	539
Prepaid expenses and other current assets	233	(339)
Accounts payable and accrued expenses	11	(1,151)
Other	(4)	(7)
Net cash provided by (used in) operating activities	<u>128</u>	<u>(247)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furniture, and leasehold improvements	(74)	(240)
Purchase of marketable securities	-	(115)
Net cash used in investing activities	<u>(74)</u>	<u>(355)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	-	(10)
Dividends paid	-	(3,062)
Principal payments of long-term debt	(300)	-
Net (decrease) increase in borrowings under revolving credit agreements	(750)	1,035
Net cash provided by (used in) financing activities	<u>(1,050)</u>	<u>(2,037)</u>
Effects of foreign exchange rate on cash	<u>(51)</u>	<u>(234)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,047)	(2,873)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,273</u>	<u>6,630</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,226</u>	<u>\$ 3,757</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 236	\$ 19
Cash paid for income taxes	\$ 8	\$ 7

See accompanying notes to consolidated financial statements.

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

1. **Basis of Presentation**

The accompanying financial statements of Bogen Communications International, Inc. and its subsidiaries (the “Company”) include an unaudited balance sheet as of March 31, 2010, and a balance sheet of December 31, 2009, derived from audited consolidated financial statements by auditors whose opinion is dated May 24, 2010. The consolidated statements of operations, statements of stockholders’ equity, and cash flows include unaudited information for the three months ended March 31, 2010 and 2009. This information collectively comprises the consolidated financial statements which are presented herein.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all significant adjustments, including normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. Certain prior years balances have been reclassified to conform to the current year’s presentation. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

2. **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of the Company’s wholly-owned subsidiary, Bogen Corporation (“Bogen”); Bogen’s wholly-owned subsidiary, Bogen Communications, Inc. (“BCI”); BCI’s wholly-owned subsidiary, Apogee Sound International, LLC (“Apogee”); the Company’s 98%-owned subsidiary, Speech Design International, Inc. (“SDI”), SDI’s wholly-owned subsidiary, Speech Design GmbH (“Speech Design”); and Speech Design’s wholly-owned subsidiaries: Satelco AG (“Satelco”) 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.

3. **Revenue Recognition**

The Company derives its revenue primarily from two sources: (i) sale of sound processing and telecommunications peripheral equipment and (ii) services and support revenue for telecommunications equipment and unified messaging products. The Company recognizes product revenue, net of discounts and rebates, where persuasive evidence of sales arrangements exist, title of risk of loss has transferred, the buyer’s price is fixed or determinable, contractual obligations have been satisfied, and collectability 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.

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

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.

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 good sold.

4. Segments

The Company operates in two reportable business segments, Bogen (domestic) and Speech Design (foreign). Bogen is primarily engaged in the sale of sound processing and audio amplification equipment and telecommunications peripherals. Speech Design, which has three reporting units, focuses on digital voice processing systems for the mid-sized PABX - private automated branch exchange - market and on unified messaging products and services for the European voice processing and unified messaging markets.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology, marketing and distribution strategies.

The accounting policies of the segments are the same as those described in the notes herein and in the notes to our consolidated financial statements for the year ended December 31, 2009. The Company evaluates segment performance based on several measures, including income or loss before income taxes.

The following table presents information about the Company by business segment. Any inter-segment revenues and transfers are immaterial:

	March 31, 2010		March 31, 2009	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers				
United States	\$7,145	\$ -	\$7,858	\$ -
International	<u>359</u>	<u>1,957</u>	<u>300</u>	<u>1,929</u>
Total Revenues	<u>\$7,504</u>	<u>\$1,957</u>	<u>\$8,158</u>	<u>\$1,929</u>
Gross Profit	2,827	1,450	3,157	1,337
Income (loss) before income taxes	802	(771)	(469)	(1,444)

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

A reconciliation of segment operating profits and assets to the Company's consolidated totals is as follows:

	<u>2010</u>	<u>March 31,</u> <u>2009</u>
Total income (loss) before income		
Taxes for reportable segments	\$ 31	\$(1,913)
Other corporate income (expense)	(39)	<u>15</u>
Loss before income taxes	<u>\$(8)</u>	<u>\$(1,898)</u>

5. **Inventories**

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

	<u>March 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Raw materials and supplies	\$ 657	\$ 672
Work in progress	4	11
Finished goods	<u>4,658</u>	<u>4,301</u>
	<u>\$5,319</u>	<u>\$4,984</u>

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.

