ALTIGEN COMMUNICATIONS, INC.

State of Incorporation: Delaware

670 N McCarthy Blvd, Suite 200
Milpitas, CA 95035
(408) 597-9000
www.altigen.com

SIC Code: 3661

ANNUAL REPORT
For Fiscal Year Ended September 30, 2019
(the "Reporting Period")

The number of shares outstanding of our common stock, par value $0.001 per share ("common stock"), was 22,914,996 shares as of September 30, 2019.

The number of shares outstanding of our common stock was 22,842,246 shares as of September 30, 2018.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:
Yes: ☐ No: ☒

Indicate by check mark whether a change in control of the company has occurred over this reporting period:
Yes: ☐ No: ☒

For more information:
www.OTCQB.com Ticker: ATGN
or
www.altigen.com

Disclosure Regarding Forward-Looking Statements

Any reference to "Altigen" (which also may be referred to as the "Company", "we", "us" or "our") means Altigen Communications, Inc. You should read the following discussion of our financial condition and results of operations together with the audited consolidated financial statements and notes to the audited consolidated financial statements included elsewhere in this annual report (this "Annual Report").

This Annual Report contains, and certain other communications made by us contain "forward-looking statements." Forward-looking statements include, but are not limited to, statements about our financial position, business strategy, competitive position, potential growth opportunities, future operating performance, effects of competition, the effects of future legislation or regulations and plans and objectives of our management for future operations. Any statement made herein that is not a statement of historical fact should be considered a forward-looking statement. We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. Use of the words "may," "should," "continue," "plan," "potential," "anticipate," "believe," "estimate," "expect," "intend," "could," "project," "predict" or variations of such words and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements.

These forward-looking statements rely on assumptions, estimates and predictions that could be inaccurate and that are subject to risks and uncertainties that could cause actual results to differ materially from expected results. Forward-looking statements speak only as of the date made. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART A - GENERAL COMPANY INFORMATION

Item 1. The Exact Name of the Issuer and its Predecessor (if any)

Exact name of the issuer: Altigen Communications, Inc.

Exact names of predecessor entities in the past five years and dates of name changes: Not applicable

Item 2. The Address of the Issuer's Principal Executive Offices

Principal Executive Offices:	670 N McCarthy Blvd, Suite 200 Milpitas, CA 95035 Telephone: (408) 597-9000 Facsimile: (408) 597-2020 Website: www.altigen.com
Investor Relations Officer:	Carolyn David, Vice President of Finance 670 N McCarthy Blvd, Suite 200 Milpitas, CA 95035 Telephone: (408) 597-9000 Email Address: ir@altigen.com

Item 3. The Jurisdiction and Date of the Issuer's Incorporation or Organization

Altigen was incorporated in the state of California in May 1994, and reincorporated in the State of Delaware in June 1999. Altigen is currently active and in good standing with the State of Delaware.

PART B – SHARE STRUCTURE

Item 4. The Exact Title and Class of Securities Outstanding

Altigen has only one class of outstanding stock:

Title: Common Stock, par value $0.001
CUSIP: 021489109
OTCQB Trading Symbol: ATGN

In addition, Altigen has issued options to purchase shares of its common stock, of which 3,729,586, were still outstanding as of September 30, 2019. No shares of preferred stock are currently outstanding.

Item 5. Par or Stated Value and Description of the Security

Common Stock

The Company's outstanding securities consist solely of shares of common stock, par value $0.001 per share. The Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") authorizes 50,000,000 shares of common stock. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders. Holders of common stock do not have cumulative voting rights. Therefore, holders of more than 50% of the shares of common stock are able to elect all of the Company's directors eligible for election in a given year. The holders of common stock are entitled to dividends if declared by the Company's board of directors (the "Board of Directors"). There are no redemption or sinking fund provisions applicable to the common stock, and holders of common stock are not entitled to any preemptive rights with respect to additional issuances of common stock by the Company.

Preferred Stock

The Certificate of Incorporation also authorizes 5,000,000 shares of preferred stock, par value $0.001 per share. The Company may issue these shares of preferred stock without the approval of the holders of common stock. The Board of Directors has the discretion to issue the preferred stock in such series and with such preferences and rights as it may designate, including, among other things, dividend rights, voting rights, conversion rights and liquidation rights as well as redemption or sinking fund provisions.

The purpose of authorizing the Board of Directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a shareholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a majority of the Company's outstanding voting stock. Additionally, the issuance of preferred stock may adversely affect the holders of the Company's common stock by restricting dividends on the Company's common stock, diluting the voting power of the Company's common stock or subordinating the liquidation rights of the Company's common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of the Company's common stock.

Other Material Rights Affecting Stockholders

On April 21, 2009, the Company adopted a Preferred Stock Rights Agreement (the "Plan") and declared a dividend distribution of one right for each outstanding share of its common stock. The record date for the distribution was May 7, 2009. The Company designed the Plan to protect the long-term value of the Company for its shareholders during any future unsolicited acquisition attempt. The Company did not adopt the Plan in response to any specific attempt to acquire the Company or its securities, and the Company is not aware of any current efforts to do so. These rights would have become exercisable only upon the occurrence of certain events specified in the Plan, including the acquisition of 15% of the Company's outstanding shares of common stock by a person or group. Should a person or group have acquired 15% or more of the outstanding shares of common stock or announce an unsolicited tender offer, the consummation of which would result in a person or group acquiring 15% or more of the outstanding shares of common stock, stockholders, other than the acquiring person, may exercise the rights, unless the Board of Directors has approved the transaction in advance. Each right would have initially entitled stockholders to purchase one one-thousandth (0.001) of a share of the Company's Series A Participating Preferred Stock for $4.00 per share. If a person or group acquired, or announced a tender or exchange offer that would have resulted in the acquisition of, fifteen percent (15%) or more of the Company's common stock while the Plan remained in place, unless the rights were redeemed by the Company for $0.001 per right, the rights would have become exercisable by all rights holders, except the acquiring person or group, for shares of the Company or shares of the third-party acquirer having a value of twice the right's then-current exercise price. No shares of the Company's Series A Participating Preferred Stock are currently outstanding. The Plan expired on May 7, 2019 without a renewal or replacement Plan.

Provisions in the Company's Certificate of Incorporation and Bylaws That Would Delay, Defer or Prevent a Change of Control

Authorized but Unissued Capital Stock

The authorized but unissued shares of common stock and preferred stock are available for future issuance without shareholder approval, subject to any limitations imposed by the listing standards of the market on which such shares are traded, if any. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

Cumulative Voting

Under Delaware law, the right to vote cumulatively does not exist unless the certificate of incorporation specifically authorizes cumulative voting. The Certificate of Incorporation does not authorize cumulative voting. Accordingly, a holder or group of holders of a majority of the shares of the Company's common stock are able to elect all of the directors.

Advance Notice

The Company's Second Amended and Restated Bylaws (the "Bylaws") require advance notice relating to certain stockholder business and Board of Director nominees to be considered at stockholder meetings. Under the Bylaws, stockholders are not permitted to call special meetings of stockholders unless they own a majority of the capital stock of the Company.
Shareholder Action by Written Consent

Pursuant to Section 228 of the Delaware General Corporation Law, any action required to be taken at any annual or special meeting of the shareholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless a corporation's certificate of incorporation provides otherwise. Our Certificate of Incorporation provides that shareholder action by written consent is not permitted and shareholders are limited in their ability to call special stockholders' meetings.

Item 6. The Number of Shares or Total Amount of the Securities Outstanding for Each Class of Securities Authorized

The following table sets forth the number of shares outstanding for each class of securities authorized as of the dates set forth below:

As of September 30, 2019					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Number of Beneficial Shareholders Owning At Least 100 Shares (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,914,996	16,710,097	1,572	80
Preferred Stock	5,000,000	—	—	—	—
As of September 30, 2018					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Number of Beneficial Shareholders Owning At Least 100 Shares (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,842,246	16,642,035	1,426	80
Preferred Stock	5,000,000	—	—	—	—
As of September 30, 2017					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Number of Beneficial Shareholders Owning At Least 100 Shares (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,798,683	16,641,672	1,407	79
Preferred Stock	5,000,000	—	—	—	—

(1) For purposes of this calculation only, shares of common stock held by each of Altigen's directors and officers on the given date and by each person who Altigen knows beneficially owned 5% or more of the outstanding common stock on that date have been excluded in that such persons may be deemed to be affiliates of Altigen. This determination of affiliate status is not necessarily a conclusive determination for other purposes.
(2) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions, Inc.

Item 7. The Name and Address of the Transfer Agent

Transfer Agent: Computershare Trust Company, N.A.
8742 Lucent Boulevard, Suite 225
Highlands Ranch, CO 80129
Telephone: (303) 262-0616

Computershare Trust Company, N.A. is currently registered under the Securities Exchange Act of 1934, as amended, and is an authorized transfer agent subject to regulation by the SEC.

PART C – BUSINESS INFORMATION

Item 8. The Nature of the Issuer's Business

Altigen is a leading Microsoft Cloud Solutions provider of premise and cloud-based IP-PBX and Contact Center solutions. As one of the first companies to offer Voice over Internet Protocol (VoIP) solutions, we design, deliver and support VoIP phone systems and call center solutions that combine high reliability with integrated IP communications applications. Altigen has been deploying systems since 1996. Our unique and feature rich Cloud PBX and Multi-channel Contact Center solutions natively integrate with Skype for Business and Office 365 to deliver business-critical functionalities required by small and mid-size businesses (SMBs) and enterprises.

Altigen's Unified Communications (UC) solutions are designed with an open architecture, built on industry standard communication protocols, and Microsoft Windows-based applications. This adherence to widely used standards allows our solutions to both integrate with and leverage a company's existing technology investment. Altigen's award winning, integrated IP applications suite provides customers with a complete business communications solution. Voicemail, Contact Center, Unified Messaging, Automatic Call Distribution, Call Recording, Call Activity Reporting, and Mobility solutions take advantage of the convergence of voice and data communications to achieve superior business results.

Altigen was formed in 1994 as a California corporation and was reincorporated in the State of Delaware in 1999. Our primary facility housing research and development, sales and marketing, and administrative functions is located in Milpitas, California. We also have a Representative Office in Taipei, Taiwan, which serves as our international office for research and development functions. Our fiscal year end is September 30 of each year. Our common stock trades on the OTCQB U.S. tier under the symbol "ATGN." Trading of our common stock commenced on March 16, 2010 and Pink OTC Markets, Inc. provides quotes and other information at www.otcmarkets.com. The Company has never been in bankruptcy, receivership, or any similar proceeding.

We focus our sales efforts on first and second tier hosted voice service providers, medium and enterprise sized businesses, multi-site businesses, corporate branch offices, and call centers. Our first products began shipping in 1996. Our UC solutions are primarily sold to small-to-medium sized businesses, multi-site businesses, corporate branch offices, call centers, credit unions and community banks.

Altigen's software products are available from independent authorized resellers and strategic partners.

Altigen's primary SIC code is 3661 (telephone and telegraph apparatus). Altigen has never been "shell company" as defined under the Securities Act of 1933, as amended.

CURRENT DEVELOPMENTS

Customer Acquisition

On August 1, 2019, the Company entered into an asset purchase agreement with WorkSpace Communications, LLC ("WorkSpace"), pursuant to which, on such date, the Company acquired all of WorkSpace's rights to its customer relationships for $400,000 in cash plus additional contingent cash consideration of up to $1.2 million subject to the terms on which such customers are transitioned to Altigen. In connection therewith, WorkSpace agreed to provide certain transition services on a monthly basis at the Company's expense until such services are no longer needed by the Company. The Company subsequently hired certain WorkSpace employees. The purchase price paid in cash at closing was funded with cash from operations, and under the acquisition method of accounting, the purchase price was allocated to intangible assets.

Operating Lease

In April 2019, the Company entered into a lease agreement for approximately 11,609 rentable square feet located in Milpitas, California, to serve as the Company's new corporate headquarters for global sales and marketing, research and development, and general and administration functions. The lease term commenced on May 1, 2019 and expires on July 31, 2024 with an option to renew for an additional five-year period. See Note 4, "Commitments and Contingencies" to the Consolidated Financial Statements of this Annual Report for additional information.

RESEARCH AND DEVELOPMENT

The market for our products is characterized by rapidly changing technology, evolving industry standards and frequent product introductions. We believe that our future success depends in large part upon our ability to continue to enhance the functionality and uses of our core technology. We intend to extend the functionality of our technology and develop new products by continuing to invest in research and development.

We are currently developing enhancements to our products and services to provide greater functionality and increased capacity that we expect will enable us to enhance our position in the Internet protocol phone system market space, enter new geographical markets, and allow us to continue to penetrate the call center market.

The majority of our product development is conducted in-house. We also use a small number of independent contractors to assist with certain product development and testing activities. We intend to continue working with our strategic partners to enhance our products.

We believe our future success relies on continued product enhancement. To accomplish this objective, we seek to improve product reliability, advance and broaden employed technologies while maintaining or reducing product cost. In addition, we actively pursue development of potential new products. Our efforts to enhance existing products and develop new products require extensive investment in research and development. We expense research and development costs relating to both present and potential future products in the period incurred. These expenses totaled approximately $2.6 million and $2.8 million during fiscal years 2019 and 2018, respectively. For software developed for sale purposes, we also capitalize certain costs of product development when the projects under development reach technological feasibility. For internal-use software developed as a service, we capitalize certain costs as incurred. Costs that qualify for capitalization include purchased materials, external services and fully-burdened salaries during the application development stage of software coding and testing.

We intend to continue to focus on product innovation, quality improvement, performance enhancement and on-time delivery while striving for product cost improvements to promote added value for our products. We seek growth opportunities through the development of new applications for existing products, technological improvements for both new and existing markets and the acquisition and development of new products and competencies.

EMPLOYEES

As of September 30, 2019, the Company had approximately 53 full-time equivalent employees, including 29 in research and development and support, 10 in sales and marketing, 8 in operations, and 6 in finance and administration. Furthermore, as of September 30, 2018, the Company had an additional 5 full-time equivalent contractors, of which 3 were in research and development, and 2 in sales and marketing. The Company's future success will depend, in part, on its ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel.

COMPETITION

The markets for our products are intensely competitive, continually evolving and subject to changing technologies. We currently compete with Internet protocol and Internet protocol-enabled telecommunications systems, such as Avaya Inc., Mitel Networks Corporation and Cisco Systems, Inc., as well as hosted PBX and Contact Center service providers like 8X8, Ring Central, Inc. and Five9. Many of our competitors are substantially larger than us and have significantly greater name recognition, sales and marketing, financial, technical, customer support and other resources. These competitors also may have more established distribution channels and stronger relationships with local, long distance and Internet service providers. These competitors may be able to respond more rapidly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products.

These competitors may enter our existing or future markets with products that may be less expensive, that may provide higher performance or additional features or that may be introduced more quickly than our products. Key competitive factors in each of the segments in which we currently compete and may compete in the future include: low cost of ownership, product features, price and performance. We believe that our principal competitive advantages include:

- Fully managed hosted service offering;
- Skype for Business UC Feature set powered by Microsoft;
- Extensive knowledge of Microsoft Teams Phone System;

- Rapid service delivery;
- End-to-end deployment, management and support;
- Ability to reduce communications costs;
- Full featured IP-PBX; and
- Integrated multimedia contact center.

