Bogen Communications International, Inc. and Subsidiaries

Consolidated Financial Statements

December 31, 2016 and 2015

BAKER TILLY

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BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES

Contents

Financial Statements

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Bogen Communications International, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Bogen Communications International, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, 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 audit 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 Company'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 Company'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bogen Communications International, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Pittsburgh, Pennsylvania
March 16, 2017

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 353	$ 217
Trade receivables	2,945	142
Other receivables	-	23
Inventories	2	9
Prepaid expenses and other current assets	213	80
TOTAL CURRENT ASSETS	3,513	471
Equipment, furniture, and leasehold improvements, net	281	330
Goodwill	4,322	4,340
Other intangible assets, net	387	516
Deferred income taxes	2,836	3,155
TOTAL ASSETS	$ 11,339	$ 8,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable-related parties	$ 1,026	$ -
Notes payable-other	683	-
Accounts payable	318	290
Accrued expenses	1,559	1,007
TOTAL CURRENT LIABILITIES	3,586	1,297
Long-term liabilities	1,435	1,619
TOTAL LIABILITIES	5,021	2,916
COMMITMENTS AND CONTINGENCIES (See Notes L and M)		
STOCKHOLDERS' EQUITY		
Preferred stock - $.001 par value; 100,000 shares authorized at December 31, 2016 and 2015, respectively; none issued or outstanding at December 31, 2016 or 2015	-	-
Common stock - $.001 par value; 5,400,000 shares authorized at December 31, 2016 and 2015, respectively; 4,109,489 shares issued and 4,079,740 shares outstanding at December 31, 2016 and 2015	4	4
Additional paid-in-capital	2,947	2,947
Retained earnings	2,199	1,683
Accumulated other comprehensive income	1,338	1,432
Treasury stock at cost - 29,749 shares at December 31, 2016 and 2015	(170)	(170)
TOTAL STOCKHOLDERS' EQUITY	6,318	5,896
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,339	$ 8,812

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
Net sales	$ 5,935	$ 5,897
Cost of goods sold	1,158	1,055
Gross profit	4,777	4,842
Operating expenses:		
Research and development	1,371	1,566
Selling, general and administrative	2,585	3,291
Amortization of intangibles	116	117
Income (loss) from operations	705	(132)
Other (income) expenses:		
Interest income	-	(1)
Interest expense	136	347
Other expense, net	(167)	11
Income (loss) before income tax expense (benefit)	736	(489)
Income tax expense (benefit)	220	(98)
Net income (loss)	$ 516	$ (391)

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
Net income (loss)	$ 516	$ (391)
Other comprehensive loss:		
Translation adjustments	(94)	(263)
Comprehensive income (loss)	$ 422	$ (654)

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock Number of Shares	Treasury Stock Amount	Total Stock-holders' Equity
Balance at January 1, 2015	4,109,489	$ 4	$ 2,947	$ 2,074	$ 1,695	29,749	$ (170)	$ 6,550
Net loss	-	-	-	(391)	-	-	-	(391)
Translation adjustments	-	-	-	-	(263)	-	-	(263)
Balance at December 31, 2015	4,109,489	4	2,947	1,683	1,432	29,749	(170)	5,896
Net income	-	-	-	516	-	-	-	516
Translation adjustments	-	-	-	-	(94)	-	-	(94)
Balance at December 31, 2016	4,109,489	$ 4	$ 2,947	$ 2,199	$ 1,338	29,749	$ (170)	$ 6,318

See accompanying notes to consolidated financial statements.

BOGEN COMMUNICATIONS INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 516	$ (391)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	90	83
Amortization of intangible assets	116	117
Deferred income taxes	216	(133)
Loss (gain) on disposal of equipment	(3)	11
Change in operating assets and liabilities:		
Receivables	(2,920)	120
Inventories	7	(2)
Prepaid expenses and other current assets	(143)	114
Restricted cash	-	2,075
Accounts payable and accrued expenses	522	(701)
Net cash (used in) provided by operating activities	(1,599)	1,293
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment, furniture, and leasehold improvements	(53)	(122)
Purchase of intangible assets	-	(82)
Proceeds from sale of equipment	6	1
Net cash used in investing activities	(47)	(203)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of notes payable-related parties	-	(1,434)
Payments of notes payable-other	-	(914)
Proceeds from notes payable-related parties	1,075	-
Proceeds from notes payable-other	716	-
Net cash (used in) provided by financing activities	1,791	(2,348)
Effects of foreign exchange rate on cash	(9)	(129)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	136	(1,387)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	217	1,604
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 353	$ 217
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 152	$ 347
Cash paid for income taxes	$ 4	$ 4

See accompanying notes to consolidated financial statements.

