

# BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

## ANNUAL REPORT

---

December 31, 2012 and 2011



# **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

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## **INDEPENDENT AUDITORS' REPORT**

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

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Bogen Communications International, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2012, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT**

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***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bogen Communications International, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

*EisnerAmper LLP*

Edison, New Jersey  
April 4, 2013

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**DECEMBER 31, 2012 and 2011**  
(Dollars in Thousands, Except Share Amounts)

	2012	2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 539	\$ 573
Trade receivables (net of allowance for doubtful accounts of \$13 at December 31, 2012, and \$1 at December 31, 2011)	3,176	2,891
Federal and state income tax receivables	-	225
Other receivables	-	1
Inventories	327	347
Prepaid expenses and other current assets	331	329
Current deferred income taxes	271	-
Assets of discontinued operations	-	9,950
<b>TOTAL CURRENT ASSETS</b>	<b>4,644</b>	<b>14,316</b>
Equipment, furniture, and leasehold improvements, net	605	793
Goodwill	4,450	4,437
Other intangible assets, net	414	59
Deferred income taxes, net of current portion	2,828	3,446
Receivables from related parties	-	672
Assets of discontinued operations	-	11,227
<b>TOTAL ASSETS</b>	<b>\$ 12,941</b>	<b>\$ 34,950</b>
 <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 896	\$ 1,256
Accrued expenses	4,192	4,470
Liabilities of discontinued operations	-	5,520
<b>TOTAL CURRENT LIABILITIES</b>	<b>5,088</b>	<b>11,246</b>
Deferred income taxes	32	259
Liabilities of discontinued operations	-	5,274
<b>TOTAL LIABILITIES</b>	<b>5,120</b>	<b>16,779</b>
 <b>COMMITMENTS AND CONTINGENCIES (See Notes N and O)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock - \$.001 par value; 800,000 authorized; none issued or outstanding at December 31, 2012, or December 31, 2011	-	-
Common stock - \$.001 par value; 10,000,000 shares authorized at December 31, 2012 and 2011; 4,109,489 shares issued and 4,079,740 shares outstanding at December 31, 2012 and 2011	4	4
Additional paid-in-capital	2,947	22,523
Retained earnings (Accumulated deficit)	3,123	(6,145)
Accumulated other comprehensive income	1,917	1,959
Treasury stock at cost - 29,749 shares at December 31, 2012 and 2011	(170)	(170)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>7,821</b>	<b>18,171</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 12,941</b>	<b>\$ 34,950</b>

See accompanying notes to consolidated financial statements.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**  
**(Dollars in Thousands)**

	<u>2012</u>	<u>2011</u>
Net sales	\$ 11,750	\$ 9,978
Cost of goods sold	<u>4,284</u>	<u>3,353</u>
Gross profit	7,466	6,625
Operating expenses:		
Research and development	2,200	2,432
Selling, general and administrative	4,870	4,919
Amortization of intangibles	<u>42</u>	<u>42</u>
Income (loss) from operations	354	(768)
Other (income) expenses:		
Interest income	(26)	(28)
Interest expense	100	48
Other income	<u>-</u>	<u>(235)</u>
Income (loss) from continuing operations before income taxes	280	(553)
Income tax expense (benefit)	<u>56</u>	<u>(383)</u>
Income (loss) from continuing operations	224	(170)
Net income from discontinued operations, net of income taxes of \$1,455 (2012) and \$1,257 (2011)	<u>2,678</u>	<u>2,341</u>
Net income	2,902	2,171
Net loss attributable to non-controlling interest	<u>-</u>	<u>(11)</u>
Net income attributable to Bogen Communications International, Inc.	<u>\$ 2,902</u>	<u>\$ 2,182</u>

See accompanying notes to consolidated financial statements.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**  
**(Dollars in Thousands)**