We believe that we compete favorably with our competitors on the basis of these factors. However, if we are not able to compete successfully against our current and future competitors, it will be difficult to acquire and retain customers, and we may experience revenue declines, reduced operating margins, loss of market share and diminished value in our services.

INTELLECTUAL PROPERTY

We generally rely upon patent, copyright, trademark and trade secret laws to protect and maintain our proprietary rights for our technology and products. As of September 30, 2019, we have been issued three registered trademarks, "Altigen™," "AltiServ™" and "Zoomerang™." In addition, the Altigen logo is a trademark of ours in the United States and other jurisdictions. All other trademarks and trade names used in this Annual Report are the property of their respective owners.

We have filed several U.S. patent applications relating to various aspects of our client and server software, mixed-media communications and computer telephony. As of September 30, 2019, we had 11 issued patents in the United States. The duration of each patent is 20 years from the date of its patent application filing. Our current patents will expire at various times between 2020 and 2024. We expect to continue to file patent applications to protect our technology and products. We cannot be sure that our patent applications will result in the issuance of patents, or that any issued patents will provide commercially significant protection for our technology. We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to software, documentation and other proprietary information. Notwithstanding the steps we have taken to protect our intellectual property rights, third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our products and services.

LEGAL PROCEEDINGS

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit or proceeding could have a material adverse effect on our results of operations, financial position or cash flows. Except as noted below, the Company is not a party to any material legal proceedings nor is the Company aware of any pending or threatened litigation that, in its opinion, would have a material adverse effect on its business or its financial position, results of operations or cash flows should such litigation be resolved unfavorably.

CTI Litigation

On March 30, 2016, CTI Communications, LLC, a former reseller of the Company ("CTI"), filed a complaint against the Company, Affiliated Technology Solutions, LLC, a current reseller of the Company ("ATS"), James Jerome Cruz, a former CTI employee, and Thomas W. Welsh, President of ATS, in the Colorado District Court, Larimer County (the "Court"). The complaint alleged misappropriation of trade secrets, breach of contract, civil conspiracy, civil theft and tortious interference. On March 17, 2017, CTI filed an amended complaint adding certain members of management and executive officers as additional defendants, including the Company's Chief Executive Officer, Jeremiah J. Fleming, Vice President of Sales, Michael Plumer and Regional Sales Manager, Matthew Nielson. On August 16, 2017, the Court dismissed with prejudice all of CTI's claims against Mr. Fleming. On March 27, 2018, a jury rendered a verdict in favor of CTI, and the Court entered a judgment that held all defendants jointly and severally liable and awarded CTI approximately $724,000 in compensatory damages, unjust enrichment, punitive damages and pre-judgment interest on compensatory damages. Furthermore, on October 5, 2018, the Court awarded CTI approximately $433,000 in attorney fees and costs, jointly and severally against all defendants. The Company filed a Motion for Stay of Execution of Judgement with the Court, and on July 25, 2018, the Company and all defendants in the litigation filed a Notice of Appeal in the Colorado Court of Appeals. To secure a stay while the appeal was pending, the Company posted an appeal bond on behalf of all defendants on May 3, 2019.

On November 29, 2018, the Company, ATS, Mr. Welsh, and Mr. Cruz entered into a settlement agreement pursuant to which the parties thereto allocated damages among themselves and $557,000 was paid to the Company by such other co-defendants on December 3, 2018. Consequently, the Company recorded a litigation expanse in the sum of $604,000, a receivable in the amount of $557,000, and a payable in the amount of $433,000 in the fourth quarter of fiscal 2018 in connection with this matter. Pursuant to the judgement on attorneys' fees and costs, on February 7, 2019, the Court served our financial institution and ordered $445,000 in attorney fees and costs plus post-judgment interest on damages through October 23, 2018 be paid to CTI's counsel.

On October 31, 2019, the Colorado Court of Appeals issued its rulings and determined that (i) the underlying judgment of $724,000 was affirmed and the matter was remanded to the trial court, (ii) the judgement for attorneys' fees and costs was vacated and remanded to the trial court, and (iii) civil theft claim against the Company's co-defendants was reinstated and remanded to the trial court to conduct a new trial against the Company's co-defendants. The case is currently pending before the trial court. The Company intends to continue to vigorously defend against the claims asserted.

Intellitalk Litigation

On February 1, 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. ("Intellitalk"), an active reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside on January 15, 2019. The complaint alleges interference with prospective economic advantage and unfair competition. Although the outcome of this matter is not determinable as of the date of this Annual Report, the Company believes Intellitalk's claims are without merit and the Company intends to vigorously defend against the allegations. The Company has not recorded any liability with respect to this litigation as of September 30, 2019.

Item 9. The Nature of Products or Services Offered

The information in Item 8 is incorporated herein by reference.

Altigen's solutions portfolio is divided into two key categories: Hosted Enterprise Cloud Communications Services and Premise-Based Business Communications Solutions.

Hosted Enterprise Cloud Communications Services

Altigen's Hosted Enterprise Cloud Communications Services include: Hosted Skype for Business, MaxACD Cloud Contact Center, MaxCS Cloud and Session Initiation Protocol (SIP) Trunking Service. In addition, we offer Session Initiation Protocol (SIP) Trunking Service for Hosted Skype for Business, MaxACD Cloud, MaxCS Cloud and Microsoft Teams Phone System Direct Routing.

Hosted Skype for Business

Hosted by Altigen and powered by Microsoft, Altigen's Hosted Skype for Business delivers the industry's leading unified communications service offering instant messaging, voice/video calling, web conferencing, collaboration and mobility. Our innovative Cloud UC service seamlessly incorporates our MaxACD advanced communications applications – consisting of Auto Attendant, Hunt Groups, Multimedia Contact Center, Recording and Reporting – to deliver a unique Skype for Business managed service. Moreover, Altigen's Hosted Skype for Business reduces complexity, eliminates capital expenditure (CAPEX) and lowers the total cost of ownership versus on premises deployments of Skype for Business.

MaxACD Cloud Contact Center

MaxACD Cloud Contact Center offers business-critical multimedia routing and queuing apps including: agent/supervisor desktop clients, real-time/historical reporting, automated call recording, CRM integration, auto attendant, advanced skills-based routing and web chat queuing to Skype for Business or Office 365. This innovative solution is hosted in Altigen's Cloud and is fully managed and supported by Altigen and its certified partners. MaxACD provides a comprehensive, cost-effective and easy-to-manage solution that is ideal for Internal departmental service/help desks or external customer facing service/technical support contact centers.

MaxCS Cloud

MaxCS is an innovative new UC solution combining Altigen's MaxCS IP PBX with Microsoft's industry leading Skype for Business. This uniquely integrated UC solution enables existing Altigen customers to leverage their investment in MaxCS by seamlessly and cost-effectively adding Skype for Business for new functionalities including: instant messaging, presence, web conferencing, and collaboration.

Session Initiation Protocol (SIP) Trunking

Altigen's SIP Trunk Service is an enterprise grade VoIP service optimized for Altigen solutions. SIP Trunking Service includes: Direct Inward Dialing (DID) phone numbers, Toll Free, DID/Toll Free porting, and local, long distance and international calling. Leveraging state-of-the-art intelligent call routing and interconnecting with global Tier 1 carriers, Altigen's SIP Trunk Service delivers high quality voice calls at highly competitive rates. SIP Trunking can also be delivered with Altigen's Hosted Skype for Business, MaxACD Cloud and MaxCS Cloud, as well as with Microsoft Teams Phone System Direct Routing.

Benefits of Altigen's Hosted Enterprise Cloud Communications Services

- Enhance Productivity – New advanced UC features and functionality enable businesses to better communicate and collaborate to enhance productivity and efficiency.

- Reduce Monthly Communications Costs – Cost-effective SIP Trunking Service and new modes of communication like instant messaging allow businesses to substantially reduce their monthly communications costs.

- Lower Total Cost of Ownership – With no upfront CAPEX investment and a predictable monthly operational expense based on actual utilization, businesses should be able to realize a lower total cost of ownership.

- Simplified Management and Support – With no hardware to deploy, manage and maintain, the support burden on local IT/Telecom teams is greatly reduced.

- Future Proof Solution **–** As a hosted managed solution, all hardware and software is kept up to date by Altigen, providing an always up to date solution for the enterprise.

Premise-Based Business Communications Solutions

MaxCS IP-PBX & Contact Center

MaxCommunications Server (MaxCS) IP-PBX, is a complete state-of-the-art, software-based phone system designed with an open architecture, leveraging today's powerful computing technologies including Intel processors, Microsoft software, and VMware and Hyper-V virtualization. The MaxCS IP-PBX provides customers with a complete business communications solution which includes: Voicemail, Unified Messaging, Mobility, Automatic Call Distribution, Call Recording, Call Activity Reporting, and Mobility solutions. In addition, it supports standard Polycom IP phones to deliver high definition voice quality. Additionally, the system provides intuitive and easy to use system administration software to allow for customer self-administration or remote administration by our authorized reseller partners.

MaxACD Voice Over Internet Protocol (VoIP) Contact Center

Altigen's MaxACD is a complete, all software VoIP contact center solution that seamlessly integrates to our MaxCS business phone system. At the heart of MaxACD is a powerful, software-based automatic call distribution engine which offers sophisticated call routing and call distribution options. It includes a comprehensive call center feature set comprising of agent/supervisor clients, monitoring, management, call reporting and advanced capabilities like skills-based routing, priority queuing, call back from queue, and centralized call recording. MaxACD is ideal for businesses that require a departmental call center for customer service, technical support, telemarketing or collections.

MaxACD Contact Center for Microsoft Skype for Business

MaxACD Contact Center for Microsoft Lync/Skype for Business takes advantage of Altigen's 23 years of contact center technology innovation to deliver a complete, integrated software-based contact center solution. Simple to use and manage, MaxACD is a complete and fully featured contact center solution, which includes: agent/supervisor desktop clients, real-time/historical reporting, automated call recording, CRM integration, auto attendant, advanced skills-based routing and web chat queuing. Entirely software-based, MaxACD utilizes industry standard Intel-based physical or virtual servers, allowing for cost-effective on-site or in-the-cloud deployments.

Benefits of Altigen's Premise-Based Business Communications Solutions

- All Software Advantage – Altigen's Business Communications Solutions are 100% software-based, allowing businesses the flexibility to deploy on cost-effective, open industry standard Intel-based physical or virtual servers.

- Scalability – Altigen's all-software based architecture was designed to scale in both size and capability to meet the evolving needs of the small and medium-sized business and enterprise markets.

- Licensing Flexibility – Businesses have the flexibility to choose from two cost-effective licensing models: Software as a Service monthly subscription or perpetual upfront purchase.

- Reduced Administration Costs – Easy-to-use, point and click graphical user interfaces enable businesses to self-administer their own communications solution.

- Lower Total Cost of Ownership **–** The ability to leverage open industry standard hardware, cost-effective software licensing and the ability to self-administer enables businesses to reduce their total cost of ownership.

PRODUCTS

The following is a list of our products that are material to our current operations from a financial standpoint:

Product	Description
MaxCS IP-PBX	MaxCS server software consists of a comprehensive suite of software applications to provide a high value, all-in-one solution. The systems include software and licensing necessary to support analog and VoIP telephones, operator software, and desktop call control software for each extension on the system. By providing a bundled approach, we maintain quality and reliability while providing for easy deployment. The platforms are scalable and are packaged according to the size of the customer. MaxCS IP-PBX seamlessly integrates with industry standard VoIP devices like Polycom IP phones.
MaxACD VoIP Contact Center	MaxACD is available as a software upgrade to an existing Altigen phone system. This product is capable of skills-based routing, priority queuing, centralized call recording and advanced monitoring and reporting. This capability may be added on a per agent/supervisor basis as a company's needs grow. This allows a smaller business or branch office to enjoy the same capability as a larger organization with a professional call center. If a company has more than one location, calls to call centers can automatically be routed to other locations based on conditions the customer chooses.
MaxMobile	MaxMobile extends a complete set of business PBX functionality to smart phone devices, often eliminating the need for a separate desktop phone. When users log in to MaxMobile, the smart phone is registered as the "business" PBX extension. All inbound business calls are routed through the PBX (so employees don't have to publish their mobile phone numbers). Outbound calls can be routed through the PBX (in accordance with corporate policies) or directly through the cellular network. In every case, MaxMobile graphical user interface extends a multitude of business PBX features to smart phone devices.
MaxCommunicator	MaxCommunicator is a Windows-based desktop application that provides call control and visual voice mail management to the desktop. It allows users to receive and place calls, listen to voicemail messages, identify the caller phone number and manage extension configuration. MaxCommunicator is standard with all Altigen systems.
MaxAgent	MaxAgent is a Windows-based desktop application to bring call control and workgroup information to call center agents. Users can view a call queue, monitor work group status, check caller identification, measure performance, review log-on history, receive and place calls and listen to and manage voicemail messages.

Product	Description
MaxSupervisor	MaxSupervisor is a Windows-based desktop application for call center supervisors. The application allows a call center or workgroup supervisor to effectively manage a workgroup. MaxSupervisor provides four major real time module views for workgroup management: agent status, agent statistics, group statistics, and queue status with a quality of services capability. MaxSupervisor allows coaching, silent monitoring of agents with barge-in call participation and call recording functionality.
MaxACD for Lync	MaxACD for Lync is a robust call center solution with native integration to Microsoft Lync Servers. Similar to AltiContact Manager, this product is capable of advanced call distribution, skills-based routing, priority queuing, centralized call recording and advanced monitoring and reporting.

Hosted Services

Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, Skype for Business, Contact Center and SIP Trunk Service. Our solutions are used by businesses and organizations in industries such as financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers will typically enter into a one-year service agreement whereby they are billed for such services on a monthly basis. Revenue from our hosted services is recognized on a monthly basis as services are delivered.

Software Assurance

Software assurance services are post-contract customer support (“PCS”) services and provide our customers with the latest software updates, patches, new releases, and technical support for the applications they are licensed to use. Software assurance services have an annual subscription and are generally structured with a one-year or three-year term. Sales from our software assurance are recorded as deferred revenue and recognized to revenue over the terms of their subscriptions. Subscriptions with expiration dates of less than one year are classified as “deferred revenue, short-term” and greater than one year are classified as “deferred revenue, long-term” in the accompanying consolidated balance sheets.

The following table sets forth percentages of net revenue by product type with respect to such revenue for the periods indicated:

	Fiscal Year Ended September 30,		
	2019	**2018**	**2017**
Cloud services	58%	50%	38%
Software assurance	27%	32%	42%
Software license	11%	16%	14%
Professional services and other	4%	2%	6%
Total	100%	100%	100%

Customers

Our customers are primarily end-users, resellers and distributors. We have distribution agreements with Altisys Communications, Inc. (“Altisys”) and Synnex Corporation (“Synnex”) in North America. Our agreements with Altisys and Synnex have initial terms of one year. Each of these agreements are renewed automatically for additional one-year terms, provided that each party has the right to terminate the agreement for convenience upon ninety (90) days’ written notice prior to the end of the initial term or any subsequent term of the agreement. In addition, our agreements with Altisys and Synnex also provide for termination, with or without cause and without penalty, by either party upon thirty (30) days’ written notice to the other party or upon a party’s insolvency or bankruptcy.