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

The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period December 31, 2009, to March 31, 2010:

	<u>Bogen</u>	<u>Speech Design</u>	<u>Carrier Systems</u>	<u>Satelco</u>	<u>Total</u>
Balance at December 31, 2009	\$9,945	\$3,825	\$677	\$ -0-	\$14,447
Foreign currency translation adjustments			(43)		(43)
Balance at March 31, 2010	<u>\$9,945</u>	<u>\$3,825</u>	<u>\$634</u>	<u>\$ -0-</u>	<u>\$14,404</u>

The following tables present certain information on the Company's acquired intangible assets as of March 31, 2010, and December 31, 2009. 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 March 31, 2010:				
Patents	10 years	\$ 26	\$ (25)	\$ 1
Trademarks	15 years	<u>662</u>	<u>(529)</u>	<u>133</u>
		<u>\$688</u>	<u>\$ (554)</u>	<u>\$134</u>
At December 31, 2009:				
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>

The aggregate acquired intangible amortization expense was \$11 and \$13, respectively, for the three months ended March 31, 2010 and 2009. The estimated acquired intangible asset amortization expense for the fiscal year ending 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

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

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 March 31, 2010, BCI had no borrowings under WCLC, a \$3,000 bridge loan, and a \$5,700 loan. As of December 31, 2009, BCI had \$750 outstanding under the WCLC, a \$3,000 bridge loan, and a \$6,000 term loan. 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 \$71 at March 31, 2010) from two banks, with rates tied to short-term bank notes and Euromarket loans. At March 31, 2010, those rates ranged from 9.75% to 15.00%. At March 31, 2010, and December 31, 2009, Speech Design had no borrowings against these credit lines or facilities and no long-term debt.

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

8. **Income Taxes**

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

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 March 31, 2010, or December 31, 2009, 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.

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.

9. **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).

10. **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.

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

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.

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 was granted 5,000 restricted shares of common stock, which vested ratably over five years.

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 March 31, 2010 and December 31, 2009, 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 \$7 and \$7, respectively, for each of the quarters ended March 31, 2010 and 2009.

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 6.63 years, and 12,000 were exercisable at March 31, 2010. At March 31, 2010, these were the only options outstanding. The unrecognized compensation cost at March 31, 2010, was \$26, which will be expensed over the next twenty months. At March 31, 2010, these were the only options outstanding. At March 31, 2010, there were 1,212,020 options available for future grants under the terms of the Plan.

11. **Comprehensive Income**

The Company's comprehensive loss consists of net loss and translation adjustments and is presented in the consolidated statement of changes in stockholders' equity for the three months ended March 31, 2010.

12. **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 and prior financial statements include the substantial settlement and related legal costs.

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

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.

13. **Related Parties**

Several members of the Company's Board of Directors and executives of Speech Design and its subsidiaries formed a syndicate (the "Pool") for the purposes of advancing up to €600 (approximately \$808 as of March 31, 2010) 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 March Speech Design had sold approximately €19 (about \$1,270) of gross receivables to the Pool and received approximately €781 (about \$1,080).

14. **Recent Accounting Pronouncements**

FASB Accounting Standards Update 2010-17, Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition

The FASB issued ASU No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605): Milestone Method of Revenue Recognition*. This ASU codifies the consensus reached in EITF Issue No. 08-9, "Milestone Method of Revenue Recognition." The amendments to the Codification provide guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and nonsubstantive milestones, and each milestone should be evaluated individually to determine if it is substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The adoption of this pronouncement [is](#) not expected to have a material impact on the Company's consolidated financial position or results of operations.

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

FASB Accounting Standards Update 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements

The FASB has issued ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB's objective is to improve these disclosures and, thus, increase the transparency in financial reporting. Specifically, ASU 2010-06 amends Codification Subtopic 820-10 to now require:

- A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers; and
- In the reconciliation for fair value measurements using significant unobservable inputs, a reporting entity should present separately information about purchases, sales, issuances, and settlements.

In addition, ASU 2010-06 clarifies the requirements of the following existing disclosures:

- For purposes of reporting fair value measurement for each class of assets and liabilities, a reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities; and
- A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements.

ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

FASB Accounting Standards Update 2009-14, Software (Topic 985)—Certain Revenue Arrangements That Include Software Elements

FASB Accounting Standards Update 2009-14 changes the accounting model for revenue arrangements that include both tangible products and software elements. Under this guidance, tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are excluded from the software revenue guidance in Subtopic 985-605, Software-Revenue Recognition. In addition, hardware components of a tangible product containing software components are always excluded from the software revenue guidance. FASB Accounting Standards Updates 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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

FASB Accounting Standards Update 2009-13, Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements

FASB Accounting Standards Update 2009-13 addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, Revenue Recognition-Multiple-Element Arrangements, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor's multiple-deliverable revenue arrangements. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this pronouncement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

15. **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.