	<u>2012</u>	<u>2011</u>
Net income attributable to Bogen Communications International, Inc. & Subsidiaries	\$ 2,902	\$ 2,182
Other comprehensive income (loss):		
Translation adjustments	<u>76</u>	<u>(143)</u>
Total other comprehensive income (loss)	<u>76</u>	<u>(143)</u>
Comprehensive income	<u>\$ 2,978</u>	<u>\$ 2,039</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, 2012 and 2011**  
(Dollars in Thousands, Except Share Amounts)

Bogen Communications International, Inc.										
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other	Treasury Stock		Total Stock- holders' Equity	Non- controlling Interest	Total Stock- holders' Equity
	Number of Shares	Amount		(Accumulated Deficit)	Comprehensive Income	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	-	-	15	-	-	-	-	15	-	15
Redemption of subsidiary stock	-	-	128	-	-	-	-	128	(135)	(7)
Net income	-	-	-	2,182	-	-	-	2,182	(11)	2,171
Translation adjustments	-	-	-	-	(143)	-	-	(143)	-	(143)
Balance at December 31, 2011	4,109,489	\$ 4	\$ 22,523	\$ (6,145)	\$ 1,959	29,749	\$ (170)	\$ 18,171	\$ -	\$ 18,171
Distribution paid	-	-	-	(2,244)	-	-	-	(2,244)	-	(2,244)
Spin-off of subsidiary company	-	-	(19,576)	8,610	(118)	-	-	(11,084)	-	(11,084)
Net income	-	-	-	2,902	-	-	-	2,902	-	2,902
Translation adjustments	-	-	-	-	76	-	-	76	-	76
Balance at December 31, 2012	4,109,489	\$ 4	\$ 2,947	\$ 3,123	\$ 1,917	29,749	\$ (170)	\$ 7,821	\$ -	\$ 7,821

See accompanying notes to consolidated financial statements.



**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**  
(Dollars in Thousands)

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 2,902	\$ 2,171
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
(Income) from discontinued operations	(2,678)	(2,341)
Depreciation and amortization	382	387
Amortization of intangible assets	42	42
Stock-based compensation	-	15
Provision for doubtful accounts	12	-
Deferred income taxes	182	(273)
Gain on disposal of equipment	(1)	9
Change in operating assets and liabilities:		
Receivables	(226)	(1,342)
Inventories	27	312
Prepaid expenses and other current assets	3	(446)
Restricted cash	-	340
Accounts payable and accrued expenses	(737)	1,081
Other	-	-
Net cash used in operating activities - continuing operations	<u>(92)</u>	<u>(45)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment, furniture, and leasehold improvements	(182)	(410)
Purchase of intangible assets	(388)	-
Proceeds from sale of equipment	-	7
Net cash used in investing activities - continuing operations	<u>(570)</u>	<u>(403)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repurchase of subsidiary common stock	-	(7)
Distribution to shareholders	(2,244)	-
Dividends from subsidiaries	2,869	380
Net cash provided by financing activities - continuing operations	<u>625</u>	<u>373</u>
Effects of foreign exchange rate on cash	<u>3</u>	<u>(102)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(34)	(177)
Cash flows from discontinued operations - operating activities	2,100	3,311
Cash flows from discontinued operations - investing activities	(279)	(441)
Cash flows from discontinued operations - financing activities	(3,305)	(1,580)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,057</u>	<u>944</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 539</u>	<u>\$ 2,057</u> (a)
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 102	\$ 50
Cash paid for income taxes	\$ 4	\$ 3

(a) Includes \$1,484 applicable to discontinued operations

See accompanying notes to consolidated financial statements.

## **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE A – ORGANIZATION**

Bogen Communications International, Inc. (the “Parent” or “BCII”), together with its subsidiaries, (the “Company”) develops, markets, and sells telecommunications peripherals and voice messaging and related products and services to customers primarily in Europe and the Middle East. The Company’s offices are located in the United States and Germany. Bogen Corporation and subsidiaries (“Bogen”), a company with operations in the United States, was a subsidiary of BCII until December 21, 2012, at which time its outstanding shares of common stock were distributed to shareholders of BCII in a spin off (see Note B).