NOTE A – ORGANIZATION

Bogen Communications International, Inc. (“BCII”), together with its subsidiaries (the “Company”), develops, markets, and sells telecommunications software and related hardware as well as services and support for that software and hardware to customers primarily in Europe and the Middle East. The Company's offices are located in the United States and Germany.

On November 29, 2012, a special meeting of the shareholders of BCII was held to consider and vote on spinning off Bogen Corporation and Subsidiaries (“Bogen”), a company with operations in the United States and a subsidiary of BCII, to BCII’s shareholders of record as of November 19, 2012. At that 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.

Each shareholder of BCII received one share of common stock 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 BCII shares. Shareholder-level income taxes, if any, resulting from the spin-off are the responsibility of the individual shareholders. All of the outstanding shares of Bogen had been owned by BCII; therefore there is no current trading market for those shares. Bogen’s shares have not been registered with the Securities and Exchange Commission or with any state securities commission and are currently restricted.

NOTE B – 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, Speech Design International Inc. (“SDI”), and SDI’s wholly-owned subsidiary, Speech Design GmbH ("Speech Design").

All inter-company balances, profits and losses, and transactions have been eliminated in consolidation.

[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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

[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 balance at the institution is insured up to $250 by Federal Deposit Insurance Corporation. At December 31, 2016 and 2015, no amounts were at risk.

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 total less than the protection ceiling and therefore are 100% insured at December 31, 2016 and 2015.

The Company performs on-going credit evaluations of its customers.

[4] 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 and takes into account national economic data. Speech Design reviews its allowance for doubtful accounts quarterly. Past-due balances over a certain amount are reviewed individually for collectability. The Company does not have any off-balance sheet credit exposure related to its customers. At December 31, 2016 and 2015, no allowance for doubtful accounts was deemed necessary.

[5] Inventories:

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

[6] 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 and amortization of equipment, furniture, and leasehold improvements are:

Machinery and equipment	3-10 Years
Furniture and office equipment	3-10 Years
Computer software and hardware	2-7 Years
Vehicles	5 Years
Leasehold improvements	Lesser of 6 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 the consolidated statements of operations for the period.

[7] Goodwill:

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Management has determined that it operates as one reporting unit and therefore assesses goodwill for impairment on an enterprise-wide basis. Under ASC 350, 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, 2016 and 2015, the Company determined that no impairment of goodwill existed.

[8] 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 the years ended December 31, 2016 and 2015, the Company did not record any impairment charges.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

[9] Revenue recognition:

The Company, through Speech Design, derives its revenue from the sale of telecommunications software and related hardware as well as from services and support revenue associated with prior sales of that software and hardware. The Company recognizes product revenue, net of discounts, returns, 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. Services and support revenue are recognized upon customer acceptance where a product deliverable or repair is called for, or ratably over the contract term in the case of support or maintenance contracts.

The Company 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. No allowance for sales returns was recorded in either 2016 or 2015.

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.

[10] 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. Internally-developed software costs of $-0- and $82 were capitalized to "Other intangible assets" during the years ended December 31, 2016 and 2015, respectively.

[11] 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

[11] Income taxes (cont'd.):

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 the foreign subsidiary was $2,577 and $3,029 at December 31, 2016 and 2015.

[12] 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, 2016 and 2015, no warranty reserve was deemed necessary.

[13] 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 2016 or 2015.

[14] Comprehensive income (loss):

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

[15] 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 percentage of completion on development projects, the allowance for doubtful accounts, the allowance for sales returns, product warranty reserves, 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.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONT'D)

[16] Foreign currencies:

Foreign currency-denominated assets and liabilities of the Company are translated from local currency into U.S. Dollars at the exchange rate in effect at the end of the period. Revenues and expenses are translated at average exchange rate 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 the local currency are included in the consolidated statements of operations when incurred.

[17] Fair value measurements:

The recorded amounts of cash and cash equivalents, trade and other receivables, accounts payable, accrued expenses, and notes payable agreements approximate fair value due to the short-term maturities of these assets and liabilities.

[18] 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.

[19] Reclassifications:

Whenever required, prior year balances and transactions are reclassified to conform to the current year's financial statement presentation.

