

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

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BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2011, and DECEMBER 31, 2010
(Dollars in Thousands, Except Share Amounts)

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 512	\$ 944
Trade receivables (net of allowance for doubtful accounts of \$205 and \$205 at June 30, 2011, and December 31, 2010, respectively)	6,071	3,309
Other receivables	50	350
Inventories	5,406	5,887
Prepaid expenses and other current assets	555	481
Current deferred income taxes	1,186	1,186
TOTAL CURRENT ASSETS	13,780	12,157
Equipment, furniture, and leasehold improvements, net	1,574	1,556
Goodwill	14,450	14,396
Other intangible assets, net	80	102
Deferred income taxes, net of current portion	3,598	3,164
Restricted cash	351	323
Receivables from related parties	680	672
Other assets	100	100
TOTAL ASSETS	\$ 34,613	\$ 32,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Amounts outstanding under revolving credit agreements	\$ 677	\$ -
Notes payable to related parties	432	-
Current maturities of long-term debt	1,820	1,600
Accounts payable	2,826	2,676
Accrued expenses	5,783	5,560
Income taxes payable	589	93
TOTAL CURRENT LIABILITIES	12,127	9,929
Long-term debt, net of current maturities	5,100	6,120
Other long-term liabilities	297	286
TOTAL LIABILITIES	17,524	16,335
COMMITMENTS AND CONTINGENCIES (See Note)		
STOCKHOLDERS' EQUITY		
Preferred stock - \$.001 par value; 800,000 authorized; none issued or outstanding at June 30, 2011, or December 31, 2010	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at June 30, 2011, and December 31, 2010; 4,109,489 shares issued and 4,079,740 shares outstanding at June 30, 2011, and December 31, 2010	4	4
Additional paid-in-capital	22,388	22,380
Accumulated deficit	(7,715)	(8,327)
Accumulated other comprehensive income	2,437	2,102
Treasury stock at cost - 29,749 shares at June 30, 2011, and December 31, 2010	(170)	(170)
TOTAL BOGEN COMMUNICATIONS INTERNATIONAL, INC. & SUBSIDIARIES STOCKHOLDERS' EQUITY	16,944	15,989
Non-controlling interest	145	146
TOTAL STOCKHOLDERS' EQUITY	17,089	16,135
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 34,613	\$ 32,470

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net sales	\$ 12,715	\$ 11,487	\$ 22,594	\$ 20,948
Cost of goods sold	<u>7,106</u>	<u>6,645</u>	<u>12,442</u>	<u>11,829</u>
Gross profit	5,609	4,842	10,152	9,119
Operating expenses:				
Research and development	1,123	1,181	2,175	2,354
Selling, general and administrative	3,449	3,390	6,774	6,264
Amortization of intangibles	<u>10</u>	<u>11</u>	<u>21</u>	<u>22</u>
Income from operations	1,027	260	1,182	479
Other (income) expenses:				
Interest income	(7)	(8)	(14)	(15)
Interest expense	96	123	184	360
Other income	<u>(2)</u>	<u>(5)</u>	<u>(7)</u>	<u>(8)</u>
Income before income taxes	940	150	1,019	142
Income tax expense	<u>375</u>	<u>177</u>	<u>408</u>	<u>223</u>
Net income (loss) before non-controlling interest	565	(27)	611	(81)
Net loss attributable to non-controlling interest	<u>(2)</u>	<u>(23)</u>	<u>(1)</u>	<u>(91)</u>
Net income (loss) attributable to Bogen Communications International, Inc.	<u>\$ 567</u>	<u>\$ (4)</u>	<u>\$ 612</u>	<u>\$ 10</u>

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010
(Dollars in Thousands, Except Share Amounts)
(Unaudited)