#### **NOTE B – SPIN-OFF OF BOGEN CORPORATION FROM PARENT**

On November 29, 2012, a special meeting of the shareholders of BCII was held to consider and vote on spinning off Bogen to BCII’s shareholders of record as of November 19, 2012. At the meeting, the shareholders approved the spin-off, which became effective as of December 21, 2012. Immediately after the spin-off, Bogen began operating as a separate company, wholly independent of BCII. For financial reporting purposes, the operations of Bogen prior to the spin-off are shown as discontinued operations and its assets and liabilities at December 31, 2011, have been reclassified as amounts related to discontinued operations.

Each shareholder of BCII received one share of Bogen for each share held of BCII. BCII shareholders were not required to pay any consideration for the shares of Bogen common stock that they received in the spin-off and they were not required to surrender or exchange and BCII shares. However, BCII believes that it is likely that shareholders will owe taxes in connection with the spin-off. All of the outstanding shares of Bogen had been owned by BCII; therefore there is no current trading market for those shares. After the spin-off, Bogen’s shares will not be registered with the Securities and Exchange Commission or with any state securities commission and will be restricted.

A summary of the operating results for the discontinued operations is as follows:

<b><u>Year ended December 31</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Revenues	<b><u>\$ 38,714</u></b>	<b><u>\$ 37,096</u></b>
Operating income	<b><u>\$ 4,375</u></b>	<b><u>\$ 3,891</u></b>

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

**NOTE B – SPIN-OFF OF BOGEN CORPORATION FROM PARENT-(CONT'D)**

Assets and liabilities consisted of the following:

	<b>December 20, 2012</b>	<b>December 31, 2011</b>
	<b>Assets and Liabilities Spun Off</b>	<b>Discontinued Operations</b>
Cash	\$ -	\$ 1,484
Receivables	3,724	2,441
Inventories	4,843	4,562
Other current assets	<u>1,340</u>	<u>1,463</u>
Total current assets	9,907	9,950
Equipment, furniture, and improvements	1,102	1,089
Goodwill	9,945	9,945
Other assets	<u>100</u>	<u>193</u>
Total non-current assets	<u>11,147</u>	<u>11,227</u>
Assets of discontinued operations	<u>\$ 21,054</u>	<u>\$ 21,177</u>
Amounts outstanding under revolving credit agreements	\$ 883	\$ -
Current maturities of long-term debt	1,263	1,663
Accounts payable	1,390	1,674
Accrued expenses	1,818	1,980
Other current liabilities	<u>276</u>	<u>203</u>
Total current liabilities	5,630	5,520
Long-term debt, net of current maturities	4,008	4,965
Other liabilities	<u>332</u>	<u>309</u>
Total non-current liabilities	<u>4,340</u>	<u>5,274</u>
Liabilities of discontinued operations	<u>\$ 9,970</u>	<u>\$ 10,794</u>

**NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**[1] Principles of consolidation:**

The consolidated financial statements of the Company include the accounts of BCII, BCII's wholly-owned subsidiary until December 21, 2012, Bogen; Bogen's wholly-owned subsidiary, Bogen Communications, Inc. ("BCI"); BCI's wholly-owned subsidiary, Apogee Sound International, LLC ("Apogee"); BCII's wholly-owned subsidiary, Speech Design International Inc. ("SDI"), SDI's wholly-owned subsidiary, Speech Design GmbH

## **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

("Speech Design"); and Speech Design's wholly-owned subsidiary, Satelco AG ("Satelco"). The non-controlling interest in SDI was repurchased on September 30, 2011, and Satelco was sold effective December 31, 2011. Satelco's operations were deemed immaterial to the consolidated financial statements; therefore the results were not reported as discontinued operations. Inter-company balances, profits and losses, and transactions have been eliminated in consolidation.

Prior to September 30, 2011, the ownership interest of minority owners in the equity and earnings of the Company's less than 100 percent-owned consolidated subsidiaries were recorded as non-controlling interest.