NOTE C – INVENTORIES

Inventories are comprised of the following items:

At December 31,	2016	2015
Raw materials	$ 2	$ 9

(Dollars and Euros in Thousands)

NOTE D – EQUIPMENT, FURNITURE, AND LEASEHOLD IMPROVEMENTS

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

At December 31,	2016	2015
Machinery, equipment, and vehicles	$ 410	$ 425
Furniture and office equipment	1,791	1,860
Computer hardware and software	751	832
Leasehold improvements	20	-0-
Equipment, furniture, and computers, at cost	2,972	3,117
Less: accumulated depreciation and amortization	(2,691)	(2,787)
Equipment, furniture, and leasehold improvements, net	$ 281	$ 330

Depreciation and amortization expense was $90 and $83 for the years ended December 31, 2016 and 2015, respectively.

NOTE E – GOODWILL AND OTHER INTANGIBLE ASSETS

Annually, and 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 its net assets, including goodwill, to its fair value. The fair value is based on management estimates and calculated 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, 2016, upon completion and approval of the Company's financial operating plan for 2017 and projections through 2023 and concluded that no goodwill impairment existed as of December 31, 2016.

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.

Goodwill totaled $4,322 and $4,340 at December 31, 2016 and 2015, respectively. The table below reconciles the change in the carrying amount of goodwill for the period from January 1, 2015, to December 31, 2016:

	Total
Balance at January 1, 2015	$ 4,399
Foreign currency translation adjustments	(59)
Balance at December 31, 2015	4,340
Foreign currency translation adjustments	(18)
Balance at December 31, 2016	$ 4,322

The following tables present certain information on the Company's other intangible assets as of December 31, 2016 and 2015. All intangible assets are being amortized on a straight-line basis over their estimated useful lives, as indicated below, with no estimated residual values.

(Dollars and Euros in Thousands)

NOTE E – GOODWILL AND OTHER INTANGIBLE ASSETS - (CONT'D)

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Balance
At December 31, 2016				
Hosting Software	7 Years	$ 745	$ (358)	$ 387
Trademarks	15 Years	650	(650)	-
Total		$ 1,395	$ (1,008)	$ 387
At December 31, 2015				
Hosting Software	7 Years	$ 772	$ (256)	$ 516
Trademarks	15 Years	650	(650)	-
Total		$ 1,422	$ (906)	$ 516

The aggregate intangible amortization expense for the years ended December 31, 2016 and 2015, was $116 and $117, respectively. The estimated intangible asset amortization expense for the year ending December 31, 2017, and the four subsequent years is as follows:

Year Ended December 31	Estimated Amortization Expense
2017	$ 110
2018	$ 110
2019	$ 110
2020	$ 53

NOTE F – CREDIT FACILITY

BCII maintains a banking relationship with KeyBank National Association ("Key"). As of December 31, 2016 and 2015, BCII had no borrowings.

Speech Design has a credit line of $21 at December 31, 2016, from one bank; interest rates are tied to short-term bank notes and Euro market loans. At December 31, 2016, the interest rate was 10.64%. At December 31, 2016 and 2015, Speech Design had no borrowings against the credit line.

NOTE G – LEASES

The Company occupies its offices and operates certain equipment and vehicles under operating leases expiring at various dates through 2018. The office leases contain escalation clauses and provide for payments of taxes and expenses over base rent and also contain renewal options of varying lengths.

(Dollars and Euros in Thousands)

NOTE G – LEASES - (CONT'D.)

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, 2016, are as follows:

Year Ending December 31,	Operating Leases
2017	$ 290
2018	222
2019	18
2020	1
Total minimum lease payments	$ 531

Rent expense charged to operations totaled approximately $320 and $338 for the years ended December 31, 2016 and 2015, respectively.

NOTE H – ACCRUED EXPENSES

Accrued expenses are comprised of the following items:

At December 31,	2016	2015
Accrued salaries and benefits	$ 476	$ 396
Sales and other taxes	387	28
Advance from related party(see Note Q)	250	-0-
Customer advance payments	160	89
Legal and other professional fees	80	83
Rebates and commissions	38	80
All other	168	331
Total accrued expenses	$ 1,559	$ 1,007

NOTE I – INCOME TAXES

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

Year Ended December 31,	2016	2015
Domestic operations	$ 72	$ (55)
Foreign operations	664	(434)
Total pre-tax book income (loss)	$ 736	$ (489)

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

Year Ended December 31,	2016	2015
Current income tax expense (benefit)	$ 4	$ (17)
Deferred income tax expense (benefit)	216	(81)
Total income tax expense (benefit)	$ 220	$ (98)

(Dollars and Euros in Thousands)

NOTE I – INCOME TAXES - (CONT'D)

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

Year Ended December 31,	2016	2015
Computed statutory tax expense (benefit)	$249	$ (166)
State tax expense, net of federal benefit	3	3
Change in valuation allowance	(22)	52
Foreign taxes greater (less) than U.S. taxes	(10)	13
Income tax expense (benefit) as reported	$ 220	$ (98)

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

At December 31,	2016	2015
Deferred tax assets:		
Foreign loss carry forwards	$ 2,836	$ 3,155
Total deferred tax assets	$ 2,836	$ 3,155

The Company has foreign loss carryforwards of approximately €9,144 (approximately $9,620) as of December 31, 2016. These foreign loss carryforwards do not have an expiration date.