In North America, we also have a reseller agreement with Fiserv Solutions, Inc. (“Fiserv”). The initial term of the agreement expired on August 28, 2019, but automatically renewed for successive five-year term. The agreement can also be terminated for, among other things, material breach or insolvency of either party. Upon termination, Altigen would continue to have support obligations for products that Fiserv distributed subject to Fiserv’s obligation to remain current on maintenance fees.

Altisys, Synnex and Fiserv collectively represented approximately 30% and 29% of our total net revenue for fiscal years 2019 and 2018, respectively.

MARKETING, SALES AND CUSTOMER SUPPORT

Marketing

We are organized and operate as two operating segments, “North America” and “Rest of World.” The North America segment is comprised of the United States, Canada, Mexico, Central America and the Caribbean. The Rest of World segment is primarily comprised of Europe. Our two geographical segments both sell similar products to similar types of customers. Our marketing efforts currently focus on increasing demand for our solutions in North America and Rest of World, utilizing targeted email campaigns, telemarketing and advertising. In addition, we generate awareness by participating in industry tradeshows, issuing press releases and articulating our messaging through our website. We conduct our marketing activities both domestically and internationally to promote our products independently and in cooperation with our distributors, dealers and strategic partners. Our product information is available on our website, which contains overview presentations and technical information.

Sales

We market and distribute our products through a worldwide network of sales representatives, and we use a broad distribution channel to bring our products and solutions to our customers. Our distribution channel is comprised of distributors and resellers.

We have sales and support staff in various locations throughout the United States. Our inside sales group answers incoming calls from end users and refers new leads to a qualified dealer near each end user’s location. The inside sales group is also responsible for account management of our smaller resellers. Our outside sales force, which is primarily based in North America, includes enterprise account executives and technology solutions managers who work with direct enterprise accounts and larger resellers.

The following table summarizes net revenue and percentages of net revenue by geographic region for each of the past three fiscal years (amounts in thousands, except percentage data).

	Fiscal Year Ended September 30,					
	2019		2018		2017	
	Net Revenue	% of Net Revenue	Net Revenue	% of Net Revenue	Net Revenue	% of Net Revenue
North America	$ 10,378	97.6 %	$ 9,959	99.6 %	$ 8,358	99.6 %
Rest of World	$ 254	2.4 %	$ 43	0.4 %	$ 30	0.4 %
Total	$ 10,632	100.0 %	$ 10,002	100.0 %	$ 8,388	100.0 %

We also have over 100 authorized resellers who sell our products directly to a broad range of end-users. We review our resellers’ performance quarterly and discontinue distribution for those who do not meet our revenue or technical standards.

Customer Support

We believe that consistent, high-quality service and support are key factors in attracting and retaining customers. Our customer support groups located in California, Illinois, Minnesota, Missouri, New Jersey, South Carolina, Texas, Utah and Virginia, coordinate service and technical support of our products and provide service during regular business hours. Outside of regular business hours, we offer after hours support through an on-call engineer. Our support personnel assist our distributors and resellers in resolving installation and support issues that arise from their sales to end users. Resellers and end-user customers can also access technical information and receive technical support through our website.

RISK FACTORS

A description of the risks and uncertainties associated with our business is set forth below. If any of such risks and uncertainties actually occur, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled "Disclosure Regarding Forward-Looking Statements" and elsewhere in this Annual Report and in our other public filings and press releases. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occur, our business, financial condition or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly. We cannot assure you that we will successfully address these risks or that other unknown risks exist or risks we currently deem immaterial may affect our business.

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations, cash flows and financial condition.

Risks Related to Our Business

Any disruption of service at our facilities or our third-party hosting providers could interrupt or delay our customers' access to our solutions, which could harm our operating results.

The ability of our customers to access our solutions is critical to our business. We currently serve our customers from third-party data center hosting facilities located in Chicago, Illinois and Phoenix, Arizona, which are setup to provide geographic data backup and redundancy. We cannot assure you that the measures we have taken to eliminate single points of failure in the primary data center and our data recovery center will be effective to prevent or minimize interruptions to our operations. Our facilities are vulnerable to interruption or damage from a number of sources, many of which are beyond our control, including, without limitation:

- extended power loss;
- telecommunications failures from multiple telecommunication providers;
- natural disaster or an act of terrorism;
- software and hardware errors, or failures in our own systems or in other systems;
- network environment disruptions such as computer viruses, hacking and similar problems in our own systems and in other systems;
- theft and vandalism of equipment; and
- actions or events caused by or related to third parties.

Any damage to, or failure of, our systems generally could result in interruptions in our services. Interruptions in our services may reduce our revenue, cause customers to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers, all of which would reduce our revenue. Our business would also be harmed if our customers and potential customers believe our services are unreliable.

We rely on third parties for certain financial and operational services essential to our ability to manage our business. A failure or disruption in these services could materially and adversely affect our ability to manage our business effectively.

We rely on third parties for certain essential financial and operational services. Traditionally, the vast majority of these services have been provided by large enterprise software vendors who license their software to customers. However, we receive many of these services on a subscription basis from various software-as-a-service companies that are smaller and have shorter operating histories than traditional software vendors. Moreover, these vendors provide their services to us via a cloud-based model instead of software that is installed on our premises. As a result, we depend upon these vendors providing us with services that are always available and are free of errors or defects that could cause disruptions in our business processes, which would adversely affect our ability to operate and manage our operations.

We may not be able to capitalize on potential emerging market opportunities and new services that we introduce may not generate the revenue and earnings we anticipated, which may adversely affect our business.

Our business strategy involves identifying emerging market opportunities which we can capitalize on by successfully developing and introducing new services designed to address those market opportunities. We have made, and expect to continue to make, significant investments in research and development in an effort to capitalize on potential emerging market opportunities that we have identified. Emerging markets and opportunities often take time to fully develop, and they attract a significant number of competitors. If the emerging markets we have targeted ultimately fail to materialize as we or others have anticipated or if potential customers choose to adopt solutions offered by our competitors rather than our own solutions, we may not be able to generate the revenue and earnings we anticipated, and our business and results of operations would be adversely affected.

If we are unable to adapt to evolving technologies and customer demands in a timely and cost-effective manner, our ability to sustain and grow our business may suffer.

Our market is characterized by rapidly changing technology, evolving industry standards, and frequent introduction of new services, all of which impact the way our services are marketed and delivered. The adoption of new technologies, changes in industry standards or the introduction of more attractive products or services could make some or all of our offerings less desirable or even obsolete. These potential changes are magnified by the continued rapid growth of the Internet and the intense competition in our industry. To be successful, we must adapt to our rapidly changing market by forecasting customer demands; improving the performance, features, and reliability of our offerings; and modifying our business strategies accordingly. We may not be able to (i) adapt to these changing technologies in a timely and cost-effective manner, (ii) identify the emergence of new alternatives successfully, (iii) modify our services accordingly, or (iv) develop and bring new offerings to market in a timely and cost-effective manner to address these changes. Our failure to provide offerings that successfully compete with new technologies or the obsolescence of our offerings would likely lead us to lose current and potential customers or cause us to incur substantial costs by attempting to catch our offerings up to the changed environment. Our ability to sustain and grow our business would suffer if we fail to respond to these changes in a timely and cost-effective manner.

Our business depends on our customers renewing their software assurance contracts. Any decline in our customer renewals would harm our future operating results and cash flows.

Customer retention is critical to our future success. In order for us to maintain or improve our operating results, it is important that our customers renew their software assurance contracts when such contracts are eligible for renewal. Our customers have no obligation to renew their contracts upon expiration of term, which is typically one or three years. If our customers are unable or choose not to renew their software assurance contracts, our revenue may decline, and our operating results and cash flows may be harmed.

In certain circumstances, our customers may elect not to renew their software assurance contacts upon expiration of term or may elect to cancel their contracts in order to migrate to our hosting platform. In such circumstances, we will recognize hosted services revenue over a one-year period on a monthly basis as services are delivered. Such shifts will not have a material impact on our revenue but will have a material adverse effect on our cash flows. Unlike our software assurance services, where customer billing and collections are for the full value of the contract and revenue is recognize ratably over the coverage periods, under our hosted model, customers enter into a one-year service agreement and billing and collections for such services are processed on a monthly basis.

Because we recognize revenue from subscriptions for our software assurance programs over the term of the subscription, downturns or upturns in sales may not be immediately reflected in our operating results.

We generally recognize revenue from our customers ratably over the terms of their subscription agreements, which are typically twelve or thirty-six months. As a result, most of the software assurance revenue we report in each quarter is derived from subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter will likely have a minor impact on our revenue results for that quarter. However, such decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our services, and potential changes in our attrition rate, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

Our business depends substantially on customers renewing and expanding their hosted subscriptions. Any decline in our customer renewals or expansions would harm our future operating results.

We sell our application suite pursuant to service agreements that are generally twelve months in length. Our customers have no obligation to renew their subscriptions after their subscription period expires, and they may not renew their subscriptions at the same or higher levels. Our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our services, the prices of our services, the prices of services offered by our competitors or reductions in our customers' spending levels due to the macroeconomic environment or other factors. If our customers do not renew their subscriptions for our services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline and our profitability and gross margin may be harmed.

Many of our customers are small- and medium-sized businesses, which may result in increased costs as we attempt to reach, acquire and retain customers.

We market and sell our application suite to small- and medium-sized businesses. In order for us to improve our operating results and continue to grow our business, it is important that we continually attract new customers, sell additional services to existing customers and encourage existing customers to renew their subscriptions. However, selling to and retaining small- and medium-sized businesses can be more difficult than selling to and retaining large enterprises because small- and medium-sized business customers:

- are more price sensitive;
- are more difficult to reach with broad marketing campaigns;
- have high churn rates in part because of the nature of their businesses;
- often lack the staffing to benefit fully from our application suite's rich feature set; and
- often require higher sales, marketing and support expenditures by vendors that sell to them per revenue dollar generated for those vendors.

If we are unable to cost-effectively market and sell our service to our target customers, our ability to grow our revenue and become profitable will be harmed.

Problems such as cyber-attacks, data breaches, or malware may disrupt our operations, harm our operating results and financial condition, and damage our reputation, and cyber-attacks or data breaches on our customers' networks, or in cloud-based services provided by or enabled by us, could result in claims of liability against us, damage our reputation or otherwise harm our business.

Despite our implementation of network security measures, the products and services we sell to customers, and our servers, data centers and the cloud-based solutions on which our data, and data of our customers, suppliers and business partners are stored, are vulnerable to cyber-attacks, data protection breaches, malware, and similar disruptions from unauthorized tampering or human error. Any such event could compromise our networks or those of our customers, and the information stored on our networks or those of our customers could be accessed, publicly disclosed, lost or stolen, which could subject us to liability to our customers, suppliers, business partners and others, and could have a material adverse effect on our business, operating results, and financial condition and may cause damage to our reputation. Efforts to limit the ability of malicious third parties to disrupt the operations of the Internet or undermine our own security efforts may be costly to implement and meet with resistance and may not be successful. Breaches of network security in our customers' networks, or in cloud-based services provided by or enabled by us, regardless of whether the breach is attributable to a vulnerability in our products or services, could result in claims of liability against us, damage our reputation or otherwise harm our business.

We provide service level commitments to our customers, which could require us to issue credits for future services if the stated service levels are not met for a given period and could significantly decrease our revenue and harm our reputation.

Our Service Level Agreements provide that we maintain certain service level commitments to our customers relating primarily to network uptime and critical infrastructure availability. If we are unable to meet the stated service level commitments, we may be contractually obligated to provide these customers with credits for future services. As a result, a failure to deliver services in a material way could cause us to issue these credits to a large number of affected customers. In addition, we cannot be assured that our customers will accept these credits in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in substantial customer dissatisfaction or loss. Because of the loss of future revenue through these credits, potential customer loss and other potential liabilities, our revenue could be significantly impacted if we cannot meet our service level commitments to our customers.

We may choose to raise additional capital. Such capital may not be available, or may be available on unfavorable terms, which would adversely affect our ability to operate our business.

We expect that our existing cash balances will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months from the date these financial statements are issued. If we choose to raise additional funds, due to unforeseen circumstances or material expenditures, we cannot be certain that we will be able to obtain additional financing on favorable terms, if at all, and any additional financings could result in additional dilution to our existing stockholders.

Our market is subject to changing preferences; failure to keep up with these changes would result in our losing market share, thus seriously harming our business, financial condition and results of operations.

Our customers and end users expect frequent product introductions and have changing requirements for new products and features. In order to be competitive, we need to develop and market new products and product enhancements that respond to these changing requirements on a timely and cost-effective basis. Our failure to do so promptly and cost effectively would seriously harm our business, financial condition and results of operations.

We could become involved in claims or litigations that may result in adverse outcomes.

From time to time we may be involved in a variety of claims or litigations, including those described in Note 4, "Commitments and Contingencies" of the consolidated financial statements and Part C, Item 8, "The Nature of the Issuer's Business—Legal Proceedings" of this Annual Report. Such proceeding may initially be viewed as immaterial but could prove to be material. Litigations are inherently unpredictable, and excessive verdicts do occur. Given the inherent uncertainties in litigation, even when we are able to reasonably estimate the amount of possible loss or range of loss and therefore record an aggregate litigation accrual for probable and reasonably estimable loss contingencies, the accrual may change in the future due to new developments or changes in approach. In addition, such claims or litigations could involve significant expense and diversion of management's attention and resources from other matters.

Provisions in our charter documents, Delaware law, employment arrangements with certain of our executive officers could discourage a takeover that stockholders may consider favorable.

Provisions in our Certificate of Incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include but are not limited to the following:

- our Board of Directors has the right to increase the size of the Board of Directors and to elect directors to fill a vacancy created by the expansion of the Board of Directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our Board of Directors;
- our Board of Directors is staggered into three (3) classes and each member is elected for a term of 3 years, which prevents stockholders from being able to assume control of the Board of Directors;
- our stockholders may not act by written consent and are limited in their ability to call special stockholders' meetings; as a result, a holder, or holders controlling a majority of our capital stock would be limited in their ability to take certain actions other than at annual stockholders' meetings or special stockholders' meetings called by the Board of Directors, the Chairman of the Board or the President;
- our Certificate of Incorporation prohibits cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- stockholders must provide advance notice to nominate individuals for election to the Board of Directors or to propose matters that can be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company; and
- our Board of Directors may issue, without stockholder approval, shares of undesignated preferred stock; the ability to issue undesignated preferred stock makes it possible for our Board of Directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the Board of Directors has approved the transaction. Our Board of Directors could rely on Delaware law to prevent or delay an acquisition of us.

Certain of our executive officers may be entitled to accelerated vesting of their options pursuant to the terms of their employment arrangements upon a change of control of Altigen. In addition to the arrangements currently in place with some of our executive officers, we may enter into similar arrangements in the future with other officers. Such arrangements could delay or discourage a potential acquisition of Altigen.

We have had a history of losses and may incur future losses, which may prevent us from attaining profitability.