**[2] 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.

**[3] Concentrations of credit risk:**

The Company's domestic operations maintain banking relationships at one financial institution with locations throughout the northeast United States. The balances at the institution are each insured by Federal Deposit Insurance Corporation; any overnight investments are not insured.

The Company's foreign operations maintain banking relationships with several financial institutions in Germany. 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 that 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, 2012.

The Company performs on-going credit evaluations of its customers. (See Note P.)

**[4] Marketable Securities:**

From time to time, the Company invests 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 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.

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

**NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**[5] 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 allowance for doubtful accounts quarterly. Past due balances over ninety days and above a specified amount are reviewed individually for collectability. 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

**[6] Inventories:**

Inventories are stated at the lower cost or market and are valued using the first in, first out method.

**[7] 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 current estimated useful lives used in computing depreciation of equipment and leasehold improvements are:

Machinery, equipment and tooling	3-10 Years
Furniture and office equipment	3-10 Years
Computer software and hardware	2-10 Years
Vehicles	3-5 Years
Leasehold improvements	Lesser of 10 years or remainder of lease

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 (Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**[8] Goodwill:**

The Company reviews goodwill for impairment annually. Management has determined that after the spin-off of Bogen, it operates as two reporting units. Prior to the spin-off, the Company determined that it operated four operating units. Goodwill is tested for impairment at the reporting unit level. In the current year, as of December 31, 2012, the Company adopted Accounting Standards Updates (“ASU”) 2011-08, Testing Goodwill for Impairment. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. If, after assessing the qualitative factors, the Company determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the Company performs a two-part impairment test. In the first step, the Company would use the income approach to assess the fair value of the reporting unit. If fair value is less than the carrying amount of the reporting unit, the second step would compare the implied fair value of goodwill with its carrying amount. If impairment is determined, the Company would then recognize additional charges to operating expenses in the period in which they are identified, which would result in a reduction of operating results and a reduction in the amount of goodwill. During the years ended December 31, 2012 and 2011, the Company determined that no impairment of goodwill existed.

**[9] Impairment and 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 2012 and 2011, the Company did not record any impairment charges.

**[10] Revenue Recognition:**

The Company derives its revenue from continuing operations from the sale of telecommunications peripheral equipment and services and support revenue for that equipment. Revenue related to discontinued operations consisted of sales of sound processing equipment and related services and support revenue. 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 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 Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

The Company accounts for 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.

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 goods sold.

#### **[11] Research and Development:**

Internal research and development costs are expensed as incurred for most projects. Certain development projects that meet the requirements needed to achieve technical feasibility are capitalized and amortized over their expected useful lives.

#### **[12] 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 carry forwards. 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.

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 \$1,729 at December 31, 2012, and \$2,279 at December 31, 2011.

## **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**[13] Product warranty:**

The Company's warranty policy generally covers its products for a period from one to five years. 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, 2012 and 2011, the warranty reserve related to continuing operations was \$28 and \$26, respectively.

**[14] Stock Based Compensation:**

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 2011 or 2012.

**[15] Comprehensive Income:**

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

**[16] 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**  
**(Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

**NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

**[17] Translations 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.

**[18] 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.

**[19] 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 loss can be reasonably estimated.

**[20] Reclassifications:**

Prior year balances and transactions of Bogen and its subsidiaries have been reclassified as discontinued operations.

**NOTE D – INVENTORIES**

	<b>December 31,</b>	
	<b><u>2012</u></b>	<b><u>2011</u></b>
Inventories are comprised of the following items:		
Raw materials and supplies	<b>\$ 270</b>	<b>\$ 287</b>
Finished goods	<b><u>57</u></b>	<b><u>60</u></b>
Total Inventory	<b><u>\$327</u></b>	<b><u>\$347</u></b>

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE E – EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS**

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

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Machinery, equipment, vehicles, and tooling	\$ 2,193	\$ 1,893
Furniture and office equipment	4,138	4,188
Leasehold improvements, at cost	<u>263</u>	<u>258</u>
	6,594	6,339
Less: accumulated depreciation and amortization	<u>(5,989)</u>	<u>(5,546)</u>
Net equipment, furniture, and improvements	<u>\$ 605</u>	<u>\$ 793</u>

Depreciation and amortization expense charged to continuing operations was \$382 and \$387 for the years ended December 31, 2012 and 2011, respectively.