At December 31, 2016 and 2015, The Company had 100% valuation allowances of $30 and $52, respectively, on its domestic loss carryforwards. The Company does not have valuation allowances on its foreign loss carryforwards at December 31, 2016 or 2015. 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 carryforward period are reduced.

Uncertain tax positions are 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.

The Company uses a two-step approach to recognize and measure uncertain tax positions. 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 U.S. Federal consolidated tax return, its state tax return in New Jersey, and Speech Design's German Federal tax return as major tax jurisdictions as defined.

NOTE I – INCOME TAXES - (CONT'D)

Until December 21, 2012, the Company had a tax sharing agreement with its former subsidiaries, Bogen Corporation and Bogen Communications, Inc. ("BCI"). 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.

The Internal Revenue Service ("IRS") completed its examination of the Company's 2010 and 2011 Federal consolidated tax returns in December 2015. The Company, BCI, and the IRS agreed to several proposed adjustments and the examination was closed in April 2016. The adjustments did not materially affect the consolidated financial statements or financial position of either company.

All domestic tax returns for the year ended December 31, 2015, were filed by September 15, 2016. All domestic tax returns for the year ended December 31, 2016, are expected to be filed by September 15, 2017. The Company classifies potential interest and penalties related to income taxes in interest expense and within operating expenses, respectively.

NOTE J – PREFERRED STOCK

The Company is authorized to issue 100,000 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. Prior to September 24, 2015, the Company was authorized to issue 800,000 shares of preferred stock.

NOTE K – COMMON STOCK

The Company is authorized to issue 5,400,000 shares of common stock with such designations, voting, and other rights and preferences as may be determined from time to time by the Board of Directors. Prior to September 24, 2015, the Company was authorized to issue 10,000,000 shares of common stock.

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 with a ten-year exercise period to a key employee. The per-share fair value of the options granted was $3.97 and the options vested ratably over the first five years. These options had an exercise price of $6.60 and expired unexercised in November 2016. There was no unrecognized compensation cost at December 31, 2016. At December 31, 2016, there were no options outstanding. At December 31, 2016, there were 1,212,020 options available for future grants under the terms of the Plan.

NOTE L – LITIGATION

During 2016 and 2015, the Company was neither a party to nor the subject of any material legal proceedings.

NOTE M – EMPLOYMENT CONTRACTS

The Company has entered into management contracts with two officers of Speech Design. The management contract with one officer extends through December 2017 and the management contract with the other officer extends through December 2019. Total contractual compensation is expected to be approximately $386, $256, and $267 for the years ended December 31, 2017, 2018, and 2019, respectively.

NOTE N – ECONOMIC CONCENTRATION

In 2016, the Company's foreign subsidiary, Speech Design, had sales of $5,264 to two customers, both of which accounted for more than 10% of consolidated net sales. The Company's receivables from these customers comprised approximately 98% of consolidated trade receivables at December 31, 2016.

In 2015, the Company's foreign subsidiary, Speech Design, had sales of $5,200 to two customers, both of which accounted for more than 10% of consolidated net sales. The Company's receivables from these customers comprised approximately 48% of consolidated trade receivables at December 31, 2015.

In 2016, the Company's foreign subsidiary, Speech Design, made purchases totaling $964 from four vendors, each of which accounted for more than 10% of consolidated net purchases.

In 2015, the Company's foreign subsidiary, Speech Design, made purchases totaling $1,043 from three vendors, each of which accounted for more than 10% of consolidated net purchases.

NOTE O – EMPLOYEE CONTRIBUTION PLAN

Until March 24, 2016, employees of the Company's former subsidiary, BCI, were eligible to participate in a BCII-sponsored defined contribution 401(k) plan. BCI may elect to provide a contribution based on funds contributed by participants. There were no contributions in either 2016 or 2015.

Effective January 1, 2016, the 401(k) Plan sponsor was changed from BCII to BCI.