We have had a history of operating losses since our inception and, as of September 30, 2019, we had an accumulated deficit of $57.2 million as compared to $59.1 million as of September 30, 2018. While we attained operating income for each of the fiscal years ended September 30, 2019 and 2018, we may incur operating losses in the future, and these losses could be substantial and impact our ability to attain profitability. We do not expect to significantly increase expenditures for product development, general and administrative expenses, and sales and marketing expenses; however, if we cannot maintain current revenue or revenue growth, we will not achieve or sustain profitability or positive operating cash flows. Even if we achieve profitability and positive operating cash flows, we may not be able to sustain or increase profitability or positive operating cash flows on a quarterly or annual basis.

Any failure by us to protect our intellectual property could harm our business and competitive position.

Our success depends, to a certain extent, upon our proprietary technology. We currently rely on a combination of patent, trade secret, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights in the technology used in our products.

Although, as of September 30, 2019, we have been issued 12 patents and expect to continue to file patent applications, we are not certain that our patent applications will result in the issuance of patents, or that any patents issued will provide commercially significant protection of our technology. In addition, other individuals or companies may independently develop substantially equivalent proprietary information not covered by the patents to which we own rights, may obtain access to our know-how or may claim to have issued patents that prevent the sale of one or more of our products. Also, it may be possible for third parties to obtain and use our proprietary information without our authorization. Our success also depends on trade secrets that cannot be patented and are difficult to protect. If we fail to protect our proprietary information effectively, or if third parties use our proprietary technology without authorization, our competitive position and business will suffer.

We rely on resellers to promote, sell, install and support our products, and their failure to do so or our inability to recruit or retain resellers may substantially reduce our sales and thus seriously harm our business.

We rely on resellers who can provide high quality sales and support services. As with our distributors, we compete with other telecommunications systems providers for our resellers' business as our resellers generally market competing products. If a reseller promotes a competitor's products to the detriment of our products or otherwise fails to market our products and services effectively, we could lose market share. In addition, the loss of a key reseller or the failure of resellers to provide adequate customer service could cause our business to suffer. If we do not properly train our resellers to sell, install and service our products, our business will suffer.

We cannot predict every event and circumstance that may impact our business and, therefore, the risks discussed above may not be the only ones you should consider.

As we continue to grow our business, we may encounter other risks of which we are not aware as of the date of this Annual Report. These additional risks may cause serious damage to our business in the future, the impact of which we cannot estimate at this time.

Risks Related to Our Common Stock

Our common stock is classed as a "penny stock." Trading of our stock may be restricted by the SEC's penny stock regulations which may limit a stockholder's ability to buy and sell our common stock.

Our common stock is a penny stock. The SEC has adopted Rule 15g-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors." The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 (excluding the value of the primary residence of such individuals) or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

Trading of our common stock may be volatile and sporadic, which could depress the market price of our common stock and make it difficult for our stockholders to resell their shares.

There is currently a limited market for our common stock and the volume of our common stock traded on any day may vary significantly from one period to another. Our common stock is quoted on OTC Market's OTCQB. Trading in stock quoted on OTC Market's OTCQB is often thin and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with our operations or business prospects. The availability of buyers and sellers represented by this volatility could lead to a market price for our common stock that is unrelated to operating performance. Moreover, OTC Market's OTCQB is not a stock exchange, and trading of securities quoted on OTC Market's OTCQB is often more sporadic than the trading of securities listed on a stock exchange like Nasdaq or the New York Stock Exchange. There is no assurance that a sufficient market will develop in the stock, in which case it could be difficult for our stockholders to resell their stock.

Item 10. The Nature and Extent of the Issuer's Facilities

In April 2019, the Company entered into a lease agreement for approximately 11,609 rentable square feet located in Milpitas, California, to serve as the Company's new corporate headquarters for global sales and marketing, research and development, and general and administration functions. The lease term commenced on May 1, 2019 and expires on July 31, 2024 with an option to renew for an additional five-year period. See Note 4, "Commitments and Contingencies" to the Consolidated Financial Statements of this Annual Report for additional information.

We also lease 2,284 square feet of office space in Taipei, Taiwan, which lease expires in December 2020. The facility serves as our international office for research and development functions.

We believe that our existing facilities are adequate and well suited to accommodate our operations. We continuously review space requirements to ensure we have adequate room for growth in the future.

PART D - MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11. The Name of the Chief Executive Officer, Members of the Board of Directors, as well as Control Persons

Chief Executive Officer

Name	Age	Position
Jeremiah J. Fleming	62	President, Chief Executive Officer, and Chairman of the Board

Biographical information for Mr. Fleming is set forth below under "Board of Directors and Control Persons."

Board of Directors and Control Persons

Our Board of Directors is divided into three classes. We currently have five directors divided among the three classes. None of our directors or executive officers has any family relationship to any other director or executive officer. As of the date of this report, the Company is not aware of any related party transactions. Except as noted in Part C, "Legal Proceedings" of this Annual Report and Note 4, "Commitments and Contingencies" of the Consolidated Financial Statements, none of our directors have been involved in any legal proceedings during the last five years.

The following table set forth certain information as of September 30, 2019, with respect to the beneficial ownership of our common stock by: (1) each person or entity known by the Company to beneficially own 5% or more of the Company's common stock; (2) each of the Company's directors; and (3) each of the Company's executive officers. For the purposes of computing a person's beneficial ownership, shares of common stock issuable upon the exercise of securities exercisable or convertible into common stock on September 30, 2019, are deemed outstanding for the purposes of computing the share ownership and percentage ownership of the person holding such securities. For each individual included in the below table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person by the sum of the 22,914,996 shares of common stock outstanding as of September 30, 2019, plus the number of shares of common stock that such person had the right to acquire on September 30, 2019.

Unless otherwise indicated, the principal address of each of the directors below is: c/o Altigen Communications, Inc., 670 N McCarthy Blvd, Suite 200, Milpitas, California 95035. Each of the persons named below has sole voting power and sole investment power with respect to the shares of Common Stock beneficially shown as owned by that person.

Name	Age	Affiliation with Company	Number of Shares Held	Options	Total Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Class I:						
Simon S. Chouldjian	67	Director	889,574	10,833	900,407	3.9%
Ken Epps	63	Director	—	10,833	10,833	*
Class II:						
Jeremiah J. Fleming	62	President, Chief Executive Officer, and Chairman of the Board	3,433,409	1,100,003	4,533,412	18.9%
Philip M. McDermott	73	Director	376,273	652,941	1,029,214	4.4%
Class III:						
Keith A. Midkiff	57	Director	51,888	18,333	70,221	*

* Represents less than 1% of the Company's outstanding Common Stock.

Class I Directors

Simon S. Chouldjian. Mr. Chouldjian has served as an independent director of the Company since 2017. Mr. Chouldjian is currently an independent investor. Prior to his retirement in April 2015, Mr. Chouldjian served as Vice President of Hardware Engineering of Altigen. Mr. Chouldjian served as Altigen's Vice President of Manufacturing from June 1997 to November 2001. From July 1984 to June 1997, Mr. Chouldjian was the founder and Vice President of Engineering of Luxcom, Inc., a manufacturer of communication hub equipment. Mr. Chouldjian has held management and project leadership positions at Hewlett

Packard Corporation and TRW, Inc. Mr. Chouldjian earned a Bachelor of Science degree in Electrical Engineering from the University of California – Berkeley and a Master of Science degree in Electrical Engineering from Stanford University.

Ken Epps. Mr. Epps has served as an independent director of the Company since 2017. Mr. Epps has extensive experience in telecom, healthcare, SaaS and Cloud technologies. Prior to his retirement in April 2019, Mr. Epps was co-founder, President and Chief Executive Officer of Agnity HealthCare Inc., a leading provider of patient centric secure mobile communications and collaboration solutions for healthcare providers. Prior to that, Mr. Epps was Chief Executive Officer of U4EA Technologies, preceded by his position as CEO of BayPackets. Mr. Epps also held senior leadership positions at Williams Communications and AT&T. Mr. Epps holds a Bachelor of Science degree in Mechanical Engineering Technology from South Carolina State University, a Master of Science degree in Engineering Administration from the University of Tennessee, and Master of Business Administration degree from the Stanford University Graduate School of Business.

Class II Directors

Jeremiah J. Fleming. Mr. Fleming is our President, Chief Executive Officer, and Chairman of the Board of Directors. He has served as a member of our Board of Directors since July 2007. Mr. Fleming has over 25 years of experience in the software and communications industries, primarily with smaller fast-growing companies, and has a strong background in sales, marketing and business development. Prior to joining Altigen, Mr. Fleming was at Interactive Intelligence, Inc. where he served in an executive management capacity for 10 years, including international responsibilities, culminating in his role as president of the Vonexus subsidiary launched in 2004. Prior to that, Mr. Fleming spent five years at Software Artistry in various management positions, including Vice President, Domestic Sales, and five years at Computer Associates in various sales and sales management capacities. Mr. Fleming holds both B.A and M.B.A. degrees from the University of Missouri.

Philip M. McDermott. Mr. McDermott has served as a member of the Board of Directors since 2014. From June 1999 to May 2017, Mr. McDermott served as Altigen's Chief Financial Officer. His knowledge of financial accounting, accounting principles and financial reporting rules and regulations, and his experience in evaluating financial results provide substantial insights in his role as a member of our Audit Committee. His extensive experience in the communications industry includes positions at 3Com Corporation where he served as Director of Finance America Sales from 1995 to June 1999. Mr. McDermott has also held the position of Vice President of Finance, Operations, and Administration for Chipcom Corporation. Prior to Chipcom, Mr. McDermott served as Chief Financial Officer for four years at David Systems Inc. and has also held executive positions with Prentice Corporation and Northern Telecom. Mr. McDermott received certified Management Account accreditation from the Society of Management Accounting in Montreal, Canada.

Class III Director

Keith A. Midkiff. Mr. Midkiff has served as an independent director of the Company since 2015. Mr. Midkiff is Partner and Chief Financial Officer of Pacific Rim Constructors (PRC), a company helping to construct and maintain infrastructure at remotely located oil, natural gas, and precious mineral projects and installations in challenging environments around the world, including sites in Africa, Asia, and Central America. Mr. Midkiff has worked with PRC since 2008. Mr. Midkiff previously served as Chief Financial Officer from 2003 until 2008 at Angie's List, a solutions company helping to connect home owners with trustworthy home service providers, where he was instrumental in successfully placing multiple debt and equity offerings totaling over $50 million. Prior to Angie's List, he held a number of senior financial positions at Interactive Intelligence, Inc., where he served as Controller, Vice President of Finance, and finally as Chief Financial Officer. Mr. Midkiff helped guide Interactive Intelligence, a firm providing local and cloud-based telephony and other communications solutions to businesses, through its initial public offering (IPO) on the NASDAQ in 1999. Mr. Midkiff also previously worked as Controller for Software Artistry Inc., a customer relationship management company that also successfully executed an IPO on NASDAQ during Mr. Midkiff's tenure. Mr. Midkiff received a Bachelor of Science degree in accounting and finance from Ohio State University and an MBA degree with concentrations in entrepreneurship and finance from Indiana University.

Item 12. Financial Information for the Issuer's Most Recent Fiscal Period

The following documents are filed as a part of this Annual Report and incorporated herein by reference:

1. Consolidated Financial Statements – The consolidated financial statements listed on the "Index to Consolidated Financial Statements" set forth on page F-1.

2. Exhibits – Certain of the exhibits to this Annual Report are hereby incorporated by reference, as summarized in Part F below.

Item 13. Similar Financial Information for Such Part of the Two Preceding Fiscal Years as the Issuer or its Predecessor Has Been in Existence

The Company's audited consolidated financial statements for the two preceding fiscal periods are included in the Company's Annual Report for the fiscal years ended September 30, 2018 and 2017, which are separately posted on the OTCQB website and can be accessed at www.otcmarkets.com, are incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports: (i) consolidated balance sheet; (ii) consolidated statements of operations; (iii) consolidated statements of cash flows; (iv) consolidated statements of stockholders' equity; (v) notes to consolidated financial statements; and (vii) audit opinion.

Item 14. Beneficial Owners

Other than Jeremiah J. Fleming as identified in Item 11 above, the Company is not aware of any additional shareholders beneficially owning 5% or more of its common stock as of the date of this Annual Report. It is possible that there are additional beneficial holders of a significant percentage of the Company's common stock; however, federal securities laws do not require a beneficial shareholder of 5% or more of the Company's common stock to disclose that information publicly or to the Company. The table in Item 11 above is based on the best information available to the Company as of the date of this Annual Report.

Item 15. The Name, Address, Telephone Number, and Email Address of Each of the Advisors to the Issuer on Matters Relating to Operations, Business Development and Disclosure:

Securities Counsel:	Perkins Coie LLP 1900 Sixteenth Street, Suite 1400 Denver, CO 80202-5255 Telephone: (303) 291-2342 Email: AVillier@perkinscoie.com
Auditor:	Moss Adams LLP 635 Campbell Technology Parkway Campbell, CA 95008 Telephone: (408) 916-0565 Email: arlene.chan@mossadams.com
Tax Accountant:	Moss Adams LLP 3100 Zinfandel Drive, 5th Floor Rancho Cordova, CA 95670 Telephone: (916) 503-8152 Email: mark.harrison@mossadams.com

Preparation of Altigen's consolidated financial statements is the responsibility of the Company. Altigen's independent auditors, Moss Adams LLP, are responsible for expressing an opinion on these consolidated financial statements based on its audits.

Item 16. Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with the information contained in our audited consolidated financial statements, including the notes thereto, and the other financial information appearing elsewhere in this Annual Report. Statements regarding future financial and operating performance, management's plans and objectives, and any statements concerning assumptions related to the foregoing contained in this Management's Discussion and Analysis or Plan of Operation constitute forward-looking statements. See "Disclosure Regarding Forward-Looking Statements." Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear elsewhere in this Annual Report, including without limitation, the factors disclosed under "Risk Factors" in Item 9 of this Annual Report.

Critical Accounting Policies and Estimates

Management's discussion and analysis of the Company's financial condition and consolidated results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company's estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as its business and the economic environment change. The Company's management believes that certain estimates, assumptions and judgments derived from the accounting policies have significant impact on its financial statements, so the Company considers the following be its critical accounting policies.

Revenue Recognition

On October 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC 606), which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605. The Company adopted ASU No. 2014-09 using the modified retrospective method. The impact of the adoption of the new revenue standard was not material to our Consolidated Statements of Operations.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

Hosted Services

Hosted service revenue is generated from the sale of subscriptions to our software applications and related services. Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, Session Initiation Protocol (SIP) Trunk service, call center solutions, voice and video calling, conference calling, and a variety of long-distance services. Our solutions are used by businesses and organizations in industries such as financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers will typically enter into a one-year service agreement whereby they are billed for such services on a monthly basis. Hosted services revenues include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits and other recurring fees related to our subscriptions. Under ASC 606 for the fiscal year ended September 30, 2019 and previously under ASC 605, we recognized hosted service revenue in the period when the services are performed. For fiscal years 2019 and 2018, hosted revenue accounted for 58% and 50%, respectively, of our total revenue.

Cost of hosted services consists primarily of costs associated with hosting our service and providing support, costs associated with data center capacity and certain fees paid to various third parties for the use of their technology, services and data.

