# ALTIGEN COMMUNICATIONS, INC.

**State of Incorporation: Delaware**

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

**SIC Code: 7373**

**QUARTERLY REPORT**
**For the quarterly period ended June 30, 2021**
**(the "Reporting Period")**

The number of shares outstanding of our common stock, par value $0.001 per share ("common stock"), is 23,360,248 shares as of June 30, 2021.

The number of shares outstanding of our common stock was 23,019,456 shares as of September 30, 2020.

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

**ALTIGEN COMMUNICATIONS, INC.**
**QUARTERLY REPORT**
**FOR THIRD QUARTER ENDED JUNE 30, 2021**

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## FORWARD-LOOKING STATEMENTS

Certain statements made in this Quarterly Report are "forward-looking statements" regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved.

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. We cannot guarantee future results, outcomes, levels of activity, performance, or achievements, and there can be no assurance that our expectations, intentions, anticipations, beliefs, or projections will result or be achieved or accomplished. Forward-looking statements speak only as of the date of this report. Except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements, or to update the reasons actual results could differ significantly from those anticipated in these forward-looking statements, even if new information becomes available in the future.

### Item 1. Exact Name of the Issuer and the Address of its Principal Executive Offices.

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

**Item 2. Shares Outstanding.**

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

| Common Stock | | | |
|---|---|---|---|
| | **June 30, 2021** | **September 30, 2020** | **September 30, 2019** |
| Number of Shares Authorized | 50,000,000 | 50,000,000 | 50,000,000 |
| Number of Shares Outstanding | 23,360,248 | 23,019,456 | 22,914,996 |
| Freely Tradable Shares (Public Float) (1) | 17,496,716 | 16,809,557 | 16,710,097 |
| Number of Beneficial Shareholders Owning at Least 100 Shares (2) | 1,767 | 1,732 | 1,572 |
| Total Number of Stockholders of Record | 75 | 76 | 80 |

(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.

| Preferred Stock | | | |
|---|---|---|---|
| | **June 30, 2021** | **September 30, 2020** | **September 30, 2019** |
| Number of Shares Authorized | 5,000,000 | 5,000,000 | 5,000,000 |
| Number of Shares Outstanding | — | — | — |
| Freely Tradable Shares (Public Float) | — | — | — |
| Number of Beneficial Shareholders Owning at Least 100 Shares | — | — | — |
| Total Number of Stockholders of Record | — | — | — |

**Item 3. Interim Financial Statements.**

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

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| | Unaudited | (1) |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 6,456 | $ 6,659 |
| Accounts receivables, net | 391 | 287 |
| Unbilled accounts receivables | 113 | 126 |
| Prepaid expenses and other current assets | 193 | 158 |
| Total current assets | 7,153 | 7,230 |
| Property and equipment, net | 32 | 44 |
| Operating lease, right-of-use assets | 899 | 875 |
| Capitalized software development costs, net | 1,848 | 1,804 |
| Intangible assets, net | 476 | 607 |
| Deferred tax assets | 7,905 | 7,905 |
| Long-term deposit | 45 | 30 |
| Total assets | $ 18,358 | $ 18,495 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 105 | $ 97 |
| Accrued compensation and benefits | 249 | 241 |
| Accrued expenses | 659 | 726 |
| Paycheck Protection Program Loan | — | 804 |
| Operating lease liabilities, current | 307 | 231 |
| Deferred revenue, short-term | 695 | 837 |
| Total current liabilities | 2,015 | 2,936 |
| Operating lease liabilities, long-term | 650 | 706 |
| Deferred revenue, long-term | 175 | 201 |
| Total liabilities | 2,840 | 3,843 |
| Commitments and contingencies (Note 3) | | |
| Stockholders' equity: | | |
| Convertible preferred stock, $0.001 par value: 5,000,000 shares authorized; none issued | — | — |
| Common stock, $0.001 par value: 50,000,000 shares authorized; 23,360,248 and 23,019,456 shares issued and outstanding at June 30, 2021 and September 30, 2020, respectively | 23 | 23 |
| Treasury stock, at cost: 1,918,830 shares at June 30, 2021 and September 30, 2020 | (1,565) | (1,565) |
| Additional paid-in capital | 72,100 | 71,935 |
| Accumulated deficit | (55,040) | (55,741) |
| Total stockholders' equity | 15,518 | 14,652 |
| Total liabilities and stockholders' equity | $ 18,358 | $ 18,495 |

(1) The information in this column was derived from the Company's audited consolidated financial statements as of and for the year ended September 30, 2020.