NOTE P – NOTES PAYABLE

In August 2016, Speech Design signed short-term notes payable and received loans from four unrelated parties and two related parties. All of the loans carry a 2% monthly interest rate. The funds were used to repay the outstanding balance on a factoring loan from a managing director and for project financing. At Speech Design's option, an additional round of funding from the same parties was requested for 50% of the original lending amount. Total interest expense for these notes was €107 ($117).

(Dollars and Euros in Thousands)

NOTE P – NOTES PAYABLE – (CONT'D.)

The loans mature on June 1, 2017, but include provisions for repayment as payments for a specific project are received from the customer.

At December 31, 2016, Speech Design's outstanding indebtedness was:

	December 31, 2016					
	Related Parties	Unrelated Parties	Total	Related Parties	Unrelated Parties	Total
2.0% (Monthly) Notes	$ 1,026	$ 683	$ 1,709	€ 975	€ 649	€ 1,624

The Company had no outstanding indebtedness at December 31, 2015.

In January 2014, a factoring agreement between Speech Design and a managing director (See Note Q) was replaced by a short-term note payable with an annual effective interest rate of 19.6%. The note matured on July 31, 2015, and was repaid without penalty in August 2015. For the year ended December 31, 2015, interest expense for this note was €74 ($80).

During 2014, Speech Design signed short-term notes payable with two related parties. Both notes carried an annual effective interest rate of 26.8%. The two notes matured on July 31, 2015, and were repaid without penalty in August 2015. For the year ended December 31, 2015, total interest expense for these notes was €94 ($105).

During 2014, Speech Design signed short-term notes payable with four unrelated parties. All of the notes carried an annual effective interest rate of 26.8%. All of the notes matured on July 31, 2015, and were repaid without penalty in August 2015. For the year ended December 31, 2015, total interest expense for these notes was €129 ($143).

NOTE Q – FACTORING AGREEMENTS

Speech Design utilized several factoring arrangements during the years ended December 31, 2016 and 2015, as follows:

Related Party:
In September 2015, Speech Design entered into a factoring agreement with a managing director of Speech Design at a 1% discount applied to customer trade receivables factored by the managing director without recourse. For the year ended December 31, 2016, €1,664 ($1,750) of gross receivables had been sold to him without recourse and Speech Design had received proceeds of €1,645 ($1,733). For the year ended December 31, 2015, €735 ($800) of gross receivables had been sold to him without recourse and Speech Design had received proceeds of €728 ($795).

Other:
Speech Design has a credit assignment and factoring agreement with a financing subsidiary of one of its customers. In addition to a 1% fee, interest charged on the invoices submitted is based on the Euribor rate. For 2016 and 2015, respectively, the amount of factoring fees and interest expense was €17 ($19) and €29 ($32).

NOTE R – LONG-TERM LIABILITIES

At December 31, 2016 and 2015, long-term liabilities of $1,435 (€1,364) and $1,619 (€1,484), respectively, represent the remaining liability under terms of a 2009 agreement between Speech Design and a customer regarding a disputed software and service agreement. The Company in 2009 recognized a liability of $2,975 (€2,076) under the agreement which is subject to certain Company and customer terms and performance obligations as follows:

- The customer is required to place an order for licenses to proprietary software developed by Speech Design;
- Speech Design is to deliver such proprietary licenses without charge to the customer until proprietary licenses with $2,975 (€2,076) of value have been so delivered;
- The licenses have no stated value;
- The licenses are not functional to the customer until Speech Design has provided customization services to the software meeting customer specifications;
- Customization services are not a part of the 2009 agreement and will be sold to the customer at agreed upon values;
- In the remote circumstance that Speech Design is unable or unwilling to provide the un-customized licenses to the customer, the customer has the right to seek full cash compensation.

The cost to produce and deliver the proprietary licenses is de minimis.

For the years ended December 31, 2016 and 2015, the value applied to the obligations for licenses issued in connection with the settlement were $139 (€126) and $17 (€15), respectively.

Through the year ended December 31, 2016, the customer has requested and the Company has delivered approximately $927 (€712) of proprietary licenses and the Company has recognized an additional $1,491 (€1,170) of revenue for customization services in the years ended December 31, 2009 through 2016, inclusive.

NOTE S – SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 16, 2017, which is the date the consolidated financial statements were available to be issued.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.

On January 26, 2017, the FASB issued ASU 2017-04, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, "an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit."

In addition, the ASU:

- Clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity's testing of reporting units for goodwill impairment.
- Clarifies that "an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable."
- Makes minor changes to the overview and background sections of certain ASC subtopics and topics as part of the Board's initiative to unify and improve those sections throughout the Codification.