	Bogen Communications International, Inc. & Subsidiaries									
	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income	Treasury Stock		Total Stock- holders' Equity	Non- controlling Interest	Total Stock- holders' Equity
Number of Shares	Amount	Number of Shares				Amount				
Balance at January 1, 2011	4,109,489	\$ 4	\$ 22,380	\$ (8,327)	\$ 2,102	29,749	\$ (170)	\$ 15,989	\$ 146	\$ 16,135
Stock-based compensation	-	-	8	-	-	-	-	8	-	8
Common stock dividend	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	612	-	-	-	612	(1)	611
Translation adjustments	-	-	-	-	335	-	-	335	-	335
Total comprehensive income	-	-	-	-	-	-	-	-	-	946
Balance at June 30, 2011	<u>4,109,489</u>	<u>\$ 4</u>	<u>\$ 22,388</u>	<u>\$ (7,715)</u>	<u>\$ 2,437</u>	<u>29,749</u>	<u>\$ (170)</u>	<u>\$ 16,944</u>	<u>\$ 145</u>	<u>\$ 17,089</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to Bogen Communications International, Inc.	\$ 612	\$ 10
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	325	265
Amortization of intangible assets	21	22
Stock-based compensation	8	9
Deferred income taxes	(154)	(508)
Gain on disposal of equipment	(4)	-
Gain attributable to non-controlling interest	(1)	(91)
Change in operating assets and liabilities:		
Receivables	(2,325)	3,009
Inventories	543	(251)
Prepaid expenses and other current assets	(55)	162
Accounts payable and accrued expenses	477	1,309
Other	11	(8)
Net cash (used in) provided by operating activities	(542)	3,928
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furniture, and leasehold improvements	(255)	(217)
Proceeds from sale of equipment	7	-
Net cash used in investing activities	(248)	(217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	-	(1)
Principal payments of short-term debt	-	(3,000)
Principal payments of long-term debt	(800)	(600)
Proceeds from related party notes payable	421	-
Net increase (decrease) in borrowings under revolving credit agreements	674	(750)
Net cash provided by (used in) financing activities	295	(4,351)
Effects of foreign exchange rate on cash	63	(171)
DECREASE IN CASH AND CASH EQUIVALENTS	(432)	(811)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	944	2,273
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 512	\$ 1,462
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 183	\$ 360
Cash paid for income taxes	\$ 73	\$ 185

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. (the "Parent" or "BCII") and its subsidiaries (the "Company") include an unaudited, unreviewed balance sheet as of June 30, 2011, and a balance sheet of December 31, 2010, derived from audited consolidated financial statements by auditors whose opinion is dated March 18, 2011. The consolidated statements of income, statements of stockholders' equity, and cash flows include unaudited, unreviewed information for the three and six months ended June 30, 2011 and 2010. 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 year balances have been reclassified to conform to the current year's presentation. The results of operations for interim periods are not necessarily indicative of the operating results for the full year.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2010.

2. **Principles of Consolidation**

The consolidated financial statements of the Company include the accounts of BCII, BCII'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"); BCII'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"). Carrier Systems was merged into Speech Design in 2010. 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 voice 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
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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 focuses on voice messaging and related telephone switch peripherals for the small-to-medium enterprise market and on voice messaging products and services supporting the infrastructure requirements of fixed line and mobile operators throughout Europe, the Middle East, and Africa.

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, 2010. 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:

Three Months Ended

	June 30, 2011		June 30, 2010	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers				
United States	\$ 9,768	\$ 0	\$ 9,642	\$ 0
International	<u>575</u>	<u>2,372</u>	<u>518</u>	<u>1,327</u>
Total Revenues	<u>\$10,343</u>	<u>\$2,372</u>	<u>\$10,160</u>	<u>\$1,327</u>
Gross Profit	4,094	1,515	3,957	885
Income (loss) before income taxes	1,272	(275)	1,315	(1,085)

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Six Months Ended

	June 30, 2011		June 30, 2010	
	<u>Bogen</u>	<u>Speech Design</u>	<u>Bogen</u>	<u>Speech Design</u>
Revenue from external customers				
United States	\$17,005	\$ 0	\$16,787	\$ 0
International	<u>963</u>	<u>4,626</u>	<u>877</u>	<u>3,284</u>
Total Revenues	<u>\$17,968</u>	<u>\$4,626</u>	<u>\$17,664</u>	<u>\$3,284</u>
Gross Profit	7,082	3,070	6,784	2,335
Income (loss) before income taxes	1,556	(422)	2,117	(1,856)

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Total income before income taxes for reportable segments	\$997	\$230	\$1,134	\$261
Other corporate expense	<u>(57)</u>	<u>(80)</u>	<u>(115)</u>	<u>(119)</u>
Income (loss) before income taxes	<u>\$940</u>	<u>\$150</u>	<u>\$1,019</u>	<u>\$142</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:

	June 30, <u>2011</u>	December 31, <u>2010</u>
Raw materials and supplies	\$ 869	\$ 596
Work in progress	0	8
Finished goods	<u>4,537</u>	<u>5,283</u>
	<u>\$5,406</u>	<u>\$5,887</u>

6. **Goodwill and Intangible Assets**

All goodwill and intangible assets are assigned to the Company's 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 the potential for a 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, 2010, upon completion and approval of the Company's financial operating plan for 2011 and concluded that no goodwill impairment existed as of that time.