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

**ALTIGEN COMMUNICATIONS, INC.**
**CONDENSED STATEMENTS OF OPERATIONS**
**(Unaudited; amounts in thousands, except per share data)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| Net revenue: | | | | |
| Hosted services | $ 1,964 | $ 1,976 | $ 5,660 | $ 5,525 |
| Software assurance | 550 | 655 | 1,760 | 2,040 |
| Software license | 123 | 281 | 419 | 735 |
| Professional services and other | 211 | 106 | 357 | 495 |
| Total net revenue | 2,848 | 3,018 | 8,196 | 8,795 |
| Cost of revenue: | | | | |
| Hosted services | 820 | 636 | 2,182 | 1,838 |
| Software license | 33 | 47 | 94 | 129 |
| Professional services and other | — | — | — | 57 |
| Total cost of revenue | 853 | 683 | 2,276 | 2,024 |
| Gross profit | 1,995 | 2,335 | 5,920 | 6,771 |
| Operating expenses: | | | | |
| Research and development | 955 | 649 | 2,740 | 1,967 |
| Sales and marketing | 456 | 561 | 1,662 | 1,699 |
| General and administrative | 405 | 507 | 1,297 | 1,500 |
| Litigation (1) | — | 188 | 313 | 188 |
| Total operating expenses | 1,816 | 1,905 | 6,012 | 5,354 |
| Income (loss) from operations | 179 | 430 | (92) | 1,417 |
| Gain on extinguishment of debt – PPP loan forgiveness (2) | 804 | — | 804 | — |
| Interest and other income | — | 6 | — | 21 |
| Income before income taxes | 983 | 436 | 712 | 1,438 |
| Benefit from/(provision for) income taxes | (1) | (10) | (11) | (13) |
| Net income | $ 982 | $ 426 | $ 701 | $ 1,425 |
| | | | | |
| Basic net income per share | $ 0.04 | $ 0.02 | $ 0.03 | $ 0.06 |
| Diluted net income per share | $ 0.04 | $ 0.02 | $ 0.03 | $ 0.06 |
| Shares used in computing basic net income per share | 23,360 | 22,975 | 23,186 | 22,937 |
| Shares used in computing diluted net income per share | 25,669 | 25,445 | 25,507 | 25,403 |

(1) Refer to Note 3, "Commitments and Contingencies" of the Consolidated Financial Statements and Item 5, "Legal Proceedings" of this Quarterly Report.

(2) Gain on extinguishment of debt related to the Company's PPP Loan which was forgiven by the SBA effective June 9, 2021. Refer to Note 5, "Paycheck Protection Program" of this Quarterly Report.

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

**ALTIGEN COMMUNICATIONS, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(Unaudited; amounts in thousands, except share data)**

| | Common Stock | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | | **Amount** | | **Treasury Stock** | | **Additional Paid-in Capital** | | **Accumulated Deficit** | | **Total Stockholders' Equity** |
| **Balance at September 30, 2020** | **23,019,456** | **$** | **23** | **$** | **(1,565)** | **$** | **71,935** | **$** | **(55,741)** | **$** | **14,652** |
| Net income | — | | — | | — | | — | | 701 | | 701 |
| Common stock issued under stock plans | 340,792 | | — | | — | | 71 | | — | | 71 |
| Stock-based compensation | — | | — | | — | | 94 | | — | | 94 |
| **Balance at June 30, 2021** | **23,360,248** | **$** | **23** | **$** | **(1,565)** | **$** | **72,100** | **$** | **(55,040)** | **$** | **15,518** |

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

**ALTIGEN COMMUNICATIONS, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Unaudited, amounts in thousands)**

| | Nine Months Ended June 30, 2021 | Nine Months Ended June 30, 2020 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 701 | $ 1,425 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation and amortization | 23 | 30 |
| Amortization of intangible assets | 131 | 122 |
| Amortization of capitalized software | 456 | 228 |
| Stock-based compensation | 94 | 13 |
| Gain from extinguishment of debt - PPP loan forgiveness | (804) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and unbilled accounts receivable | (91) | (168) |
| Prepaid expenses and other current assets | (35) | 58 |
| Accounts payable | 8 | 40 |
| Accrued expenses | (62) | 69 |
| Deferred revenue | (169) | (66) |
| Net cash provided by operating activities | 252 | 1,751 |
| | | |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (11) | — |
| Changes in long-term deposits | (15) | 6 |
| Acquisition of intangible assets | — | (81) |
| Capitalized software development costs | (500) | (745) |
| Net cash used in investing activities | (526) | (820) |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuances of common stock | 71 | 15 |
| Proceeds from Paycheck Protection Program Loan | — | 804 |
| Net cash provided by financing activities | 71 | 819 |
| Net (decrease)/increase in cash and cash equivalents | (203) | 1,750 |
| Cash and cash equivalents, beginning of period | 6,659 | 4,357 |
| Cash and cash equivalents, end of period | $ 6,456 | $ 6,107 |

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

**ALTIGEN COMMUNICATIONS, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 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 Independent Software Vendor (ISV) and Cloud Solutions Provider (CSP) of cloud-based IP-PBX, Departmental Call Center and Corporate Contact Center solutions. As one of the first companies to offer Voice over Internet Protocol (VoIP) solutions, we design, develop, market, and support integrated communications solutions since 1996. Our unique and feature rich Cloud PBX and Omni-Channel Contact Center solutions have been designed to natively integrate with Microsoft Teams to provide our customers with a complete, integrated enterprise communications solution.

The Company has a Representative Office in Taipei, Taiwan and Kathmandu, Nepal, both locations serve as our international office for research and development functions.