For public business entities that are SEC filers, the ASU is effective for fiscal years beginning after December 15, 2019. For public business entities that are not SEC filers, the ASU is effective for fiscal years beginning after December 15, 2020. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business.

On January 5, 2017, the FASB issued ASU 2017-01 to clarify the definition of a business in ASC 805, which was among the primary issues raised in connection with the FAF's post-implementation review report on FASB Statement 141® (codified in ASC 805). The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient.

The ASU's Basis for Conclusions indicates that the amendments "narrow the definition of a business and provide a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business." Specifically, the ASU:

- Provides a "screen" for determining when an asset is not a business. The screen requires a determination that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset of group of similar identifiable assets, the asset is not a business. The screen will reduce the number of transactions that an entity must further evaluate to determine whether they are business combinations or asset acquisitions.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. (Cont'd.)

- Specifies that if the screen's threshold is not met, an asset cannot be considered a business unless it includes an input and a substantive process that together significantly contribute to the ability to create outputs. The ASU provides a framework to help entities evaluate whether both an input and a substantive process are present, and it removes the evaluation of whether a market participant could replace the missing elements.
- Narrows the definition of the term "output" to be consistent with the description of outputs in ASC 606.

The standard also provides examples that illustrate how an entity should apply the amendments in determining whether an asset is a business.

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The ASU must be applied prospectively on or after the effective date, and no disclosures for a change in accounting principle are required at transition. Early adoption is permitted for transactions that occurred before the issuance date or effective date if the transactions were not reported in financial statements that have been issued or made available for issuance.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers.

On December 21,, 2016, the FASB issued ASU 2016-20, which makes certain technical corrections to the Board's new revenue standard, ASU 2014-09. The amendments were issued in response to feedback received from several sources, including the TRG for revenue recognition. The amendments clarify, rather than change, the new revenue standard's core revenue recognition principles. The technical corrections affect the following aspects of the new revenue standard:

- Loan guarantee fees.
- Contract costs – impairment testing.
- Contract costs – interaction of impairment testing with guidance in other topics.
- Provisions for losses related to construction-type and production-type contracts.
- Scope of the new revenue standard.
- Disclosure of remaining performance obligations.
- Disclosure of prior-period performance obligations.
- A contract modification example.
- Contract assets versus receivables.
- Refund liabilities.
- Advertising costs.
- Fixed-odds wagering contracts in the casino industry.
- Cost capitalization for advisers to private and public funds.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update (“ASU”) 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. (Cont’d.)

The effective date and transition requirements for this ASU are the same as those in ASU 2014-09.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update (“ASU”) 2016-19, Technical Corrections and Improvements.

On December 14, 2016, the FASB issued ASU 2016-19, which makes certain technical corrections (i.e. minor changes and improvements) to the FASB Accounting Standards Codification. The types of changes made by the ASU can be categorized as follows:

- Changes to resolve differences between current and pre-Codification guidance (e.g., FASB Statements, EITF Issues).
- Updates to wording and references to avoid misapplication.
- Textual simplifications to increase the Codification’s utility and understandability.
- Minor amendments to guidance that “are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.”

Most changes are effective upon issuance of the ASU; however, there is transition guidance for certain changes.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update (“ASU”) 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.

On November 17, 2016, the FASB issued ASU 2016-18, which amends ASC230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms “restricted cash” and “restricted cash equivalents” but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC250.
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.
- Changes in restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. (Cont'd.)

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted for all entities.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.

On October 24, 2016, the FASB issued ASU 2016-16, which removes the prohibition in ASC740 against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The ASU, which is part of the Board's simplification initiative, is intended to reduce the complexity of U.S. GAAP and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers, particularly those involving intellectual property.

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Entities are permitted to early adopt the new guidance as of the beginning of a fiscal year for which neither the annual or interim financial statements have been issued or made available for issuance.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.

On August 26, 2016, the FASB issued ASU 2016-15, which amends the Board's guidance on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The amendments add or clarify guidance on eight issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. (Cont'd.)

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Entities are permitted to early adopt the new guidance for fiscal years beginning after December 15, 2018, including interim periods. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326).

On June 16, 2016, the FASB issued ASU 2016-13, which amends the Board's guidance on the impairment of financial instruments. The ASU adds to U.S. GAAP an impairment model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments.

The model applies to most debt instruments, trade receivables, lease receivables, reinsurance receivables that result from insurance transactions, financial guarantee contracts, and loan commitments. However, available-for-sale debt securities are outside the model's scope and will continue to be assessed for impairment under other guidance.