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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.

The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period December 31, 2010, to June 30, 2011:

	<u>Bogen</u>	<u>Speech Design</u>	<u>Carrier Systems</u>	<u>Total</u>
Balance at December 31, 2010	\$9,945	\$3,825	\$626	\$14,396
Foreign currency translation				
Adjustments	<u>0</u>	<u>0</u>	<u>54</u>	<u>54</u>
Balance at June 30, 2011	<u>\$9,945</u>	<u>\$3,825</u>	<u>\$680</u>	<u>\$14,450</u>

The following tables present certain information on the Company's acquired intangible assets as of June 30, 2011, and December 31, 2010. 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 June 30, 2011:				
Patents	10 years	\$ 26	\$ (26)	\$ 0
Trademarks	15 years	<u>662</u>	<u>(582)</u>	<u>80</u>
		<u>\$688</u>	<u>\$(608)</u>	<u>\$ 80</u>
At December 31, 2010:				
Patents	10 years	\$ 26	\$ (26)	\$ 0
Trademarks	15 years	<u>662</u>	<u>(560)</u>	<u>102</u>
		<u>\$688</u>	<u>\$(586)</u>	<u>\$102</u>

The aggregate acquired intangible amortization expense was \$10 and \$11, respectively, for the three months ended June 30, 2011 and 2010, and \$21 and \$22 for the six-month periods ended June 30, 2011 and 2010. The estimated acquired intangible asset amortization expense for the fiscal year ending December 31, 2011, and for the four subsequent years is as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Estimated Amortization Expense</u>
2011	\$42
2012	\$42
2013	\$18
2014	\$ 0
2015	\$ 0

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

7. Revolving Credit Agreements

BCI has a credit facility (the “Facility”) with KeyBank National Association (“Key”). The Facility included a \$2,500 unconditional working capital line of credit (“WCLC”) and a \$6,000 term loan. The term loan carried 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 term loan are 0.25% higher. The Facility has several financial covenant, operational, and reporting requirements, including separate audits of and financial statements for the Company and BCI. The WCLC matured on June 30, 2011, and was extended to June 30, 2012, at BCI’s request and Key’s consent. In September 2010, a \$300 letter of credit within the WCLC was added, with an annual renewal requirement.

In December 2010, the Facility was amended. In conjunction with the Company’s distribution to shareholders, the term loan balance was increased to \$7,720, BCII was added as a borrower, repayments were increased to \$510 per quarter in 2012, 2013, and 2014, and certain financial covenant definitions were revised. Annual payments on the term loan for the fiscal year ended December 31, 2011, and the next four years are:

Fiscal Year Ended <u>December 31,</u>	Total Annual <u>Payments</u>
2011	\$1,600
2012	\$2,040
2013	\$2,040
2014	\$2,040
2015	\$-0-

As of June 30, 2011, BCI had \$521 outstanding under the WCLC and a \$6,920 balance remaining on the term loan. At December 31, 2010, there were no borrowing under the WCLC and a \$7,720 balance on the term loan. The letter of credit was not utilized as of either date.

Speech Design and its subsidiaries had continuously renewing credit lines and overdraft facilities of approximately €728 (approximately \$1,050 at June 30, 2011) from two banks, with rates tied to short-term bank notes and Euromarket loans. At June 30, 2011, those rates ranged from 7.5% to 17.5%. At June 30, 2011, Speech Design had €109 (approximately \$156) outstanding against the credit facilities and no long term debt. Speech Design also had a note payable to a related party for €300 (approximately \$432), due December 31, 2011. At December 31, 2010, Speech Design had no borrowings against these credit lines or facilities and no long-term debt.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
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(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 evaluates 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 measures 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 June 30, 2011, or December 31, 2010, 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 2010. All tax returns for the year ended December 31, 2010, are expected to be filed by October 15, 2011. 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 \$2,165 at December 31, 2010.