**NOTE F – GOODWILL AND INTANGIBLE ASSETS**

All goodwill and intangible assets are assigned to the Company's two 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 test as of December 31, 2012, upon completion and approval of the Company's financial operating plan for 2013 and concluded that no goodwill impairment existed as of that date.

The Company cannot predict the occurrence of the 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**

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**NOTE F – GOODWILL AND INTANGIBLE ASSETS-(CONT'D)**

Goodwill totaled \$4,450 at December 31, 2012. The table below reconciles the change in the carrying amount of goodwill, by reporting unit, for the period from January 1, 2011, to December 31, 2012:

	<u>Speech Design</u>	<u>Carrier Systems</u>	<u>Total</u>
Balance at January 1, 2011	\$ 3,825	\$ 626	\$ 4,451
Foreign currency translation adjustments	-	(14)	(14)
Balance at December 31, 2011	3,825	612	4,437
Foreign currency translation adjustments	-	13	13
Balance at December 31, 2012	<u>\$ 3,825</u>	<u>\$ 625</u>	<u>\$ 4,450</u>

The following tables present certain information on the Company's intangible assets as of December 31, 2012 and 2011. All intangible assets are being amortized over their estimated useful lives, as indicated below, with no estimated residual values.

	<u>Weighted Average Amort. Period</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
<b>Intangible Assets</b>				
<b>At December 31, 2012</b>				
Hosting Software	7 Years	\$ 396	\$ -	\$ 396
Trademarks	15 Years	650	(632)	18
		<u>\$ 1,046</u>	<u>\$ (632)</u>	<u>\$ 414</u>
<b>At December 31, 2011</b>				
Trademarks	15 Years	650	(591)	59
		<u>\$ 650</u>	<u>\$ (591)</u>	<u>\$ 59</u>

The aggregate intangible amortization expense for the years ended December 31, 2012 and 2011 was approximately \$42 and \$42, respectively. The estimated intangible asset amortization expense for the fiscal year ending December 31, 2013, and the four subsequent years is as follows:

<u>Fiscal Year Ended December 31</u>	<u>Estimated Amortization Expense</u>
2013	\$ 44
2014	\$ 57
2015	\$ 57
2016	\$ 57
2017	\$ 57

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**NOTE G – REVOLVING CREDIT AGREEMENTS**

BCII and BCI jointly had a credit facility with KeyBank National Association (“Key”). All of the issued and outstanding capital stock of BCII and its domestic subsidiaries and tangible and intangible assets were pledged as collateral. In December 2012, the facility was amended: certain definitions were modified or added, financial covenants were modified, and BCII was released from any and all obligations as a borrower or pledger under the related loan agreement. The modification was effective December 13, 2012. BCII still maintains its primary banking relationship with Key. As of December 31, 2012, and 2011, BCII had no borrowings.

Speech Design and its subsidiaries had continuously been renewing credit lines and overdraft facilities of approximately €20 (approximately \$23 at December 31, 2012) from one bank with rates tied to short-term bank notes and Euro market loans. At December 31, 2012, those rates ranged from 7.40% to 15.00%. At December 31, 2012 and 2011, Speech Design had no borrowings against these credit lines or facilities and no long term debt.

**NOTE H – LEASES**

The Company occupies its warehouse and office facilities and operates certain equipment and vehicles under operating leases expiring at various dates through 2015. The facility leases contain escalation clauses and provide for payments of taxes and expenses over base rent. The facility leases also contain renewal options of varying lengths.