Software Assurance

Software assurance services are post-contract customer support ("PCS") services and provide our customers with the latest software updates, patches, new releases, and technical support for the applications they are licensed to use. Software assurance services have an annual subscription and are generally structured with a one-year or three-year term. There was no change in accounting from ASC 605 to ASC 606 relating to such software assurance revenues. Sales from software assurance are recorded as deferred revenue and recognized as revenue over the terms of their subscriptions. Subscriptions with expiration dates of less than one year are classified as "deferred revenue, short-term" and greater than one year are classified as "deferred revenue, long-term" in the accompanying consolidated balance sheets. Short-term software assurance deferred revenue was approximately $890,000 and $1.0 million as of September 30, 2019 and 2018, respectively. Long-term software assurance deferred revenue was approximately $233,000 and $221,000 as of September 30, 2019 and 2018, respectively. For fiscal years 2019 and 2018, software assurance revenue accounted for 27% and 32%, respectively, of our total revenue. Our post-contract customer support offering remains a key part of our business as we continue to add new service customers.

The estimated cost of providing software assurance is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing the services, including upgrades and enhancements, are recognized over the life of the software assurance contract term. The amounts of sales commission relating to software assurance revenue contracts exceeding one year both for the fiscal year ended September 30, 2019, and for outstanding revenue contracts exceeding one year as of adoption date of October 1, 2018 are immaterial and were not capitalized.

Software License Revenue

Software license revenue consists of perpetual license revenue that is recognized upon delivery which transfers control of the software to the customer, usually a download from the Company's website with a specified one-time download key/password that the Company provides to each customer upon sale. The software is sold on a standalone basis with no other services or products bundled in. Software license revenue consists of direct sales to end-users, resellers and distributors. There was no change in accounting from ASC 605 to ASC 606 relating to such software license revenue. The related cost of software license revenue is immaterial.

Professional Services and Other Revenue

The Company also derives revenue from professional services which primarily include custom software development to extend system capabilities and enable UC integration with other enterprise applications. Our professional services are sold separately from software services and have standalone value. Revenue from professional services is recognized when contractual milestones are achieved, services are delivered and accepted by the customer for fixed price contracts. Other revenue consists of deployments and training. Revenue from deployments and training is recognized as the services are performed. Cost of professional services consists primarily of employee-related costs, including stock-based expenses.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Our available cash and cash equivalents are held in time deposits, overnight sweep accounts, and money market funds. Restricted cash represents cash that served as collateral for our revolving line of credit and was restricted as to withdrawal or use. At September 30, 2018, restricted cash was $800,000. With the full repayment of the Line of Credit in August 2019, restricted cash was released, and the cash has been classified as cash and cash equivalents in the consolidated balance sheet as of September 30, 2019. Refer to Note 3 to our consolidated financial statements for additional information.

Results of Operations

The following table sets forth consolidated statements of operations data for the periods indicated as a percentage of net revenue.

	Fiscal Year Ended September 30,		
	2019	2018	2017
Net revenue:			
Hosted services	58.3 %	50.0 %	38.2 %
Software assurance	27.1	31.9	42.4
Software license	10.5	16.1	13.4
Professional services and other	4.1	2.0	6.0
Total net revenue	100.0	100.0	100.0
Cost of revenue:			
Hosted services	17.9	16.1	13.8
Software license	0.6	0.5	0.3
Professional services and other	0.1	(0.2)	1.0
Total cost of revenue	18.6	16.4	15.1
Gross profit	81.4	83.6	84.9
Operating expenses:			
Research and development	24.1	28.3	34.0
Sales and marketing	19.6	21.5	23.7
General and administrative	17.4	16.3	21.7
Litigation (Note 4)	0.1	6.0	0.8
Total operating expenses	61.2	72.1	80.2
Income from operations	20.2	11.5	4.7
Interest and other (expense) income, net			
Interest and other income, net	0.7	0.2	0.1
Interest expense	(0.2)	(0.2)	(0.2)
Total interest and other (expense) income, net	0.5	—	(0.1)
Income before income taxes	20.7	11.5	4.6
(Provision for) benefit from income taxes	(2.6)	86.9	(0.1)
Net income	18.1 %	98.4 %	4.5 %

Results of Operations—Fiscal Year 2019 Compared to Fiscal Year 2018

Net Revenue

Net revenue consists of revenue from direct sales to end-users, resellers and distributors.

We categorize our operations into two operating segments - North America and Rest of World. The North America segment is comprised of the United States, Canada, Mexico, Central America and the Caribbean. The Rest of World segment is primarily comprised of Europe. Revenue from our products and services is categorized into four groups: hosted services, software assurance, software, and professional and service revenue.

During fiscal year 2019, total revenue increased 6% to $10.6 million, compared to the prior year revenue of $10.0 million. The year-over-year increase was primarily caused by a shift in our product mix. For fiscal year 2019, hosted revenue increased 24% to $6.2 million while software assurance revenue decreased 9% to $2.9 million, software license revenue decreased 31% to $1.1 million, and professional services revenue increased 131% to $432,000, compared to fiscal year 2018 hosted revenue of $5.0 million, software assurance revenue of $3.2 million, software license revenue of $1.6 million and professional services revenue of $187,000.

The following table presents net revenue, by geographic region, as a percentage of total revenue for the periods indicated (amounts in thousands, except percentage data).

	Fiscal Year Ended September 30,								
	2019				2018				
		Net Revenue	% of Net Revenue			Net Revenue	% of Net Revenue	
North America	$	10,378	97.6	%	$	9,959	99.6	%
Rest of World	$	254	2.4	%	$	43	0.4	%
Total	$	10,632	100.0	%	$	10,002	100.0	%

For fiscal years 2019 and 2018, one customer (Fiserv) accounted for approximately 26% and 24% of our total revenue, respectively.

Cost of Revenue

Cost of cloud services primarily consists of costs associated with hosting our services, personnel costs associated with customer care and related costs of the hosted operation, costs associated with data center capacity purchased from third-party providers and certain fees paid to various third parties for the use of their technology, services and data. Cost of hosted services is expensed as incurred. Cost of revenue also includes amortization of capitalized software development costs, and other allocated overhead expenses.

For the twelve months ended September 30, 2019, cost of hosted services was $1.9 million, or 18% of net revenue, compared to $1.6 million, or 16% of net revenue for fiscal year 2018. The increase was primarily attributable to the positive impact of the hosted revenue growth. Cost of hosted services, both in absolute dollars and as percentage of revenue, may fluctuate in the future periods depending on the growth rate of our hosted service offerings and the associated costs.

Cost of software assurance consists principally of upgrades, enhancements and technical support. Software assurance costs are deferred and recognized to costs of revenue over the life of the software assurance contract term. For fiscal years 2019 and 2018, the related cost of software assurance was immaterial.

Cost of professional services and other revenue consists primarily of employee-related costs, including stock-based compensation expenses. Costs incurred by the Company in connection with providing such services are charged to expense as incurred. For fiscal years 2019 and 2018, the related cost of professional services and other revenue was immaterial.

Research and Development (“R&D”) Expenses

R&D expenses consist primarily of salaries, benefits and overhead expenses, non-cash stock-based compensation, consultant fees, and other costs associated with the design, development, enhancements and testing of our products. We expense all R&D expenses as incurred and capitalize certain costs of product development when the projects under development reach technological feasibility for software to be sold, and capitalize certain costs as incurred for internal-use software developed as a service.

R&D expenses decreased to $2.6 million in fiscal year 2019 from $2.8 million in fiscal year 2018. As a percentage of net revenue, R&D expenses decreased from 28% in fiscal year 2018 to 24% in fiscal year 2019. During fiscal years 2019 and 2018, costs related to product development that qualify for capitalization were $941,000 and $333,000, respectively, which were excluded from R&D expenses. Excluding the impact of capitalized development costs, R&D expenses increased 11% to $3.5 million in fiscal year 2019 from $3.2 million in fiscal year 2018. The increase was predominately driven by an increase in salaries, benefits and overhead expenses of approximately $441,000, partially offset by a decrease of $75,000 in consulting expenses.

The market for our products changes rapidly and is characterized by evolving industry standards, swift changes in customer requirements, and frequent new product introductions and enhancements. We believe that strong product development capabilities are essential to our strategy of maintaining technology leadership. This includes enhancing current technology, providing excellent quality, performance, and functionality, as well as developing additional applications and services, and maintaining the competitiveness of our premise and hosted offerings. Over the long term, we expect our R&D expenses to increase in absolute dollars and as percentage of revenue as we expand our international development division, and as we continue to invest in the development of new solutions and expand our product and service offerings. Our core R&D activities are conducted in the United States with additional design and development engineering teams located in China and Taiwan.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, benefits and overhead expenses, sales commissions, travel, non-cash stock-based compensation expense and costs related to marketing, trade shows and promotional activities.

For both fiscal year 2019 and 2018, sales and marketing expenses totaled $2.1 million. As a percentage of net revenue, sales and marketing expenses decreased from 22% in fiscal year 2018 to 20% in fiscal year 2019, as a result of increased net revenue.

We plan to continue investing in our domestic marketing activities to help build brand awareness, create sales leads and to drive growth in our sales. To the extent we achieve higher sales levels, we expect sales and marketing expenses to increase in absolute dollars and fluctuate as a percentage of revenue as we continue to support our growth initiatives.

General and Administrative Expenses

General and administrative expenses consist of salaries, benefits and overhead expenses, non-cash stock-based compensation expense and related expenses for our executive, finance and administrative personnel, facilities and allowance for doubtful accounts. In addition, general and administrative expenses include legal, accounting services and general corporate expenses.

General and administrative expenses increased 14% to $1.8 million in fiscal year 2019 from $1.6 million in fiscal year 2018. As a percentage of net revenue, general and administrative expenses increased to 17% in fiscal year 2019 from 16% in fiscal year 2018. The increase in 2019 compared to 2018 was primarily driven by an increase of $68,000 in accounting fees related to Internal Revenue Code Section 382 ownership change analysis to determine if the Corporation has any limitation on the utilization of its net operating losses (NOLs), and an increase of $133,000 in legal expenses related to such matters disclosed in Note 4, “Commitments and Contingencies” of the Consolidated Financial Statements and Part C, “Legal Proceedings” of this Annual Report.

We expect general and administrative expenses will continue at their current rate as management continues to monitor expenses and plans to keep them in line with expected revenue opportunities.

Interest and Other (Expense) Income, Net

Interest Income and Expense

Interest expense consists primarily of interest charged on the outstanding borrowing of our revolving line of credit. Interest income relates to amounts earned on our cash, cash equivalents and restricted cash. The Company recorded $17,000 and $19,000 as interest expense in fiscal years 2019 and 2018, respectively, as compared to interest income of $43,000 and $18,000, respectively. Upon expiration, we did not renew the line of credit in August 2019 and all outstanding borrowings, including interest expense were repaid in full.

Other Income

In the third quarter of fiscal year 2019, in connection with the relocation of the Company’s headquarters to Milpitas, California, the Company received cash proceeds of $36,000 from the sale of certain office furniture. Such amount is included in other income in the consolidated statements of operations.

Revolving Line of Credit

On September 1, 2018, we amended the credit agreement governing our Revolving Line of Credit Note (“Line of Credit”) with our primary financial lender. Under the amended credit agreement, we were not subject to any restrictive financial covenants. The total amount available for us to borrow was reduced from $1.0 million to $800,000. The terms of the Line of Credit also required us to maintain restricted cash with our financial institution equal to the aggregate principal amount of $800,000 as collateral. The Line of Credit was extended for a period of one year, which expired on August 31, 2019. Upon expiration, we elected not to renew the Line of Credit, and all outstanding borrowings, including interest expense were repaid in full. Furthermore, our restricted cash was released and is included in our cash and cash equivalents in our consolidated balance sheet as of September 30, 2019.

During the twelve months ended September 30, 2019 and 2018, we made repayments totaling $719,000 and $150,000, respectively, on the outstanding borrowings under the Line of Credit. Interest expense associated with the Line of Credit was approximately $17,000 and $19,000 for the twelve-month ended September 30, 2019 and 2018, respectively.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity securities and cash flows from operations. As of September 30, 2019, total cash and cash equivalents represents approximately 87% of total current assets. We believe our cash and cash equivalents and cash generated from our ongoing operations will satisfy our operations through at least the next 12 months from January 3, 2020, the date our consolidated financial statements were available to be issued.

The following table shows the major components of our consolidated statements of cash flows for the stated periods:

	Fiscal Year Ended September 30,		
	2019	2018	2017
	(amounts in thousands)		
Cash, cash equivalents and restricted cash, beginning of year	$ 3,080	$ 3,876	$ 4,490
Cash provided by (used in) operating activities	3,407	(263)	(469)
Cash (used in) provided by investing activities	(1,425)	(390)	5
Cash used in financing activities	(705)	(143)	(150)
Cash, cash equivalents and restricted cash, end of year	$ 4,357	$ 3,080	$ 3,876

Cash Provided by Operating Activities

Cash provided by operating activities of $3.4 million during the twelve months ended September 30, 2019 was primarily attributable to net income of $1.9 million, changes in operating assets and liabilities of $1.0 million with non-cash adjustments of $172,000 in depreciation and amortization, $20,000 in stock-based compensation and $260,000 for deferred income taxes.

During the twelve months ended September 30, 2018, cash used in operating activities of $263,000 was a result of $1.5 million decrease in net change in operating assets and liabilities, non-cash adjustments to net income of $78,000, offset by net income of $9.8 million. Included in net income for the fiscal year ended September 30, 2018 was a one-time, non-cash release of the valuation allowance for deferred tax assets of $8.7 million. The Company's fourth quarter financial results include the reversal of a portion of the valuation allowance recorded against the deferred tax assets. Refer to Item 8 – Income Taxes for additional information. Non-cash expense items consist of depreciation and amortization and stock-based compensation expenses.

Cash Used in Investing Activities

Cash flows from investing activities primarily relate to capitalized software costs associated with the development of new products and services and enhancements of existing products and services, cash paid for acquisitions, as well as, purchase of intangible assets, capital expenditures related to technological equipment, software licenses and to a lesser degree, office equipment. Cash used in investing activities of $1.4 million during fiscal year 2019 was primarily attributable to capitalized software totaling $941,000, changes in long-term deposits and purchase of property and equipment of $78,000, and $406,000 paid in connection with the customer acquisition of WorkSpace Communications, LLC.

Cash used in investing activities during fiscal year 2018 primarily related to capital expenditures of property and equipment of approximately $77,000, capitalized software totaling $333,000 and changes in long-term deposits of $20,000.

Cash Used in Financing Activities

Our financing activities have consisted primarily of repayments under our revolving line of credit and the net proceeds from the issuance of common stock from employee option exercises. Cash used in financing activities of $705,000 during fiscal year 2019 consisted primarily of cash used to pay down the principal balance on the Line of Credit of $719,000 and proceeds from the issuance of common stock under our employee stock purchase plan of $14,000.

Cash used in financing activities during fiscal year 2018 was primarily the result of cash outflow used to pay down the principal balance on the Line of Credit of $150,000, and proceeds from the issuance of common stock under our employee stock purchase plan of $7,000.

Based on our recent performance and current expectations, we believe our existing cash and cash equivalents, as well as cash expected to be generated from operating activities will adequately meet our working capital, capital expenditure needs, and other liquidity requirements associated with our existing operations for at least the next 12 months and foreseeable future.