The accompanying unaudited 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.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended September 30, 2020, included in the Company's 2020 Annual Report filed through the OTC Disclosure and News Services on February 10, 2021. The Company's results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal 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. The Company's cash and cash equivalents totaled approximately $6.5 million at June 30, 2021, compared to $6.7 million at September 30, 2020.

### TRADE ACCOUNTS RECEIVABLE

Accounts receivable are carried at the original invoiced amount less an allowance for doubtful accounts based on the probability of future collection. The Company extends credit to its customers and generally does not require collateral. 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. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. Historically, actual collections have been within management's expectations. The Company reserves for receivables that are determined to be uncollectible, if any, in its allowance for doubtful accounts. After the Company has exhausted all collection efforts, the outstanding receivable is written off against the allowance. In cases where our customers pay for services in arrears, we accrue for revenue in advance of billings as long as the criteria for revenue recognition are met. A portion of our accounts receivable balance is therefore unbilled at each balance sheet date and is reflected as such on the consolidated balance sheets.

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. For the nine months ended June 30, 2021, the Company's allowance for doubtful accounts was insignificant.

Accounts receivable, net and unbilled accounts receivable as of June 30, 2021 and September 30, 2020 consisted of the following (in thousands):

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| Amount billed | $ 391 | $ 287 |
| Unbilled accounts receivable [(1)] | 113 | 126 |
| Accounts receivable, net and unbilled accounts receivable | $ 504 | $ 413 |

(1) Unbilled accounts receivable represents revenue that has been recognized in advance of billing the customer under the terms of the underlying contracts and the unbilled amounts are expected to be billed and collected in future periods. As customers are billed, unbilled accounts receivable balances are transferred to accounts receivable.

**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. For the first nine months of fiscal year 2021, depreciation and amortization expense was approximately $23,000. Repairs and maintenance costs for the periods presented were immaterial and were expensed as incurred.

We periodically review our portfolio of equipment for impairment. Based on our impairment assessment, we determined there were no impairment losses for the periods referenced in the table below.

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

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| Furniture and equipment | $ 495 | $ 495 |
| Computer software | 392 | 392 |
| Leasehold improvements | 64 | 53 |
| Property and equipment | 951 | 940 |
| Less: accumulated depreciation and amortization | (919) | (896) |
| Property and equipment, net | $ 32 | $ 44 |

**SOFTWARE DEVELOPMENT COST**

The Company capitalizes software development costs in connection with its cloud-based business, as well as certain projects for internal use, as incurred. Costs incurred to develop cloud-based technology consist of external direct costs of materials and services and payroll and payroll-related costs for employees who directly devote time to the project. Research and development costs incurred during the preliminary project stage are expensed as incurred. Capitalization begins when technological feasibility is established, at which time such costs are capitalized until the product is available for general release to the public. 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 hosted services.

We also capitalize qualifying internally developed software development costs incurred during the application development stage, as long as it is probable the project will be completed, and the software will be used to perform the function intended. Capitalization of such costs ceases once the project is substantially complete and ready for its intended use. Capitalized costs are comprised primarily of payroll and personnel-related costs for employees who are directly associated with and who devote time to the internal-use software projects, and the purchase of existing software to be used in our software products. The cost of internally developed software is amortized on a straight-line basis over its estimated useful life, generally three years. Amortization of these costs is included within Sales in the consolidate statements of operations.

We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value.

The following table summarizes capitalized software development costs and accumulated amortization during the nine months ended June 30, 2021 (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| Balance at September 30, 2020 | $ 2,249 | $ (445) | $ 1,804 |
| Additions | 500 | (456) | 44 |
| Balance at June 30, 2021 | $ 2,749 | $ (901) | $ 1,848 |

**REVENUE RECOGNITION AND COST OF REVENUE**

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 Financial Statements.

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 and report our revenue in four categories: hosted services, software assurance, software license and professional services and other revenue. The Company accounts for revenue in accordance with ASC 606, Revenue from Contracts with Customers. All revenue is recognized as our performance obligations are satisfied. 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**

We generate recurring revenue through our cloud-based products referred to as hosted services. Hosted services revenue is derived from the sale of subscriptions to our software applications as well as other services such as minutes usage from domestic and foreign calling plans. 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, 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 revenue includes 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, we recognized hosted services revenue in the period when the services are performed.

Cost of hosted services primarily consists of hosting infrastructure costs, personnel costs associated with customer care, 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 also includes amortization of capitalized software development costs, amortization of intangible assets, allocated overhead expenses, and to a lesser extent commission fees paid to reseller partners. We also sell our hosted services through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners. Cost of hosted services are expensed as incurred and are included in cost of revenue.

**SOFTWARE ASSURANCE REVENUE**

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. 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 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.

Cost of software assurance consists principally of upgrades, enhancements and technical support. 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 such services are deferred and recognized to cost of revenue over the life of the software assurance contract term.