Once effective, the new guidance will significantly change the accounting for credit impairment. Banks and other financial institutions will need to modify their current processes for establishing an allowance for loan and lease losses and other-than-temporary impairments to ensure that they comply with the ASU's new requirements. To do so, they will need to make changes to their operations and systems associated with credit modeling, regulatory compliance, and technology.

For SEC filers, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods. For other entities, the ASU is effective for fiscal years, including interim periods, beginning after December 15, 2020. Entities are permitted to early adopt the new guidance for fiscal years beginning after December 15, 2018, including interim periods.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.

On May 9, 2016, the FASB issued ASU 2016-12, which amends certain aspects of ASU 2014-09, Revenue from Contracts with Customers. The amendments include the following:

- Collectability – The ASU clarifies the objective of the entity's collectability assessment and contains new guidance on when an entity would recognize as revenue consideration it receives if the entity concludes that collectability is not probable.
- Presentation of sales tax and other similar taxes collected from customers – Entities are permitted to present revenue net of sales taxes collected on behalf of governmental authorities.
- Noncash consideration – An entity's calculation of the transaction price for contracts containing noncash consideration would include the fair value of the noncash consideration to be received as of the contract inception date. Further, subsequent changes in the fair value of noncash consideration after contract inception would be subject to the variable consideration constraint only if the fair value varies for reasons other than its form.
- Contract modifications and completed contracts at transition – The ASU establishes a practical expedient for contract modifications at transition and defines completed contracts as those for which all or substantially all revenue was recognized under the applicable revenue guidance before the new revenue standard was initially applied.
- Transition technical correction- Entities that elect to use the full retrospective transition method to adopt the new revenue standard would no longer be required to disclose the effect of the change in accounting principle in the period of adoption; however, entities would still be required to disclose the effects on preadoption periods that were retrospectively adjusted.

The ASU has the same effective date as ASU 2014-09, as amended by the one-year deferral and the early adoption provisions in the ASU 2015-14. The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.

On April 14, 2016, the FASB issued ASU 2016-10, which amends certain aspects of ASU 2014-09, Revenue from Contracts with Customers. The amendments include the following:

- Identifying performance obligations:
    - Immaterial promised goods or services – Entities may disregard goods or services promised to a customer that are immaterial in the context of the contract.
    - Shipping and handling activities – Entities can elect to account for shipping or handling activities occurring after control has passed to the customer as a fulfillment cost rather than as a revenue element.
    - Identifying when promises represent performance obligations – The new guidance refines the separation criteria for assessing whether promised goods and services are distinct, specifically the "separately identifiable" principle and supporting factors.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update (“ASU”) 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. (Cont’d.)

- Licensing implementation guidance:
    - Determining the nature of an entity’s promise in granting a license – Intellectual property (“IP”) is classified as either functional or symbolic, and such classification should generally dictate whether, for a license granted to that IP, revenue must be recognized at a point in time or over time, respectively.
    - Sales-based and usage-based royalties – The sales-based and usage-based royalty exception applies whenever the royalty is predominantly related to a license of IP. The ASU therefore indicates that an “entity should not split a sales-based or usage-based royalty into a portion subject to the recognition guidance on sales-based and usage-based royalties and a portion that is not subject to that guidance.”
    - Restrictions of time, geographical location, and use – The ASU’s examples illustrate the distinction between restrictions that represent attributes of a license and provisions that specify that additional licenses have been provided.
    - Renewals of licenses that provide a right to use IP – Revenue should not be recognized for renewals or extensions of licenses to use IP until the renewal period begins.

The ASU has the same effective date as ASU 2014-09, as amended by the one-year deferral and the early adoption provisions in the ASU 2015-14.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update (“ASU”) 2016-09, Compensation: Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting.

On March 30, 2016, the FASB issued ASU 2016-09, which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The new guidance, which is part of the Board’s simplification initiative, also contains two practical expedients under which nonpublic entities can use a simplified method to estimate the expected term of an award and make a one-time election to switch from fair value measurement to intrinsic value measurement for lability-classified awards.

For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, it is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).

On March 17, 2016, the FASB issued ASU 2016-08, which amends the principal-versus-agent implementation guidance and illustrations in the Board's new revenue standard (ASU 2014-09). The FASB issued the ASU in response to concerns identified by stakeholders, including those related to (1) determining the appropriate unit of account under the revenue standard's principal-versus-agent guidance and (2) applying the indicators of whether an entity is a principal or agent in accordance with the revenue standard's control principle.