Our cash needs depend on numerous factors, including market acceptance of and demand for our products and services, our ability to develop and introduce new product offerings and enhancements to existing products, the prices at which we can sell our products, the resources we devote to developing, marketing, selling and supporting our products, as well as other factors. If we are unable to raise additional capital or if sales from our new products or enhancements are lower than expected, we will be required to make additional reductions in operating expenses and capital expenditures to ensure that we will have adequate cash reserves to fund operations.

Additional financing, if required, may not be available on favorable terms, or at all. To the extent that existing cash and cash equivalents are not sufficient to fund our future operations, we may need to raise additional funds through public or private equity offerings or through additional debt financing. If we cannot raise additional funds on acceptable terms, or at all, we may not be able to further develop or enhance our products and services, take advantage of opportunities, or respond to competitive pressures or unanticipated requirements, which could seriously harm our business. Even if additional financing is available, we may be required to obtain the consent of our stockholders, which we may or may not be able to obtain. In addition, the issuance of equity or equity-related securities will dilute the ownership interest of our stockholders and the issuance of debt securities could increase the risk or perceived risk of investing in our securities.

We did not have any material commitments for capital expenditures as of September 30, 2019. We had total outstanding commitments on non-cancelable operating leases of approximately $1.3 million as of September 30, 2019. Lease terms on our existing operating leases generally range from three to five years.

Contractual Obligations

The following table presents certain commitments that will require the use of cash in future periods under contractual obligations with minimum firm commitments as of September 30, 2019 (amounts in thousands):

Contractual Obligations	**Total**	**Payments Due in Less Than 1 Year**	**Payments Due in 1 - 3 Years**	**Payments Due in 4 - 5 Years**	**Payments Due in More Than 5 Years**
Operating lease obligations [1]	$ 1,274	$ 281	$ 508	$ 485	$ —

(1) Refer to discussion of "*Commitments and Contingencies*" Note 4 to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

As of September 30, 2019, we did not have any off-balance sheet arrangements.

PART E - ISSUANCE HISTORY

Item 17. List of Securities Offerings and Shares Issued for Services in the Past Two Years

The following table sets forth information about options to acquire shares of Altigen common stock issued in the past two fiscal years:

Date of Issuance	Type of Security Issued	Person/Entity	Number of Shares of Underlying Common Stock	Per Share Exercise Price	Trading Status	Legend Yes/No
11/27/2018	Stock option	Employees	4,500	$0.48	Restricted	Yes
7/24/2018	Stock option	Employees	5,000	$0.52	Restricted	Yes
4/18/2018	Stock option	Employees	7,000	$0.50	Restricted	Yes
11/28/2017	Stock option	Employees	91,000	$0.28	Restricted	Yes

PART F - EXHIBITS

Item 18. Material Contracts

The following is a list of all contracts which the Company is a party to, and which currently can reasonably be regarded as material to a security holder of the Company as of the date of this Annual Report:

- Lease Agreement for 670 N McCarthy Blvd, Milpitas, California, dated as of April 16, 2019, between McCarthy Center Holding LLC and the Company.
- Amended and Restated Certificate of Incorporation of the Company.
- Second Amended and Restated Bylaws of the Company.
- Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company.
- Preferred Stock Rights Agreement, dated as of April 21, 2009, between the Company and Computershare Trust Company, N.A., including the Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively.
- Executive Employment Agreement by and between Jeremiah J. Fleming and the Company, dated as of December 18, 2007.
- OEM Agreement between Altisys Communications and the Company, dated as of January 18, 1999.
- Distribution Agreement between Synnex Information Technologies, Inc. and the Company, dated as of December 22, 1999.
- Reseller Agreement between Fiserv Solutions, Inc. and the Company, dated as of August 28, 2009.

Copies of these agreements will be available for inspection at the office of the Company located at 670 N McCarthy Blvd, Suite 200, Milpitas, California 95035, during ordinary business hours.

Item 19. Articles of Incorporation and Bylaws

The information required by this Item 19 has been included in the Company’s previous filings with the SEC, and is herein incorporated by reference. There have been no amendments to the Certificate of Incorporation or the Bylaws since those previously filed with the SEC.

Item 20. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases of equity securities by the Company or Affiliated Purchasers as defined in Item 20 of the OTC Disclosure Guidelines during fiscal year 2019.

Item 21. Issuer's Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

1. I have reviewed this annual disclosure statement of Altigen Communications, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: January 3, 2020

/s/ Jeremiah J. Fleming
Jeremiah J. Fleming
Chairman of the Board, President and Chief Executive Officer

CERTIFICATION OF VICE PRESIDENT OF FINANCE

I, Carolyn David, certify that:

1. I have reviewed this annual disclosure statement of Altigen Communications, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: January 3, 2020

/s/ Carolyn David
Carolyn David
Vice President of Finance

ALTIGEN COMMUNICATIONS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements are filed as part of this report:

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of
Altigen Communications, Inc.

Report on Financial Statements

We have audited the accompanying consolidated financial statements of Altigen Communications, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended September 30, 2019, 2018, and 2017, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue recognition in the year ended September 30, 2019 due to the adoption of Accounting Standards Codification Topic No. 606, *Revenue Recognition*.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Altigen Communications, Inc., as of September 30, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years ended September 30, 2019, 2018, and 2017, in accordance with accounting principles generally accepted in the United States of America.

/s/ Moss Adams LLP

Campbell, California
December 31, 2019

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except shares and per share amounts)

	September 30, 2019	September 30, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,357	$ 2,280
Restricted cash and cash equivalents	—	800
Trade receivables	371	531
Other receivables	—	557
Prepaid expenses and other current assets	287	1,065
Total current assets	5,015	5,233
Property and equipment, net	84	78
Capitalized software development costs, net	1,154	327
Intangible assets, net	395	—
Deferred tax assets	8,453	8,713
Long-term deposit	36	11
Total assets	$ 15,137	$ 14,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 83	$ 62
Accrued compensation and benefits	227	284
Revolving line of credit	—	719
Accrued expenses	478	822
Deferred revenue, short-term	890	1,041
Total current liabilities	1,678	2,928
Deferred revenue, long-term	233	221
Deferred rent, long-term	62	—
Total liabilities	1,973	3,149
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized—5,000,000 shares; Issued and outstanding—none at September 30, 2019 and 2018	—	—
Common stock, $0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—22,914,996 shares at September 30, 2019 and 22,842,246 shares at September 30, 2018	23	23
Treasury stock at cost—1,918,830 shares at September 30, 2019 and September 30, 2018	(1,565)	(1,565)
Additional paid-in capital	71,893	71,859
Accumulated deficit	(57,187)	(59,104)
Total stockholders' equity	13,164	11,213
Total liabilities and stockholders' equity	$ 15,137	$ 14,362

The accompanying notes are an integral part of the consolidated financial statements.

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share amounts)

	Fiscal Year Ended September 30,		
	2019	**2018**	**2017**
Net revenue:			
Hosted services	$ 6,193	$ 5,001	$ 3,206
Software assurance	2,885	3,186	3,555
Software license	1,122	1,611	1,126
Professional services and other	432	204	501
Total net revenue	10,632	10,002	8,388
Cost of revenue:			
Hosted services	1,906	1,613	1,160
Software license	68	54	24
Professional services and other	6	(22)	86
Total cost of revenue	1,980	1,645	1,270
Gross profit	8,652	8,357	7,118
Operating expenses:			
Research and development	2,565	2,830	2,847
Sales and marketing	2,080	2,149	1,988
General and administrative	1,847	1,625	1,824
Litigation (Note 4)	13	604	70
Total operating expenses	6,505	7,208	6,729
Income from operations	2,147	1,149	389
Interest and other (expense) income, net			
Interest and other income, net	79	18	9
Interest expense	(17)	(19)	(16)
Total interest and other (expense) income, net	62	(1)	(7)
Income before income taxes	2,209	1,148	382
(Provision for) benefit from income taxes	(292)	8,692	(3)
Net income	$ 1,917	$ 9,840	$ 379
Net income per share:			
Basic	$ 0.08	$ 0.43	$ 0.02
Diluted	$ 0.07	$ 0.40	$ 0.02
Shares used to compute net income per share:			
Basic	22,875	22,820	22,799
Diluted	25,658	24,767	23,555

The accompanying notes are an integral part of the consolidated financial statements.

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2019, 2018 AND 2017
(Amounts in thousands, except shares data)

	Common Stock					
	Shares	Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at September 30, 2016	22,798,683	$ 23	$ (1,565)	$ 71,808	$ (69,323)	$ 943
Net income	—	—	—	—	379	379
Stock-based compensation	—	—	—	17	—	17
Balance at September 30, 2017	22,798,683	23	(1,565)	71,825	(68,944)	1,339
Net income	—	—	—	—	9,840	9,840
Common stock issued under stock plans	43,563	—	—	7	—	7
Stock-based compensation	—	—	—	27	—	27
Balance at September 30, 2018	22,842,246	23	(1,565)	71,859	(59,104)	11,213
Net income	—	—	—	—	1,917	1,917
Common stock issued under stock plans	72,750	—	—	14	—	14
Stock-based compensation	—	—	—	20	—	20
Balance at September 30, 2019	22,914,996	$ 23	$ (1,565)	$ 71,893	$ (57,187)	$ 13,164

The accompanying notes are an integral part of the consolidated financial statements.

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Fiscal Year Ended September 30,		
	2019	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 1,917	$ 9,840	$ 379
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	47	45	79
Deferred income tax benefit	260	(8,713)	—
Amortization of intangible assets	11	—	—
Amortization of capitalized software	114	6	—
Stock-based compensation	20	27	17
Changes in operating assets and liabilities:			
Accounts receivable	160	(276)	51
Inventories	—	—	38
Prepaid expenses and other current assets	1,335	(1,478)	(49)
Accounts payable	20	17	(17)
Accrued expenses	(400)	576	(744)
Deferred revenue	(139)	(282)	(205)
Deferred rent	62	(25)	(18)
Net cash provided by (used in) operating activities	3,407	(263)	(469)
Cash flows from investing activities:			
Changes in long-term deposits	(25)	20	5
Purchases of property and equipment	(53)	(77)	—
Acquisition of intangible assets	(406)	—	—
Capitalized software development costs	(941)	(333)	—
Net cash (used in) provided by investing activities	(1,425)	(390)	5
Cash flows from financing activities:			
Proceeds from issuances of common stock	14	7	—
Payment of revolving line of credit	(719)	(150)	(150)
Net cash used in financing activities	(705)	(143)	(150)
Net increase (decrease) in cash, cash equivalents and restricted cash	1,277	(796)	(614)
Cash, cash equivalents and restricted cash, beginning of year	3,080	3,876	4,490
Cash, cash equivalents and restricted cash, end of year	$ 4,357	$ 3,080	$ 3,876

The accompanying notes are an integral part of the consolidated financial statements.

ALTIGEN COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Altigen Communications, Inc. ("Altigen," the "Company," "we," "us" or "our") was incorporated in the State of California in May 1994, and reincorporated in the State of Delaware in June 1999. We are a Microsoft Cloud Solutions provider of premise and cloud-based IP-PBX and Contact Center solutions. As one of the first companies to offer VoIP solutions, we design, deliver and support Voice over Internet Protocol (VoIP) phone systems and call center solutions that combine high reliability with integrated IP communications applications. Altigen has been deploying systems since 1996. Our unique and feature rich Cloud PBX and Multi-channel Contact Center solutions natively integrate with Skype for Business and Office 365 to deliver business-critical functionalities required by SMBs and enterprises.

During fiscal year 2017, the Company established a Representative Office in Taipei, Taiwan, which serves as our international office for research and development functions.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying audited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities during the reported periods. Key estimates include certain accruals for doubtful accounts reserve, long-lived assets, accounting for income taxes and the fair value of stock options granted and outstanding. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates. To the extent that there are material differences between these estimates and our actual results, our future consolidated financial statements will be affected.

Our fiscal year end is September 30 of each year. Unless otherwise stated, all references to fiscal years 2019, 2018, and 2017 refer to the twelve months ended September 30 of that year.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Our available cash and cash equivalents are held in time deposits, overnight sweep accounts, and money market funds. Restricted cash represents cash that served as collateral for our revolving line of credit and was restricted as to withdrawal or use. At September 30, 2018, restricted cash was $800,000. With the full repayment of the Line of Credit in August 2019, restricted cash was released, and the cash has been classified as cash and cash equivalents in the consolidated balance sheet as of September 30, 2019. Refer to Note 3 to our consolidated financial statements for additional information

Trade Accounts Receivable

The Company extends credit to its customers and generally does not require collateral. Management performs ongoing credit evaluations of its customers and establishes an allowance for estimated losses to reduce accounts receivable to the amount management expects to collect. Historically, actual collections have been within management's expectations. Accounts receivable are due under normal trade terms generally requiring payment within 30 days from the invoice date. Customer account balances with invoices dated 60-90 days old are considered delinquent.

The allowance for doubtful accounts reflects management's analysis of receivables and the probability of collecting those accounts. Trade accounts receivable are charged against the allowance when the Company determines that payments will not be received. Any subsequent receipts are credited to the allowance. The Company's allowance for doubtful accounts during fiscal year 2019 and 2018 were not significant. Bad debt expense for fiscal years 2019, 2018 and 2017 were insignificant.

Property and Equipment, Net

Property and equipment are stated at cost, which includes purchase cost, applicable taxes and freight costs, less accumulated depreciation and amortization. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which is three years except for leasehold improvements. We depreciate leasehold improvements over the shorter of the lease term or the improvement's estimated useful life. Depreciation and amortization expense for fiscal years 2019, 2018 and 2017, was approximately $47,000, $45,000 and $79,000, respectively. Repairs and maintenance costs for all periods presented were immaterial and were expensed as incurred.

We periodically review our portfolio of equipment for impairment. Based on our impairment assessment, during fiscal years 2019, 2018 and 2017, we retired and disposed of fully depreciated equipment of $184,000, $0 and $489,000, respectively. The disposal of such assets had no impact on our consolidated financial statements.

Property and equipment, net, consist of the following (in thousands):

	Fiscal Year Ended September 30,	
	2019	**2018**
Furniture and equipment	$ 495	$ 547
Computer software	392	392
Leasehold improvements	53	132
Total	940	1,071
Accumulated depreciation and amortization	(856)	(993)
Property and equipment, net	$ 84	$ 78

Software Development Cost

Costs incurred for the development of software to be marketed and sold are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to the public. Capitalized software development costs include purchased materials and services, and payroll and personnel-related costs attributable to programmers, software engineers and quality control. We amortize software development costs using the straight-line method over the product's estimated useful life, generally three years to cost of revenue for software sales.

We capitalize certain costs of software developed for internal use. Capitalized costs include payroll and personnel-related costs for employees who are directly associated with and who devote time to the internal-use software projects, and purchased materials and services consumed in developing or obtaining internal-use software. The cost of internally developed software is amortized on a straight-line basis over its estimated useful life, generally three years to cost of revenue for hosted services.

The following table summarizes capitalized software costs and accumulated amortization as of September 30, 2018 and activities during the twelve months ended September 30, 2019 (in thousands):

	Capitalized Software	**Accumulated Amortization**	**Net**
Balance at September 30, 2017	$ —	$ —	$ —
Additions (1)	333	(6)	327
Balance at September 30, 2018	333	(6)	327
Additions (2)	941	(114)	827
Balance at September 30, 2019	$ 1,274	$ (120)	$ 1,154

(1) Of the $0.3 million of software costs capitalized as of September 30, 2018, approximately $280,000 was in process and had not yet been launched as of year-end date.