**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.

Cost of software license reflects costs related to the sale of our perpetual software licenses including third-party software costs, commission fees paid to reseller partners and amortization of capitalized software development costs. From time to time, we resell third-party software in conjunction with the license of our software solutions, which results in a fee. The cost of software license fees is generally higher, as a percentage of revenue, when we sell products of third-party vendors. We also sell our software solutions through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners.

**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, product configuration, customization and reporting. 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 service and support revenue, including revenue from our cloud-based services for post-contract customer support, cloud deployments, installation and training services. Revenue from our service and support offerings are generally recognized ratably over the term of the arrangement. Revenue from deployment, installation and training is recognized as the services are performed.

Cost of professional services and other revenue is comprised primarily of personnel-related costs directly associated with deployment services, implementation fees, customer onboarding, as well as other professional services contracted through third-party vendors. Personnel-related costs in connection with providing deployment and implementation services are charged to expense as incurred.

**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 fulfill its revenue contracts met the capitalization criteria, and as such, there are no costs deferred as of June 30, 2021.

**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.

**CONCENTRATIONS**

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; however, pursuant to its terms, it 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 represent approximately 37% and 35% of our total net revenue for the three- and nine-months ended June 30, 2021, respectively, compared to 33% and 31%, respectively, for the same periods in fiscal year 2020.

**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.

**2. LEASES**

The Company leases its office space and facilities under cancelable and non-cancelable operating leases, which expire at various dates through 2024. The Company's operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and long-term portion of operating lease liabilities in our condensed consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the leases. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. Operating lease payments are recognized as lease expense on a straight-line basis over the lease term. The Company primarily leases buildings which are classified as operating leases. ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. As an implicit interest rate is not readily determinable in our leases, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Our office space lease contains an option to extend the lease term for one period of five years. This extension period is not included in our ROU asset or lease liabilities. Our office lease agreement includes both lease and non-lease components, which are accounted for separately. Variable lease expense that is not dependent on an index or rate is not included in the operating lease liabilities or ROU asset and is recognized in the period in which the obligation for those payments is incurred.

Supplemental balance sheet information related to our operating leases is as follows (in thousands):

| | | As of June 30, 2021 |
|---|---|---|
| **Assets:** | | |
| Operating lease right-of-use assets | $ | 899 |
| | | |
| **Liabilities:** | | |
| Operating lease liabilities – current portion | | 307 |
| Operating lease liabilities – non-current portion | | 650 |
| Total lease liabilities | $ | 957 |

The weighted-average lease term and discount rate for our operating leases from continuing operations are as follows:

| | June 30, 2021 |
|---|---|
| Weighted Average Remaining Lease Term | 4 years |
| Weighted Average Discount Rate | 3.2% |

Maturities of lease liabilities under our non-cancelable operating leases as of June 30, 2021 are as follows (in thousands):

| | | Operating Leases |
|---|---|---|
| Remainder of 2021 | $ | 83 |
| 2022 | | 335 |
| 2023 | | 342 |
| 2024 | | 245 |
| Total future minimum lease obligations | | 1,005 |
| Less imputed interest | | (48) |
| Present value of net future minimum lease obligations | | 957 |
| Less current portion | | (307) |
| Long term portion | $ | 650 |

## 3. COMMITMENTS AND CONTINGENCIES

### Legal Contingencies

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 and our view of these matters may change in the future as the litigation and events related thereto unfold. An unfavorable outcome in any legal matter, if material, could have an adverse effect on our operations, financial position, liquidity and results of operations. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. 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.

*Altigen v. CTI*

In February 2019, we filed a complaint against CTI Communications, LLC (“CTI”), a former reseller of the Company and Richard Browne, sole owner, in the United States District Court for the District of Colorado. The complaint alleges (i) copyright infringement, (ii) trademark infringement, (iii) common law trademark infringement; and (iv) violation of the Colorado consumer protection act. The complaint seeks damages, attorney fees and costs, and other relief as the court deems equitable and proper. In July 2020, the court entered final judgment and rendered a verdict in favor of the Company as to trademark infringement with actual damages of $0 and profit damages of $3,200. The jury also rendered a verdict in favor of CTI and Richard Browne as to copyright infringement and violation of the Colorado consumer protection act. Furthermore, in November 2020, the court ordered a judgment awarding CTI attorney fees of approximately $77,000. Consequently, the Company accrued such amount during the fourth quarter of fiscal 2020. A Satisfaction of Judgment was issued on November 23, 2020.

*CTI v. Altigen*

In March 2016, 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. In March 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. In August 2017, the court dismissed with prejudice all of CTI's claims against Mr. Fleming. In March 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. Moreover, in October 2018, the court awarded CTI approximately $433,000 in attorney fees and costs, jointly and severally against all defendants. The Company and all defendants appealed this ruling to the Colorado Court of Appeals, and in October 2019, the court issued its rulings and determined that (i) the underlying judgment 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.