Future minimum annual lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2012, are as follows:

<b><u>Year Ending December 31,</u></b>	<b><u>Operating Leases</u></b>
2013	\$ 492
2014	183
2015	24
Thereafter	-
Total minimum lease payments	<u>\$699</u>

Rent expense charged to continuing operations totaled approximately \$496 and \$741 for the years ended December 31, 2012 and 2011, respectively.

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**NOTE I – ACCRUED EXPENSES**

	<u>Year Ended December 31st</u>	
	<u>2012</u>	<u>2011</u>
Accrued salaries and benefits	\$ 541	\$ 509
Legal and other professional fees	120	108
Rebates and commissions	2,495	2,740
Sales and other taxes	430	240
Customer advance payments	183	515
All other	423	358
Total accrued expenses	<u>\$ 4,192</u>	<u>\$ 4,470</u>

**NOTE J – INCOME TAXES**

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

<b>Year Ended December 31,</b>	<u>2012</u>	<u>2011</u>
Domestic operations	\$ (474)	\$ (229)
Foreign operations	754	(324)
	<u>\$ 280</u>	<u>\$ (553)</u>

The component of income tax expense (benefit) is as follows:

<b>Year Ended December 31,</b>	<u>2012</u>	<u>2011</u>
Current income tax expense	\$ 4	\$ 47
Deferred income tax expense (benefit)	52	(430)
Total income tax expense (benefit)	<u>\$ 56</u>	<u>\$ (383)</u>

The difference between the provision for (benefit from) income taxes computed at the U.S. Federal income tax rate of 34% and the provision (benefit) as reported is as follows:

<b>Year Ended December 31,</b>	<u>2012</u>	<u>2011</u>
Computed "expected" tax expense (benefit)	\$ 120	\$ (189)
State tax expense, net of Federal benefit	4	4
Non-deductible expenses	14	(12)
Foreign taxes greater (less) than U.S. taxes	(16)	12
Adjustments for prior-year taxes	(92)	(213)
Other	26	15
Income tax expense (benefit) as reported	<u>\$ 56</u>	<u>\$ (383)</u>

**BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE J – INCOME TAXES-(CONT'D)**

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

<b>Year Ended December 31,</b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Deferred tax assets:		
Foreign loss carry forwards	\$ 3,099	\$ 3,296
Total gross deferred tax assets	<u>3,099</u>	<u>\$3,296</u>
Deferred tax liabilities:		
Goodwill	(32)	(109)
Total net deferred tax assets	<u>\$3,067</u>	<u>\$3,187</u>

The Company has foreign loss carry-forwards of approximately €8,185 (approximately \$10,815) as of December 31, 2012. These foreign loss carry-forwards have indefinite useful lives.

The Company does not have valuation allowances at December 31, 2012 or 2011. 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 and loss carry forwards become deductible. Based upon the level of historical taxable income and projections for future taxable income, by jurisdiction, over the periods that 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 and loss carry forwards. 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 carry forward period are reduced.

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 the available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of the 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. 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 2007 through 2011. All tax returns for the year ended December 31, 2012, are expected to be filed by October 15, 2013. The Company classifies potential interest and penalties related to income taxes in interest expense and within operating expenses, respectively.

Through December 20, 2012, a tax sharing agreement existed among BCII and BCII's other domestic subsidiaries. The agreement permitted consolidated income tax expenses and benefits to be allocated among the affiliated entities so that each may record an appropriate share of the consolidated tax expense or benefit on its own books. Income tax expenses and benefits were allocated based on the taxable income or loss of each affiliate compared to the consolidated taxable income or loss.

## **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

**December 31, 2012 and 2011**

#### **NOTE J – INCOME TAXES-(CONT'D)**

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 guideline concerning provisions for uncertain income tax positions contained in ASC 740-10, there are no unrecognized tax benefits reflected in the accompanying financial statements.

#### **NOTE K – 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 became 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). On September 30, 2011, SDI purchased all common shares held by CPH1 for \$7. The financial statement effect of the repurchase was to increase Additional Paid-in Capital by \$128 and eliminate the Non-controlling Interest of \$135.