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 accounting guidance concerning provisions for uncertain income tax positions contained in ASC 740-10, there are no uncertain income tax positions.

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”).

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
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(Unaudited)

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.

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 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 June 30, 2011, and December 31, 2010, 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 for each of the quarters ended June 30, 2011 and 2010, and \$14 for each of the six-month periods ended June 30, 2011 and 2010.

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 5.38 years, and 16,000 were exercisable at June 30, 2011. The unrecognized compensation cost at June 30, 2011, was \$7, which will be expensed over the next five months. At June 30, 2011, these were the only options outstanding. At June 30, 2011, 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 income and translation adjustments and is presented in the consolidated statement of changes in stockholders' equity for the six months ended June 30, 2011.

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(Unaudited)

12. Litigation

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

As of June 30, 2011, the Company has loans and related interest receivable outstanding of \$680 from three directors related to stock grants. See Note, "Stock-Based Compensation".

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 \$770 as of July 22, 2010, the Pool's expiration date) 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 was 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 were distributed to the Pool members net of any costs incurred. The pool expired on July 22, 2010, with the final collection of factored receivables and distribution to the pool. As of that date, Speech Design had sold approximately €1,095 (about \$1,405) of gross receivables to the Pool and received approximately €30 (about \$1,195).

Beginning in October 2010, Mr. Arciszewski began advancing Speech Design funds at a 5% discount against trade receivables from non-German customers. As of June 30, 2011, about €1,380 (\$1,985 as of June 30, 2011) of gross receivables had been sold to him and Speech Design received about €1,310 (\$1,885). In addition, Speech Design has a note payable to Mr. Arciszewski for €300 (\$432 at June 30, 2011, due December 31, 2011. See Note: "Revolving Credit Agreements".

14. 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 August 2, 2011, which is the date the financial statements were available to be issued.

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15. *Recent Accounting Pronouncements*

FASB Accounting Standards Update 2011-05 (“ASU 2011-05”), Comprehensive Income (Topic 220): Presentation of Comprehensive Income

In June 2011, the FASB issued new guidance for how public and private companies must present other comprehensive income and its components in their financial statements. The guidance under ASU 2011-05 applies to all companies that report items of other comprehensive income. Under these amendments to Topic 220, *Comprehensive Income*, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance in ASU 2011-05 takes effect for public companies during the interim and annual periods beginning after Dec. 15, 2011, and is effective for private companies for annual periods beginning after Dec. 15, 2012, and interim and annual periods thereafter. Early adoption is permitted. Public or private companies affected by the guidance must apply it retrospectively for all periods presented in the financial statements. The Company does not expect ASU 2011-05 to have a material effect on its financial position or results of operations.

FASB Accounting Standards Update 2011-04 (“ASU 2011-04”), Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the FASB issued ASU 2011-04 to substantially converge the guidance in U.S.GAAP and IFRS on fair value measurements and disclosures. The amended guidance changes several aspects of the fair value measurements guidance in Topic 820 including the following provisions:

- Applications of the concepts of *highest and best use* and *valuation premise*
- Introduction of an option to measure groups of offsetting assets and liabilities on a net basis
- Incorporation of certain premiums and discounts in fair value measurements
- Measurement of the fair value of certain instruments classified in shareholders' equity

In addition, the amended guidance includes several new fair value disclosure requirements, including among other things, information about valuation techniques and unobservable inputs used in Level 3 fair value measurements and a narrative description of Level 3 measurements' sensitivity to changes in unobservable inputs. Some of the new disclosures are not required for nonpublic entities. The amended guidance must be applied prospectively. For public entities, the amended guidance is effective for interim and annual periods beginning after December 15, 2011, and early application is not permitted. For nonpublic entities, the amended guidance is effective for annual periods beginning after December 15, 2011, and early application is permitted starting with interim periods beginning after December 15, 2011. The Company does not expect ASU 2011-04 to have a material effect on its financial position or results of operations.

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FASB Accounting Standards Update 2011-02 (“ASU 2011-02”), Receivables (Topic 310): A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring

ASU 2011-02 was issued by the FASB in April 2011, and provides additional guidance on a creditor’s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. The additional guidance is intended to create additional consistency in the application of GAAP for debt restructuring. ASU 2011-02 applies to all creditors, including both public and nonpublic entities that restructure receivables within the scope of ASC 310-40: *Receivables – Troubled Debt Restructuring by Creditors*.