In January 2020, the trial court rendered its final judgement and awarded CTI approximately $724,000 in damages. The court also awarded CTI post-judgment interest (based on statutory rate) of approximately $115,000 on certain categories of damages. In May 2020, the trial court ordered a final judgment awarding CTI attorney fees and costs and post-judgement interest of approximately $447,000. The trial court also awarded CTI attorney fees of approximately $76,000 for the appellate portion of the case in June 2020. In February 2021, the Company and all defendants entered into a Settlement Agreement and Mutual Release (the "Agreement") with CTI to settle the lawsuit. Pursuant to the Settlement Agreement, the Company paid CTI $312,500 in return for dismissal of the case with prejudice. The case was subsequently dismissed on February 24, 2021.

In connection with such claims described above, during the first quarter of fiscal 2019, 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. Additionally, in the fourth quarter of fiscal 2020, the Company received a settlement payment of approximately $168,000 from its insurance carrier to recover certain insured legal defense fees with respect to the above claim.

*Intellitalk v. Altigen*

In February 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. ("Intellitalk"), a former reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside in January 2019. The complaint alleges interference with prospective economic advantage and unfair competition. The Company filed a motion to dismiss all claims in the complaint. On June 9, 2021, the Court denied the Company's motion for summary judgement. A trial date is scheduled on March 22, 2022.

Although the outcome of this matter is not determinable as of the date of this Quarterly Report, the Company believes Intellitalk's claims are without merit and the Company intends to vigorously defend itself against these allegations. The Company has not recorded an accrual related to this matter as of June 30, 2021, as the Company does not believe a loss is probable or reasonably estimable.

## 4. ACQUIRED INTANGIBLE ASSETS

Intangible assets consist primarily of intellectual property and customer relationships, resulting from the Company's acquisitions. Intangible assets are recorded at fair value on the date of acquisition. We currently amortize our intangible assets with definitive lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. Intangible assets are reviewed periodically for impairment whenever events and circumstances indicate the carrying value of such assets may not be recoverable and exceed their fair value. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. As of June 30, 2021, there were no indicators of impairment, and no impairment loss was recognized for intangible assets. For the nine months ended June 30, 2021, amortization expense of acquisition-related intangible assets was approximately $131,000 and is included in cost of revenue.

*Intellectual Property Acquisition*

In September 2020, the Company entered into an asset purchase agreement with Blue Panda Communications, LP ("Blue Panda"), pursuant to which the Company acquired Blue Panda's CoreInteract technology, a cloud-based digital customer engagement solution for Microsoft Teams, in exchange for contingent consideration based on future sales performance of CoreInteract over a three-year period. The contingent consideration is payable in the form of cash and Altigen common stock. Furthermore, in connection with the acquisition, the Company assumed no liabilities of Blue Panda. The Company hired certain key employees of Blue Panda, including management located in the United States as well as developers located in Kathmandu, Nepal subsequent to the acquisition.

In accordance with ASC Topic 805, the Company determined that the transaction was an asset acquisition. Accordingly, the estimated fair value of the contingent consideration was determined to be $273,000 and is included in current liabilities on the Company's consolidated balance sheets as of the date of this Quarterly Report. The fair value of CoreInteract was capitalized as an indefinite-lived intangible asset until the completion of the related development activities. When the related development is completed, the asset will be assigned a useful life and amortized. The fair value of the contingent consideration will be remeasured each reporting period.

*Customer Acquisition*

In August 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 in consideration for $400,000 of cash paid at closing plus additional contingent cash consideration of up to $1.2 million subject to the terms on which such customers were transitioned to Altigen. Additionally, in connection with the acquisition, the Company 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 and is estimated to have a three-year amortization life. Subject to the terms of the agreement, in fiscal 2020, the Company issued cash payments totaling $105,000 as additional contingent consideration for the customers transitioned to Altigen.

## 5. PAYCHECK PROTECTION PROGRAM

On May 19, 2020, the Company qualified for and received loan proceeds of $804,200 (the "PPP Loan") pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act. The PPP Loan which was in the form of a promissory note (the "Note"), dated May 14, 2020, between the Company and Sonabank, as the lender, was unsecured and guaranteed by the SBA, bore interest at a fixed rate of 1.0% per annum, and had a maturity of two years with the first six months of interest, principal and fees deferred. The principal and interest of the PPP Loan was eligible for forgiveness under the Paycheck Protection Program to the extent that the PPP Loan proceeds were used to pay expenses permitted by the Paycheck Protection Program, including eligible payroll costs, covered rent, business mortgage interest, and covered utility payments incurred by the Company during the elected 24 week covered period after loan disbursement. The Company applied for forgiveness to the SBA during the third quarter of fiscal 2021. On June 9, 2021, our PPP Loan was forgiven in its entirety. The forgiveness was accounted for as debt extinguishment which resulted in a gain of $804,200 recorded as other income in the accompanying consolidated statement of operations for the three and nine months ended June 30, 2021.

## 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 were 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 in October 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.

The following table summarizes the Company's stock option activity under our plans during the nine months ended June 30, 2021:

| | Number of Shares | | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|---|---|
| Options outstanding at October 1, 2020 | 2,973,560 | $ | 0.25 | | | |
| Options granted | 254,000 | | 2.13 | | | |
| Less: | | | | | | |
| Options exercised | 340,792 | | 0.21 | | | |
| Options forfeited | 76,452 | | 0.97 | | | |
| Options outstanding at June 30, 2021 | 2,810,316 | $ | 0.40 | 3.73 | $ | 5,549 |
| Exercisable at June 30, 2021 | 2,551,378 | $ | 0.24 | 3.17 | $ | 5,447 |

*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. Stock-based compensation expense related to employee and director stock options was $94,000 for the nine months ended June 30, 2021.