#### **NOTE L – 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.

#### **NOTE M – COMMON STOCK**

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, 2011, the Company had secured loans totaling \$670 with three directors for payroll and other taxes associated with the stock grants. The loans incurred interest annually, which were due on each anniversary, and were payable in full on November 16, 2013. Interest income related to these loans was \$26 and \$28, respectively, for the two fiscal years ended December 31, 2012. In December 2012, prior to the spin-off of Bogen, the Company transferred the loan to Bogen as an additional investment.

## **BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

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#### **NOTE M – COMMON STOCK- (CONT'D)**

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 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 vested ratably over five years. These options have an exercise price of \$6.60, a remaining contractual life of 3.88 years, and all were exercisable at December 31, 2012. The unrecognized compensation cost at December 31, 2012, was \$0. At December 31, 2012, these were the only options outstanding and had an intrinsic value of \$0 at that date. At December 31, 2012, there were 1,212,020 options available for future grants under the terms of the Plan.

#### **NOTE N – EMPLOYMENT CONTRACTS**

The Company has entered into employment contracts with several officers of the Company's subsidiaries. The management agreement with the Managing Directors of Speech Design will expire in December 2015. Compensation accrues to the officers over the term of the contract as their respective services are provided. Total contractual compensation is approximately \$521, \$534, and \$547 for fiscal years 2013 through 2015, respectively.

#### **NOTE O – LITIGATION**

The Company is party, from time to time in the ordinary course of business, to various legal actions and claims that relate to its products, intellectual property, employee matters, or other aspects of its operations. In addition, the Company develops and utilizes technology for substantially all of the products it offers and intends to offer and has, from time to time, been the subject of infringement claims related thereto. The Company is unable to predict when these cases may arise, the outcome of any litigation related to them, and/or the amount of damages that may be awarded in these types of cases.



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### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in Thousands, Except Share Amounts)**

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#### **NOTE P – ECONOMIC CONCENTRATION**

In 2012, the Company's foreign subsidiary, Speech Design, had sales of \$10,753 to four customers, each of which accounted for more than 10% of consolidated net sales. The Company's receivables from these customers comprised approximately 97% of consolidated trade receivables.

In 2011, the Company's foreign subsidiary, Speech Design, had sales of \$8,401 to four customers, each of which accounted for more than 10% of consolidated net sales. The Company's receivables from these customers comprised approximately 95% of consolidated trade receivables.

In 2012, the Company's foreign subsidiary, Speech Design, made purchases totaling \$5,555 from five vendors, each of which accounted for more than 10% of consolidated net purchases.

In 2011, the Company's foreign subsidiary, Speech Design, made purchases totaling \$1,852 from two vendors, each of which accounted for more than 10% of consolidated net purchases.

#### **NOTE Q – EMPLOYEE CONTRIBUTION PLAN**

Employees of the Company's former subsidiary, BCI, are eligible to participate in a BCII-sponsored defined contribution 401(k) plan. BCI provides an elective contribution to a portion of funds contributed by some employees.

#### **NOTE R – RELATED PARTIES**

Beginning in October 2010, a managing director of Speech Design began advancing Speech Design funds at a 5% discount against trade receivables from customers. As of December 31, 2012, about €2,165 (\$2,860) of gross receivables had been sold to him without recourse and Speech Design had received about €2,057 (\$2,719).

#### **NOTE S – SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through April 4, 2013, which is the date the financial statements were available to be issued.

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**NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB Accounting Standards Update 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date**

**Summary** - The FASB has issued Accounting Standards Update (ASU) No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* (a consensus of the Emerging Issues Task Force). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations.

The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter.

The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted.

**FASB Accounting Standards Update 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income**

**Summary** - The FASB has issued Accounting Standards Update (ASU) No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

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#### **NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS-(CONT'D)**

The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods.

The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

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.

#### **NOTE U – 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.