In order for a restructuring to be considered a Troubled Debt Restructuring both of the following must exist:

1. The restructuring is a concession
2. The debtor is experiencing financial difficulties

Clarifications on determination of a concession are provided as follows:

1. The debtor cannot access debt with similar characteristics in the market
2. A temporary or permanent increase in interest rate does not preclude the restructuring from being a concession; terms must still be evaluated against those available in the market
3. An insignificant delay in payment is not a concession

Clarification on determination as to whether a debtor is experiencing financial difficulty is provided as follows: although a debtor may not currently be in default, management must evaluate if it is probable the debtor would be in default in the foreseeable future without the restructuring.

ASU 2011-02 will be effective for public entities for interim and annual periods beginning on or after June 15, 2011 and for nonpublic entities for annual periods ending on or after December 31, 2012. The Company does not expect ASU 2011-02 to have a material effect on its financial position or results of operations.

FASB Accounting Standards Update 2011-01 (“ASU 2011-01”), Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in ASU 2010-20

In January 2011, the FASB issued ASU 2011-01, which temporarily defers the effective date of the disclosure requirements for public entities about troubled debt restructurings in ASU 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, with an intent to have the disclosure requirements be concurrent with the effective date of the guidance for determining what constitutes a troubled debt restructuring. Currently, the guidance for determining what constitutes a troubled debt restructuring is anticipated to be effective for interim and annual periods ending after June 15, 2011. The amendments in ASU 2011-01 do not defer the effective date for the other disclosures required of public entities by ASU 2010-20. The amendments in ASU 2011-01 do not affect nonpublic entities as the effective date for the disclosures required by ASU 2010-20 for nonpublic entities is for periods ending on or after December 15, 2011. The Company does not expect ASU 2011-01 to have a material effect on its financial position or results of operations.

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FASB Accounting Standards Update 2010-29 (“ASU 2010-29”), Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations

In December 2010, the FASB issued amended guidance regarding how public entities disclose supplemental pro forma information for business combinations that occur during the current year. Under the amended guidance, a public entity that presents comparative financial statements must disclose the revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the prior annual reporting period. The guidance in ASU 2010-29 also amends ASC 805 to require public entities to provide a description of the nature and amount of any material, nonrecurring pro forma adjustments directly attributable to business combination(s) that are included in the reported pro forma revenue and earnings.

A not-for-profit acquirer that is a public entity must disclose the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the acquisition that are included in the reported pro forma revenue and in changes in (1) unrestricted net assets, (2) temporarily restricted net assets, and (3) permanently restricted net assets.

The amended guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, and early adoption is permitted. ASU 2010-29 has had no impact to the Company.

ASU 2010-28, Intangibles-Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts

The objective of this ASU, issued in December 2010, is to address entities with reporting units with zero or negative carrying amounts who concluded that Step 1 of the test is passed in those circumstances because the fair value of their reporting unit will generally be greater than zero. Under Topic 350 on goodwill and other intangible assets, testing for goodwill impairment is a two-step process. Step 1 of the test is to assess whether the carrying amount of a reporting unit exceeds its fair value. If Step 1 is not met, Step 2 of the test must be performed which is to determine whether goodwill has been impaired and to calculate the amount of that impairment.

The amendments in ASU 2010-28 modify the Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more than likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist.

The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

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For public entities, the amendments in this ASU are effective for fiscal years and interim periods within those years, beginning after December 15, 2010, early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. The Company adopted this ASU effective January 1, 2011; there was no effect on the financial position, results of operations, or cash flows of the Company.

FASB Accounting Standards Update 2010-22, Accounting for Various Topics

In August 2010, the FASB issued ASU 2010-22, *Accounting for Various Topics*. ASU 2010-22 amends various SEC paragraphs in the FASB Accounting Standards Codification based on external comments received and the issuance of Staff Accounting Bulletin (“SAB”) No. 112, which amends or rescinds portions of certain SAB topics. The Company does not expect the provisions of ASU 2010-22 to have a material effect on the financial position, results of operations or cash flows of the Company.

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 has not had a material impact on the Company's consolidated financial position or results of operations.

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

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- 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 has not had 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 has not had a material impact on the Company's consolidated financial position or results of operations.

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.

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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 has not had a material impact 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.

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.