**7. SUBSEQUENT EVENTS**

Management reviewed transactions for subsequent events from June 30, 2021 through September 29, 2021. None were noted.

## Item 4. Management's Discussion and Analysis of Plan of Operation.

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause industry trends or our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report for the fiscal year ended September 30, 2020, filed through the OTC Disclosure and News Services on February 10, 2021. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Overview

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 Independent Software Vendor (ISV) and Cloud Solutions Provider (CSP) of cloud-based IP-PBX, Departmental Call Center and Corporate Contact Center solutions. As one of the first companies to offer Voice over Internet Protocol (VoIP) solutions, we design, develop, market, and support integrated communications solutions since 1996. Our unique and feature rich Cloud PBX and Omni-Channel Contact Center solutions have been designed to natively integrate with Microsoft Teams to provide our customers with a complete, integrated enterprise communications solution.

Altigen's Unified Communications as a Service (UCaaS) solutions are designed with an open architecture, built on industry standard communication protocols, and leverage the Microsoft technology stack. Our solutions include Hosted PBX, Contact Center, Unified Messaging, Automatic Call Distribution, Call Recording, Call Activity Reporting, and Mobility.

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 located in Taipei, Taiwan and Kathmandu, Nepal which serve 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](http://www.otcmarkets.com) The Company has never been in bankruptcy, receivership, or any similar proceeding.

We primarily focus our sales efforts on small to medium and enterprise sized businesses. Our first products, which were deigned to be installed at the customer's premises, began shipping in 1996. Today our UCaaS solutions are primarily delivered as a cloud service, hosted and managed by Altigen. While our customers can be found in virtually every industry, we have larger concentrations of customers in the financial services and healthcare industries.

Altigen's software products are available from independent local authorized resellers and multi-national strategic partners.

Altigen's primary SIC code is 7373 (Computer Integrated Systems Design). Altigen has never been "shell company" as defined under the Securities Act of 1933, as amended.

### 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 consolidated 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 Financial Statements.

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 and report our revenue in four categories: hosted services, software assurance, software license and professional services and other revenue. The Company accounts for revenue in accordance with ASC 606, Revenue from Contracts with Customers. All revenue is recognized as our performance obligations are satisfied. 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***

We generate recurring revenue through our cloud-based products referred to as hosted services. Hosted services revenue is derived from the sale of subscriptions to our software applications as well as other services such as minutes usage from domestic and foreign calling plans. 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, 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 revenue includes 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, we recognized hosted services revenue in the period when the services are performed.

Cost of hosted services primarily consists of hosting infrastructure costs, personnel costs associated with customer care, 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 also includes amortization of capitalized software development costs, amortization of intangible assets, allocated overhead expenses, and to a lesser extent commission fees paid to reseller partners. We also sell our hosted services through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners. Cost of hosted services are expensed as incurred and are included in cost of revenue.

***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. 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 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.
Cost of software assurance consists principally of upgrades, enhancements and technical support. 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 such services are deferred and recognized to cost of revenue over the life of the software assurance contract term.

### *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.

Cost of software license reflects costs related to the sale of our perpetual software licenses including third-party software costs, commission fees paid to reseller partners and amortization of capitalized software development costs. From time to time, we resell third-party software in conjunction with the license of our software solutions, which results in a fee. The cost of software license fees is generally higher, as a percentage of revenue, when we sell products of third-party vendors. We also sell our software solutions through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners.

### *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, product configuration, customization and reporting. 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 service and support revenue, including revenue from our cloud-based services for post-contract customer support, cloud deployments, installation and training services. Revenue from our service and support offerings are generally recognized ratably over the term of the arrangement. Revenue from deployment, installation and training is recognized as the services are performed.

Cost of professional services and other revenue is comprised primarily of personnel-related costs directly associated with deployment services, implementation fees, customer onboarding, as well as other professional services contracted through third-party vendors. Personnel-related costs in connection with providing deployment and implementation services are charged to expense as incurred.

### *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. The Company's cash and cash equivalents totaled approximately $6.5 million at June 30, 2021, compared to $6.7 million at September 30, 2020.