Among other things, the ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. As defined in the ASU, a specified good or service is "a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer." Therefore, for contracts involving more than one specified good or service, the entity may be the principal for one or more specified goods or services and the agent for others.

The ASU has the same effective date as the new revenue standard (as amended by the one-year deferral and the early adoption provisions in the ASU 2015-14). In addition, entities are required to adopt the ASU by using the same transition method they used to adopt the new revenue standard.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2016-06, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.

On March 14, 2016, the FASB issued ASU 2016-06, which clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815-15-25-42 (as amended by the ASU). The entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk.

For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. For all other entities, it is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted; however, it the entity early adopts the ASU in an interim period, it should reflect any adjustment as of the beginning of the fiscal year that includes the interim period.

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update (“ASU”) 2016-03, Intangibles - Goodwill and Other (Topic 350); Business Combinations (Topic 805); Consolidation (Topic 810); Derivatives and Hedging (Topic 815); Effective Date and Transition Guidance.

On March 7, 2016, the FASB issued ASU 2016-03, which gives private companies a one-time unconditional option to forgo a preferability assessment the first time they elect a private-company accounting alternative within the ASU’s scope. It also eliminates the effective dates of private-company accounting alternatives that are within the ASU’s scope (i.e., such alternatives may be elected immediately) and extends the transition guidance for such alternatives indefinitely.

The new guidance is effective immediately and affects all private companies within the scope of ASUs 2014-02, 2014-03, 2014-07, and 2014-18. While the new standard extends the transition guidance in ASUs 2014-07 and 2014-18, it does not change the manner in which such a guidance is applied.

The Company adopted this ASU in March 2016 and does not believe that adoption will have a material effect on its financial position or results of operations.

FASB Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842)

On February 25, 2016, the FASB issued ASU 2016-02, its new standard on accounting for leases. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet. The new standard also aligns many of the underlying principles of the new lessor model with those in ASC 606, the FASB’s new revenue recognition standard (e.g., those related to evaluating when profit can be recognized). Furthermore, the ASU addresses other concerns related to the current leases model. For example, the ASU eliminates the requirement in current U.S. GAAP for an entity to use bright-line tests in determining lease classification. The standard also requires lessors to increase the transparency of this exposure to changes in value of their residual assets and how they manage that exposure.

The new model represents a wholesale change to lease accounting. As a result, entities will face significant implementation challenges during the transition period and beyond, such as these related to:

- Applying judgment and estimating.
- Managing the complexities of data collection, storage, and maintenance.
- Enhancing information technology systems to ensure their ability to perform the calculations necessary for compliance with reporting requirements.
- Refining internal controls and other business processes related to leases.
- Determining whether debt covenants are likely to be affected and, if so, working with lenders to avoid violations.
- Addressing any income tax implications.

The new guidance will be effective for public business entities (“PBEs”) for annual periods beginning after December 15, 2018 (e.g., calendar periods beginning on January 1, 2019), and interim periods therein. For all other entities, the ASU will be effective for annual periods beginning after December 15, 2019 (e.g., calendar periods beginning on January 1, 2020), and interim periods within annual periods beginning after December 15, 2020. Early adoption will be permitted for all entities.

The Company is currently evaluating the effect this ASU will have on its financial position and results of operations.

NOTE T – RECENT ACCOUNTING PRONOUNCEMENTS

FASB Accounting Standards Update ("ASU") 2016-01, Financial Instruments – Overall (Subtopic 815-10): Recognition and Measurement of Financial Assets and Financial Liabilities.

On January 5, 2016, the FASB issued ASU 2016-01, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Although the ASU retains many current requirements, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU also amends certain disclosure requirements associated with the fair value of financial instruments.

For PBEs, the new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. For all other entities, including not-for-profit entities and employee benefit plans within the scope of ASC 960 through ASC 965 on plan accounting, the effective date is in line with the recommendation of the private-company decision making framework; that is the guidance is effective for fiscal years beginning one year after the effective date for PBEs (i.e., December 15, 2018) and interim reporting periods within fiscal years beginning two years after the PBE effective date (i.e., December 15, 2019).

The Company does not believe that adoption of this ASU will have a material effect on its financial position or its results of operations.

FASB Accounting Standards Update ("ASU") 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.

In November 2015, the FASB issued ASU 2015-17 as part of its simplification initiative. The amendments in the ASU eliminate the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. Netting of deferred tax assets and deferred tax liabilities by tax jurisdiction is still required under the new guidance.

The ASU is effective for fiscal years beginning December 15, 2017, and for the interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted.

The Company adopted this ASU in January 2016 and does not believe that adoption will have a material effect on its 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.

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.