(2) Of the $1.3 million of software costs capitalized as of September 30, 2019, approximately $514,000 was in process and has not yet been launched as of year-end date.

Revenue Recognition after Adoption of Accounting Standards Codification ("ASC") Topic No. 606 and Cost of Revenue

On October 1, 2018, we adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605. The Company adopted ASU No. 2014-09 using the modified retrospective method. As a result, the Company is required to disclose the accounting policies in effect prior to October 1, 2018, as well as the policies it has applied starting October 1, 2018. The results for the reporting period beginning after October 1, 2018 are presented in accordance with the new standard, although comparative information for the prior year has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. Adoption of the new standard did not have a significant impact on the current period revenues or on the prior year consolidated financial statements. No transition adjustment was required to be recorded as of October 1, 2018.

Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services.

We determine revenue recognition through the following steps:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when, or as, we satisfy a performance obligation.

We derive our revenue from the sales of hosted services, software assurance, software licenses and professional services. As part of its assessment of each contract, the Company evaluates certain factors including the customer's ability to pay, or credit risk. For each contract, the Company considers the promise to transfer products, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the price stated on the purchase order is typically fixed and represents the net consideration to which the Company expects to be entitled, and therefore there is no variable consideration except for in the Hosted Services Revenue stream. As the Company's standard payment terms are less than one year, the Company has elected, as a practical expedient, to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product based on its relative standalone selling price which is the Company's standard price list for its products and services. The product price as specified on the purchase order is considered the standalone selling price as it is an observable source that depicts the price as if sold to a similar customer in similar circumstances.

Hosted Services Revenue. We generate recurring revenue through our cloud-based products referred to as hosted services sold through reseller partners and direct arrangements with end-user customers. Hosted services revenue is derived from providing our proprietary VoIP UC solutions in a hosted environment, in which customers pay a minimum monthly fee to use a specified number of software licenses, plus SIP services. Hosted services revenues include recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits and other recurring fees related to our subscriptions. Under ASC 606 for the fiscal year ended September 30, 2019 and previously under ASC 605, we recognize hosted service revenue in the period when the services are performed.

Cost of hosted services consists primarily of costs associated with hosting our service and providing support, costs associated with data center capacity and certain fees paid to various third parties for the use of their technology, services and data.

Software Assurance Revenue. Software assurance services are post-contract customer support ("PCS") services. We provide software assurance consisting primarily of the latest software updates, patches, new releases and technical support. Such software assurance sales are sold separately from any software licenses. As the software assurance service is provided to the customer throughout the duration of the contractual term, revenue is recognized ratably over the contract term, generally over a period of one year or three years. Sales from our software assurance are recorded as deferred revenue and recognized as revenue over the terms of their subscriptions. Subscriptions with expiration dates of less than one year are classified as "deferred revenue, short-term” and greater than one year are classified as “deferred revenue, long-term” in the accompanying consolidated balance sheets.

The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing the services, including upgrades and enhancements, are deferred and recognized to costs of revenue over the life of the software assurance contract term. The amounts of sales commissions relating to software assurance revenue contracts exceeding one year both for the fiscal year ended September 30, 2019 and for outstanding revenue contracts exceeding one year as of adoption date of October 1, 2018 are immaterial and were not capitalized.

Software License Revenue. Software license revenue consists of perpetual license revenue that is recognized upon the delivery which transfers control of the software to the customer, usually a download from the Company’s website with a specified one-time download key/password that the Company provides to each customer upon sale. The software is sold on a standalone basis with no other services or products bundled in. The Company will only provide such PCS on a rare and limited basis consisting primarily of technical support and bug fixes on installation if the download with the passcode key did not work. The Company does not provide any further PCS after installation in connection with the software license sale. Our software license revenue consists of direct sales to end-users, resellers and distributors. The related cost of software license revenue is immaterial.

Professional Services and Other Revenue. The Company also derives revenue from professional services which primarily include custom software development to extend system capabilities and enable UC integration with other enterprise applications. Our professional services are sold separately from software services and have standalone value. Revenue from professional services is recognized when services are delivered and accepted by the customer for fixed price contracts. Other revenue consists of deployments and training. Revenue from deployments and training is recognized as the services are performed. Cost of professional services consists primarily of employee-related costs, including stock-based expenses.

Assets Recognized from Costs to Obtain a Contract with a Customer. The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has concluded that none of the costs it has incurred to obtain and fulfil its revenue contracts meet the capitalization criteria, and as such, there are no costs deferred at September 30, 2019.

Practical Expedients and Exemptions.

(i) Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in sales and marketing expenses in the consolidated statements of operations.

(ii) The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for the services performed.

Revenue Recognition Prior to the Adoption of ASC Topic No. 606 on October 1, 2018

We derive our revenue from the sales of hosted services, software assurance, software licenses and professional services. Revenue from sales to end-users and resellers is recognized when delivery has occurred, or services have been rendered, collection of the receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed and determinable. If we determine that any one of the four criteria is not met, recognition of revenue is deferred until all the criteria are met.

Segment Reporting

The Company manages its business primarily on a geographic basis. Accordingly, the Company determined its operating segments, which are generally based on the nature and location of its customers, to be North America and Rest of World. The North America segment is comprised of the United States, Canada, Mexico, Central America and the Caribbean. The Rest of World segment is primarily comprised of Europe.

The following table presents our revenue by geographic region and as percentage of net revenue for the periods indicated (amounts in thousands, except percentage data).

	Fiscal Year Ended September 30,					
	2019		2018		2017	
	Net Revenue	% of Net Revenue	Net Revenue	% of Net Revenue	Net Revenue	% of Net Revenue
North America	$ 10,378	97.6 %	$ 9,959	99.6 %	$ 8,358	99.6 %
Rest of World	$ 254	2.4 %	$ 43	0.4 %	$ 30	0.4 %
Total	$ 10,632	100.0 %	$ 10,002	100.0 %	$ 8,388	100.0 %

Net Income Per Share

The Company bases its basic net income per share upon the weighted average number of common shares outstanding during the period. Basic net income per common share is computed by dividing the net income by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

The following table shows the computation of basic and diluted net income per share for the twelve months ended September 30, 2019, 2018 and 2017:

	Fiscal Year Ended September 30,		
	2019	2018	2017
	(amounts in thousands, except per share amounts)		
Numerator:			
Net income	$ 1,917	$ 9,840	$ 379
Denominator:			
Weighted-average shares outstanding	22,875	22,820	22,799
Effect of dilutive securities	2,783	1,947	756
Weighted average diluted share	25,658	24,767	23,555
Basic net income per share	$ 0.08	$ 0.43	$ 0.02
Diluted net income per share	$ 0.07	$ 0.40	$ 0.02

Options and warrants to purchase approximately 3.7 million, 4.1 million and 4.0 million shares of common stock were outstanding for the years ended September 30, 2019, 2018 and 2017, respectively, and were excluded from the computation of diluted net earnings per share for these periods because their effect would have been antidilutive.

3. REVOLVING LINE OF CREDIT

On September 1, 2018, we amended the credit agreement governing our Revolving Line of Credit Note ("Line of Credit") with our primary financial lender. Under the amended credit agreement, we were not subject to any restrictive financial covenants. The total amount available for us to borrow was reduced from $1.0 million to $800,000. The terms of the Line of Credit also required us to maintain restricted cash with our financial institution equal to the aggregate principal amount of $800,000 as collateral. The Line of Credit was extended for a period of one year, which expired on August 31, 2019. Upon expiration, we elected not to renew the Line of Credit, and all outstanding borrowings, including interest expense were repaid in full. Furthermore, our restricted cash was released and is included in our cash and cash equivalents in our consolidated balance sheet as of September 30, 2019.

During the twelve months ended September 30, 2019 and 2018, we made repayments totaling $719,000 and $150,000, respectively, on the outstanding borrowings under the Line of Credit. Interest expense associated with the Line of Credit was approximately $17,000 and $19,000 for the twelve-month ended September 30, 2019 and 2018, respectively.

4. COMMITMENTS AND CONTINGENCIES

Commitments

In April 2019, the Company entered into a new five-year operating lease agreement for approximately 11,609 rentable square feet to serve as its new corporate headquarters located in Milpitas, California. This facility is leased through July 2024 and serves as our principal office space for global sales and marketing, research and development, and general and administration functions. The terms of the lease required a security deposit of approximately $25,000, rent escalations, and one consecutive option to extend the lease term for an additional five-year period. In connection with this lease arrangement, the Company received rent abatement as a lease incentive in the amount of $59,000. Under the terms of the lease agreement, total rent payment is approximately $1.2 million for a period of five years commencing on September 1, 2019.

On December 31, 2013, the Company entered into an operating lease for its corporate headquarters, located in San Jose, California. The lease term commenced on May 15, 2014 and terminated on May 31, 2019, with an option to renew for an additional five years. Under the terms of the lease agreement, rent payments of approximately $1.4 million were required over a period of five years. The terms of the lease required a security deposit of approximately $31,000, which was classified as long-term deposit in the consolidated balance sheets. Furthermore, the terms of the lease included rent escalations and a tenant allowance of $64,000 for certain leasehold improvements, which was recorded as part of deferred rent liability amortized over the term of the lease. The Company's operating lease for its corporate headquarters located in San Jose, California expired on May 31, 2019. There were no significant costs incurred with respect to the expiration of this lease.

In December 2017, the Company entered into a three-year operating lease agreement, which expires in December 2020, for approximately 2,284 square feet of office space located in Taipei, Taiwan. The facility serves as our international office for research and development functions. Pursuant to the terms of the lease agreement, total base rent payment is approximately $137,000 over a period of three years with one month rent free at the initial term of the lease. Additionally, under the terms of the lease agreement, the Company is obligated to pay certain customary amounts for its share of operating expenses, and the terms of the lease required a security deposit of approximately $11,000, which is classified as long-term deposit in the Consolidated Balance Sheets.

The Company recognizes rent expense on a straight-line basis over the lease term and records the difference between cash rent payments and the recognized rent expense as a deferred rent liability. Rent expense was $429,000 and $414,000 for fiscal years 2019 and 2018, respectively.

Future non-cancellable minimum lease payments required under all existing operating leases as of September 30, 2019 are as follows (in thousands):

Fiscal Year	**Future Lease Payments** (in thousands)
2020	$ 281
2021	254
2022	254
2023	261
2024	224
Total	$ 1,274

Litigation

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit or proceeding could have a material adverse effect on our results of operations, financial position or cash flows. Except as noted below, the Company is not a party to any material legal proceedings nor is the Company aware of any pending or threatened litigation that, in its opinion, would have a material adverse effect on its business or its financial position, results of operations or cash flows should such litigation be resolved unfavorably.

CTI Litigation

On March 30, 2016, CTI Communications, LLC, a former reseller of the Company ("CTI"), filed a complaint against the Company, Affiliated Technology Solutions, LLC, a current reseller of the Company ("ATS"), James Jerome Cruz, a former CTI employee, and Thomas W. Welsh, President of ATS, in the Colorado District Court, Larimer County (the "Court"). The complaint alleged misappropriation of trade secrets, breach of contract, civil conspiracy, civil theft and tortious interference. On March 17, 2017, CTI filed an amended complaint adding certain members of management and executive officers as additional defendants, including the Company's Chief Executive Officer, Jeremiah J. Fleming, Vice President of Sales, Michael Plumer and Regional Sales Manager, Matthew Nielson. On August 16, 2017, the Court dismissed with prejudice all of CTI's claims against Mr. Fleming. On March 27, 2018, a jury rendered a verdict in favor of CTI, and the Court entered a judgment that held all defendants jointly and severally liable and awarded CTI approximately $724,000 in compensatory damages, unjust enrichment, punitive damages and pre-judgment interest on compensatory damages. Furthermore, on October 5, 2018, the Court awarded CTI approximately $433,000 in attorney fees and costs, jointly and severally against all defendants. The Company filed a Motion for Stay of Execution of Judgement with the Court, and on July 25, 2018, the Company and all defendants in the litigation filed a Notice of Appeal in the Colorado Court of Appeals. To secure a stay while the appeal was pending, the Company posted an appeal bond on behalf of all defendants on May 3, 2019.

On November 29, 2018, the Company, ATS, Mr. Welsh, and Mr. Cruz entered into a settlement agreement pursuant to which the parties thereto allocated damages among themselves and $557,000 was paid to the Company by such other co-defendants on December 3, 2018. Consequently, the Company recorded a litigation expanse in the sum of $604,000, a receivable in the amount of $557,000, and a payable in the amount of $433,000 in the fourth quarter of fiscal 2018 in connection with this matter. Pursuant to the judgement on attorneys' fees and costs, on February 7, 2019, the Court served our financial institution and ordered $445,000 in attorneys' fees and costs plus post-judgment interest on damages through

October 23, 2018 be paid to CTI's counsel. On October 31, 2019, the Colorado Court of Appeals issued its rulings and determined that (i) the underlying judgment of $724,000 was affirmed and the matter was remanded to the trial court, (ii) the judgement for attorneys' fees and costs was vacated and remanded to the trial court, and (iii) civil theft claim against the Company's co-defendants was reinstated and remanded to the trial court to conduct a new trial against the Company's co-defendants. The case is currently pending before the trial court. The Company intends to continue to vigorously defend against the claims asserted.

Intellitalk Litigation

On February 1, 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. ("Intellitalk"), an active reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside on January 15, 2019. The complaint alleges interference with prospective economic advantage and unfair competition. Although the outcome of this matter is not determinable as of the date of this Annual Report, the Company believes Intellitalk's claims are without merit and the Company intends to vigorously defend against the allegations. The Company has not recorded any liability with respect to this litigation as of September 30, 2019.

5. ACQUIRED INTANGIBLE ASSETS

Customer Acquisition

On August 1, 2019, the Company entered into an asset purchase agreement with WorkSpace Communications, LLC ("WorkSpace"), pursuant to which, on such date, the Company acquired all of WorkSpace's rights to its customer relationships for $400,000 in cash plus additional contingent cash consideration of up to $1.2 million subject to the terms on which such customers are transitioned to Altigen. In connection therewith, WorkSpace agreed to provide certain transition services on a monthly basis at the Company's expense until such services are no longer needed by the Company. The Company subsequently hired certain WorkSpace employees. The purchase price paid in cash at closing was funded with cash from operations, and under the acquisition method of accounting, the purchase price was allocated to intangible assets. Transition expenses are capitalized as incurred and were not significant as of September 30, 2019. The acquired intangible asset is estimated to have a three-year amortization life. During the fiscal year ended September 30, 2019, approximately $11,000 was amortized to cost of goods sold.

6. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION EXPENSE

Equity Stock Incentive Plans

The Company's 2009 Stock Plan (the "2009 Stock Plan") expired in June 2019 and no additional awards may be granted under the plan. The 2009 Plan will, however, continue to govern the securities previously granted under the plan. In July 2019, our Board of Directors approved the 2019 Equity Incentive Plan ("2019 Equity Incentive Plan"), which was approved by the Company's stockholders on October 24, 2019 and replaced the 2009 Plan and the shares available for future grants under the plan. Shares reserved under the 2019 Stock Plan include (i) 1,000,000 new shares, plus (ii) 2,277,873 shares which have been reserved but not issued pursuant to any awards under the 2009 Plan, plus (ii) the number of shares subject to outstanding awards under the 2009 Plan that expire or otherwise terminate without having been exercised in full, or are forfeited to or repurchased by the Company, up to a maximum of 3,774,635 shares. The 2019 Stock Plan, provides for the granting of incentive stock options, nonstatutuory stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance units and performance shares for over a period not to exceed ten years and at exercise prices that are not less than 100% of the fair market value of the Company's common stock on the date of grant as determined by the Board of Directors. The exercise price of options granted to a greater than 10% stockholder may not be less than 110% of the fair market value on the date of grant. Stock options issued under the 2019 Stock Plan generally vest 25% at one year from the date of grant and 1/48th monthly thereafter. Options under the 2019 Stock Plan will expire ten years after the date of grant. The value of common stock subject to incentive stock options that become exercisable by any one employee in any calendar year may not exceed $100,000.

No grants were made under the 2019 Stock Plan as of September 30, 2019. Furthermore, as of September 30, 2019, 3.7 million shares of common stock were issuable pursuant to outstanding awards granted under the 2009 Stock Plan.

The following table summarizes the Company's stock option activities under the 2009 Stock Plan during the three fiscal years ended September 30, 2019, 2018 and 2017:

	Options Outstanding		Weighted Average Exercise Price
Outstanding at September 30, 2017	4,034,624	$	0.28
Options granted	103,000	$	0.31
Options exercised	(43,563)	$	0.18
Options forfeited or expired	(5,937)	$	0.27
Outstanding at September 30, 2018	4,088,124	$	0.28
Options granted	4,500	$	0.48
Options exercised	(72,750)	$	0.18
Options forfeited or expired	(290,288)	$	0.85
Outstanding at September 30, 2019	3,729,586	$	0.24

Total stock options vested and expected to vest at September 30, 2019 were 3.7 million shares with a weighted average exercise price of $0.24, aggregate intrinsic value of $3.3 million and a weighted average remaining contractual term of 4.6 years. The total exercisable stock options at September 30, 2019 were 3.6 million shares with an aggregate intrinsic value of $3.2 million, weighted average exercise price of $0.24 and a weighted average remaining contractual term of 4.5 years.

As of September 30, 2019, the Company had unamortized share-based compensation expense relating to options outstanding of $6,000, which is expected to be amortized to expense over a weighted average period of 1.1 years. The weighted average grant date fair value of options granted during the years ended September 30, 2019, 2018, and 2017 were $0.23, $0.28, and $0.27, respectively.

The Company has estimated the fair value of stock-based compensation for stock options at the date of the grant using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model incorporates various assumptions including expected volatility, expected life and interest rate. The Company uses historical data to estimate option forfeitures. Expected volatility is based on historical volatility and the risk-free interest rate is based on U.S. Treasury yield in effect at the time of the grant for the expected life of the options. The Company does not anticipate paying any dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option valuation model.

The table below provides the range of exercise prices of stock options outstanding and stock options exercisable at September 30, 2019:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.16 – $0.16	2,102,799	4.33	$ 0.16	2,102,799	$ 0.16
$0.18 – $0.31	307,000	7.14	$ 0.28	204,810	$ 0.28
$0.35 – $0.35	1,273,287	4.49	$ 0.35	1,273,287	$ 0.35
$0.38 – $0.38	30,000	5.81	$ 0.38	30,000	$ 0.38
$0.48 – $0.48	4,500	9.16	$ 0.48	—	$ —
$0.52 – $0.52	5,000	8.81	$ 0.52	1,667	$ 0.52
$0.74 – $0.74	5,000	0.92	$ 0.74	5,000	$ 0.74
$0.90 – $0.90	2,000	0.13	$ 0.90	2,000	$ 0.90
$0.16 – $0.90	3,729,586	4.63	$ 0.24	3,619,563	$ 0.24

Stock-Based Compensation

The Company accounts for stock-based compensation, including grants of stock options, as an operating expense in the consolidated statement of operations. The Company measures stock-based compensation cost at the grant date based on the fair value of the grant. The value of the portion of the grant that is ultimately expected to vest is recognized as expense over the requisite service periods.

During fiscal years 2019, 2018 and 2017, stock-based compensation expense related to employee and director stock options was $20,000, $27,000 and $17,000, respectively.

The underlying weighted-average assumptions used in the Black-Scholes model and the resulting estimates of fair value per share were as follows for options granted during the twelve months ended September 30, 2019, 2018 and 2017:

	Fiscal Year Ended September 30,		
	2019	2018	2017
Expected life (in years)	7	7	7
Risk-free interest rate	2.9%	2.1-2.8%	1.6-1.9%
Volatility	113%	124%-139%	146%-152%
Expected dividend	0.0%	0.0%	0.0%

7. SHAREHOLDER RIGHTS PLAN

The Company adopted a Preferred Stock Rights Agreement (the "Plan") and declared a dividend distribution of one right for each outstanding share of its common stock. The record date for the distribution was May 7, 2009. The Company designed the plan to protect the long-term value of the Company for its shareholders during any future unsolicited acquisition attempt. The Company did not adopt the Plan in response to any specific attempt to acquire the Company or its securities, and the Company is not aware of any current efforts to do so. These rights would have become exercisable only upon the occurrence of certain events specified in the Plan, including the acquisition of 15% of the Company's outstanding shares of common stock by a person or group. Should a person or group have acquired 15% or more of the outstanding shares of common stock or announce an unsolicited tender offer, the consummation of which would result in a person or group acquiring 15% or more of the outstanding shares of common stock, stockholders other than the acquiring person may exercise the rights, unless the Board of Directors has approved the transaction in advance. Each right would have initially entitled stockholders to purchase one one-thousandth (0.001) of the Company's preferred stock for $4.00 per share. However, the rights were not immediately exercisable and would have become exercisable only upon the occurrence of certain events. If a person or group acquired, or announced a tender or exchange offer that would have resulted in the acquisition of, fifteen percent (15%) or more of our common stock while the Plan remained in place, then, unless the rights were redeemed by us for $0.001 per right, the rights would have become exercisable by all rights holders, except the acquiring person or group, for shares of Altigen or shares of the third party acquirer having a value of twice the right's then-current exercise price. No shares of the Company's Series A Participating Preferred Stock are currently outstanding. The Plan expired on May 7, 2019 without a renewal or replacement Plan.

8. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is a new standard on revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. Topic 606 allows for either "full retrospective" adoption, meaning the standard is applied to all periods presented, or "modified retrospective" adoption, meaning the standard is applied only to the most current period presented in the financial statements. The Company adopted ASU 2014-09 and its related amendments (collectively "ASC 606") effective on October 1, 2018.

We utilized a comprehensive approach to assess the impact of the new revenue standard on our contract portfolio by reviewing our current accounting policies and practices to identify differences that would result from applying the new revenue standard to our revenue contracts. Additionally, we reviewed customer agreements representative of our business models and assessed whether changes in revenue recognition were appropriate under the new revenue standard.

The adoption of ASC 606 did not have a material impact on the Company's financial position or results of operations. The Company did not restate prior period information for the effects of the new standard, nor did the Company adjust the opening balance of retained earnings to account for the implementation of the new requirements of this standard. Refer to Note 2 to our consolidated financial statements for a more detailed discussion.

ASU No. 2016-15, Statement of Cash Flows (Topic 230)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*. This update clarifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and for interim periods therein with early adoption permitted and must be applied retrospectively to all periods presented. The Company adopted this Accounting Standard effective October 1, 2018. The Company has complied with all presentation and classification requirements relating to the adoption of this ASU.

ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which has the primary purpose of reducing the diversity in practice that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU requires amounts generally described as "restricted cash" or "restricted cash equivalents" to be presented with cash and cash equivalents when reconciling the beginning and ending amounts shown on the statement of cash flows. Companies are required to disclose how the statement of cash flows reconciles to the balance sheet if restricted cash is shown separate from cash and cash equivalents on the balance sheet. Companies must also disclose information about the nature of the restrictions on cash. The Company early adopted this new standard for the fiscal year ended September 30, 2018 and complied with the disclosure requirements.

ASU No. 2016-16, Income Taxes (Topic 740)

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity transfers of assets other than inventory.* This update removes the requirement under which the income tax consequences of intra-entity transfers are deferred until the assets are ultimately sold to an outside party, except for transfers of inventory. The tax consequences of such transfers would be recognized in tax expense when the transfers occur. The standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. The Company adopted this Accounting Standard effective October 1, 2018 and determined that the adoption of ASU No. 2016-16 had no impact on the consolidated financial statements.

ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718).* ASU No. 2017-09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions or award classification and would not be required if the changes are considered non-substantive. The amendments of this ASU are effective for reporting periods beginning after December 15, 2017. The amendments in this update are to be applied prospectively to an award modified on or after the adoption date. The adoption of ASU 2017-09 had no impact on the consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

ASU No. 2016-02, Leases (Topic 842)

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and related ASUs, which provide supplementary guidance and clarifications on December 21, 2018. Topic 842 requires lessees to recognize a liability associated with obligations to make payments under the terms of the arrangement in addition to a right-of-use (ROU) asset representing the lessee's right to use or control the use of the given asset assumed under the lease. Under the guidance, a lessee will be required to recognize assets and liabilities for both finance, or capital, and operating leases with lease terms of more than 12 months. The standard will be effective for nonpublic business entities for annual periods beginning after December 15, 2019. The Company expects to adopt Topic 842 using the effective date transition method on October 1, 2018. Upon adoption, the Company is expected to recognize an ROU asset of $1.1 million to $1.2 million, and offsetting lease liability for operating leases of $1.1 million to $1.2 million, as of October 1, 2019.

ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting (Topic 718)*

In June 2018, the FASB issued ASU No. 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*. Currently, share-based payments to nonemployees are accounted for under Subtopic 505-50, which significantly differs from the guidance for share-based payments to employees under Topic 718. This ASU supersedes Subtopic 505-50 by expanding the scope of Topic 718 to include nonemployee awards and generally aligning the accounting for nonemployee awards with the accounting for employee awards. The effective date for public companies is for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently evaluating the impact of this update on our consolidated financial statements and related disclosures.

ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income*

In February 2018, FASB issued ASU No. 2018-02, *Income Statement - Reporting Comprehensive Income.* The new standard provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act, or TCJA, from accumulated other comprehensive income to retained earnings. The guidance will be effective for the Company beginning in the first quarter of 2020 with early adoption permitted, and would be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the tax rate as a result of TCJA is recognized. The Company does not expect the adoption of this ASU to have a material impact on its results of operations, financial position and cash flows.

ASU No. 2018-13, *Fair Value Measurement (Topic 820)*

In August 2018 the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. This new standard modifies certain disclosure requirements on fair value measurements. This new standard will be effective for public companies with fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company is currently evaluating the impact of our pending adoption of the new standard on the consolidated financial statements.

9. INCOME TAXES

The federal and state income tax provision (benefit) for fiscal 2019, 2018 and 2017 is summarized as follows (in thousands):

	Fiscal Years Ended September 30,		
	2019	2018	2017
Current:			
Federal	$ (12)	$ 9	$ —
State	44	22	1
Total current	32	31	1
Deferred:			
Federal	131	(6,405)	—
State	129	(2,318)	—
Total deferred	260	(8,723)	—
Income tax provision (benefit)	$ 292	$ (8,692)	$ 1

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, *Accounting for Income Taxes*, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The following is a summary of the significant components of the deferred tax asset (in thousands):

	Fiscal Year Ended September 30,	
	2019	2018
Net operating loss carryforwards	$ 11,759	$ 12,752
Reserve and other cumulative temporary differences	77	181
Research and development credit carryforward	1,505	1,402
Intangible asset basis	4	—
	13,345	14,335
Valuation allowance	(4,892)	(5,622)
Net deferred tax asset	$ 8,453	$ 8,713

As of September 30, 2019, the Company had net operating loss carryforwards for federal income tax purposes of approximately $48.4 million that expire at various dates through 2037, and federal research and development tax credits of approximately $1.2 million that expire at various dates through 2039. The Company also had net operating loss carryforwards for state income tax purposes of approximately $22.3 million that expire at various dates through 2037, and state research and development tax credits of approximately $788,000, which do not have an expiration date and may be carried forward indefinitely. Utilization of the Company's net operating loss and tax credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

A valuation allowance has been recorded for a portion of the deferred tax asset as a result of uncertainties regarding realization of the asset and uncertainty over future operating profitability and taxable income. As of September 30, 2018, the Company reversed a portion of the valuation allowance resulting in a one-time income tax benefit of $8.7 million. The Company performed an annual evaluation of its deferred tax asset valuation allowance and determined that it is likely that the Company will generate taxable income within the applicable net operating loss carryforward period to realize a portion of its deferred tax assets. This conclusion, and the resulting partial reversal of the deferred tax asset valuation allowance, is based on a number of factors, including the Company's completion of three consecutive years of profitability. During fiscal years 2019, 2018 and 2017, valuation allowance decreased $730,000, $15.8 million and $1.1 million, respectively. As of September 30, 2018, and 2017, the Company had no significant deferred tax liabilities.

Reconciliation between the Company’s effective tax rate and the U.S. statutory rate is as follows:

	Fiscal Years Ended September 30,					
	2019		2018		2017	
Tax computed at federal statutory rate	21.0	%	34.0	%	34.0	%
Change in valuation allowance	(34.47)		(1,377.4)		(291.0)	
State taxes	3.6		(1.2)		133.1	
Meals & entertainment	0.08		0.2		0.4	
Stock-based compensation	0.2		0.6		1.1	
Federal rate change from prior year	—		572.3		137.4	
Federal credits	—		(4.6)		(14.7)	
Other	22.8		19.1		—	
Provision for income taxes	13.21	%	(757.0)	%	0.3	%

In October 2007, the Company adopted the FASB’s updated guidance related to income taxes, which establishes a single model to address accounting for uncertain tax positions. This updated guidance clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has reviewed its income tax positions and identified approximately $274,000 of total gross unrecognized tax benefits of which none, if recognized, would impact the effective tax rate as the Company has a valuation allowance on its research credit carryforward attributes.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in thousands):

	Total Gross Unrecognized Tax Benefits	
Balance at October 1, 2018	$	274
Additions based on tax positions related to the current year		—
Additions based on tax positions of prior years		—
Expiration of statutes		—
Balance at September 30, 2019	$	274

Interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of operations did not change as a result of implementing the provisions of ASC 740. Management determined that no accrual for interest and penalties was required as of September 30, 2019.

The Company filed a U.S. income tax return and tax returns in various state and local jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such jurisdictions as United States. With some exceptions, the Company is no longer subject to U.S. federal, state or foreign income tax examinations for fiscal years before 1998. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or credit carryforward amount.

In the ordinary course of the Company’s business there are transactions where the ultimate tax determination is uncertain. The Company believes that is has adequately provided for income tax issues not yet resolved with federal, state, local and foreign tax authorities. In the event that actual results differ from these estimates or we adjust these estimates in future periods, an additional charge to expense would result.

10. SUBSEQUENT EVENTS

We evaluated subsequent events through January 3, 2020, the date on which these financial statements were disclosed on the OTCQB. There were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.