### *Results of Operations*

The following table sets forth selected data for each of the periods indicated (in thousands):

| | Three Months Ended June 30, | | | | Nine Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | % of Total Revenue | 2020 | % of Total Revenue | 2021 | % of Total Revenue | 2020 | % of Total Revenue |
| Net revenues: | | | | | | | | |
| Hosted services | $ 1,964 | 69.0% | $ 1,976 | 65.5% | $ 5,660 | 69.1% | $ 5,525 | 62.8% |
| Software assurance | 550 | 19.3 | 655 | 21.7 | 1,760 | 21.5 | 2,040 | 23.2 |
| Software license | 123 | 4.3 | 281 | 9.3 | 419 | 5.1 | 735 | 8.4 |
| Professional services and other | 211 | 7.4 | 106 | 3.5 | 357 | 4.3 | 495 | 5.6 |
| Total revenue | 2,848 | 100 | 3,018 | 100 | 8,196 | 100 | 8,795 | 100 |
| Cost of revenue: | | | | | | | | |
| Hosted services | 820 | 28.8 | 636 | 21.1 | 2,182 | 26.6 | 1,838 | 20.9 |
| Software license | 33 | 1.2 | 47 | 1.6 | 94 | 1.2 | 129 | 1.5 |
| Professional services and other | — | — | — | — | — | — | 57 | 0.6 |
| Total cost of revenue | 853 | 30.0 | 683 | 22.7 | 2,276 | 27.8 | 2,024 | 23.0 |
| Gross profit | 1,995 | 70.0 | 2,335 | 77.3 | 5,920 | 72.2 | 6,771 | 77.0 |
| Operating expenses: | | | | | | | | |
| Research and development | 955 | 33.5 | 649 | 21.5 | 2,740 | 33.4 | 1,967 | 22.4 |
| Sales and marketing | 456 | 16.0 | 561 | 18.6 | 1,662 | 20.3 | 1,699 | 19.3 |
| General and administrative | 405 | 14.2 | 507 | 16.8 | 1,297 | 15.8 | 1,500 | 17.1 |
| Litigation (1) | — | — | 188 | 6.2 | 313 | 3.8 | 188 | 2.1 |
| Total operating expenses | 1,816 | 63.7 | 1,905 | 63.1 | 6,012 | 73.3 | 5,354 | 60.9 |
| Income (loss) from operations | 179 | 6.4 | 430 | 14.2 | (92) | (1.1) | 1,417 | 16.1 |
| Gain on extinguishment of debt – PPP loan forgiveness (2) | 804 | 28.2 | — | — | 804 | 9.8 | — | — |
| Interest and other income | — | — | 6 | 0.2 | — | — | 21 | 0.3 |
| Income before income taxes | 983 | 34.6 | 436 | 14.4 | 712 | 8.7 | 1,438 | 16.4 |
| Benefit from (provision for) income taxes | (1) | (0.1) | (10) | (0.3) | (11) | (0.1) | (13) | (0.2) |
| Net income | $ 982 | 34.5% | $ 426 | 14.1% | $ 701 | 8.6% | $ 1,425 | 16.2% |

(1) Refer to Note 3, "Commitments and Contingencies" of the Consolidated Financial Statements and Item 5, "Legal Proceedings" of this Quarterly Report.
(2) Gain on extinguishment of debt related to the Company's PPP Loan which was forgiven by the SBA effective June 9, 2021. Refer to Note 5, "Paycheck Protection Program" of this Quarterly Report.

### *Results of Operations — Three and Nine Months Ended June 30, 2021 Compared to Three and Nine Months Ended June 30, 2020*

### Net Revenue

Net revenue consists of revenue from direct sales to end-users, resellers, and distributors. We classify our revenue into four categories: hosted services, software assurance, software license and professional services and other. 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 for the three and nine months ended June 30, 2021 was $2.8 million and $8.2 million, respectively, a decrease of approximately $170,000 and $600,000, or 6% and 7%, respectively, when compared to the same periods last year.

**Cost of Revenue**

***Cost of Hosted Services.*** Cost of hosted services primarily consists of hosting infrastructure costs, personnel costs associated with customer care, 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 also includes amortization of capitalized software development costs, amortization of intangible assets, allocated overhead expenses, and to a lesser extent commission fees paid to reseller partners. We also sell our hosted services through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners.

Cost of hosted services was approximately $820,000, or 29% of net revenue and $2.2 million, or 27% of net revenue for the three and nine months ended June 30, 2021, respectively, compared to $636,000, or 21% of net revenue and $1.8 million, or 21% of net revenue for the three and nine months ended June 30, 2020, respectively. The three-month and year-over-year increase was primarily attributable to higher amortization of capitalized software and acquisition related costs. 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 services offering and the associated costs.

***Cost of Software Assurance***. Cost of software assurance consists principally of upgrades, enhancements and technical support. 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 such services are deferred and recognized to cost of revenue over the life of the software assurance contract term. For the first nine months of fiscal year 2021 and 2020, the related cost of software assurance was immaterial.

***Cost of Software License.*** Cost of software license reflects costs related to the sale of our perpetual software licenses including third-party software costs, commission fees paid to reseller partners and amortization of capitalized software development costs. From time to time, we resell third-party software in conjunction with the license of our software solutions, which results in a fee. The cost of software license fees is generally higher, as a percentage of revenue, when we sell products of third-party vendors. We also sell our software solutions through our reseller relationships allowing us to transact with the customer directly which require us to pay applicable commissions to our reseller partners. For the three- and nine-month periods ended June 30, 2021 and 2020, cost of software license was $33,000 and $47,000, respectively, compared to $94,000 and $129,000, respectively.

***Cost of Professional Services and Other***. Cost of professional services and other revenue is comprised primarily of personnel-related costs directly associated with deployment services, implementation fees, customer onboarding, as well as other professional services contracted through third-party vendors. Personnel-related costs in connection with providing deployment and implementation services are charged to expense as incurred. For the first nine months of fiscal year 2021 and 2020, 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.

For the third quarter of fiscal year 2021, R&D expenses totaled $955,000, or 34% of net revenue, compared to $649,000, or 22% of net revenue for the third quarter of fiscal year 2020. For the nine months ended June 30, 2021, R&D expenses totaled $2.7 million, or 33% of net revenue, compared to $2.0 million, or 22% of net revenue for the same period of fiscal year 2020. The increase in R&D expenses for both the three and nine months ended June 30, 2021 was primarily due to an increase in headcount-related expenses to support expanded R&D activities, an increase in consulting services and higher stock-based compensation expenses, coupled with reduced capitalization of certain software development costs.

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 Taiwan, Nepal and China.

**Sales and Marketing Expenses**

Sales and marketing expenses consist primarily of salaries, benefits and overhead expenses, sales commissions, travel expenses, and costs related to lead generation activities, trade shows, advertising and promotional activities. Sales and marketing expenses also include non-cash stock-based compensation and amortization of internally developed software.

For the third quarter of fiscal year 2021, sales and marketing expenses were $456,000, or 16% of net revenue, compared to $561,000, or 19% of net revenue for the same period a year ago, representing a decrease of $105,000, or 19%. The three-month decrease was primarily driven by reduced salaries, benefits and overhead expenses of $177,000, offset by an increase of $50,000 in consulting and service fees and an increase of $27,000 in amortization expense. For the nine months ended June 30, 2021, sales and marketing expenses were $1.7 million, or 20% of net revenue, compared to $1.7 million, or 19% of net revenue for the same period of fiscal year 2020.

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, investor relations, non-cash stock-based compensation and related expenses for our executive, finance and administrative personnel. In addition, general and administrative expenses include legal expenses related to corporate governance matters, accounting services and general corporate expenses.

General and administrative expenses decreased $102,000, or 20%, to $405,000, or 14% of net revenue for the third quarter of fiscal year 2021 from $507,000, or 17% of net revenue for the third quarter of fiscal year 2020. For the nine months ended June 30, 2021, general and administrative expenses decreased $203,000, or 14%, to $1.3 million, or 16% of net revenue from $1.5 million, or 17% of net revenue for the nine months ended June 30, 2020. The decrease in absolute dollars for the three- and nine-month periods ended June 30, 2021 was primarily driven by reduced legal expenses related to such mattes disclosed in Note 3, "Commitments and Contingencies" of the Consolidated Financial Statements and Item 5, "Legal Proceedings" of this quarterly 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.

**Gain on Extinguishment of Debt - PPP Loan Forgiveness**

Other income in the current nine-month period includes a one-time gain on the extinguishment of debt of $804,200 which is the principal balance of the Company's SBA PPP Loan. On June 9, 2021, the Company received full forgiveness of all outstanding principal, accrued, and unpaid interest on this Loan. The forgiveness of the PPP Loan qualified for debt extinguishment in accordance with ASC 470-50, *Debt Modifications and Extinguishments*. Accordingly, the Company recorded the entire forgiven PPP Loan balance as "Gain on extinguishment of debt" on its Consolidated Statement of Operations for the quarter ended June 30, 2021.

**Interest and Other Income**

*Interest Income*

Interest and other income for the third quarter and first nine months of fiscal year 2021 and 2020 was immaterial.

**Paycheck Protection Program**

On May 19, 2020, the Company qualified for and received loan proceeds of $804,200 (the "PPP Loan") pursuant to the Paycheck Protection Program ("PPP"), a program implemented by the U.S. Small Business Administration ("SBA") under the Coronavirus Aid, Relief, and Economic Security Act. The PPP Loan which was in the form of a promissory note (the "Note"), dated May 14, 2020, between the Company and Sonabank, as the lender, was unsecured and guaranteed by the SBA, bore interest at a fixed rate of 1.0% per annum, and had a maturity of two years with the first six months of interest, principal and fees deferred. The principal and interest of the PPP Loan was eligible for forgiveness under the Paycheck Protection Program to the extent that the PPP Loan proceeds were used to pay expenses permitted by the Paycheck Protection Program, including eligible payroll costs, covered rent, business mortgage interest, and covered utility payments incurred by the Company during the elected 24 week covered period after loan disbursement. The Company applied for forgiveness to the SBA during the third quarter of fiscal 2021. On June 9, 2021, our PPP Loan was forgiven in its entirety. The forgiveness was accounted for as debt extinguishment which resulted in a gain of $804,200 recorded as other income in the accompanying consolidated statement of operations for the three and nine months ended June 30, 2021.

**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 June 30, 2021, total cash and cash equivalents represents approximately 90% of total current assets. We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of technologies and businesses. We may finance such acquisitions using cash, debt, stock, or a combination of the foregoing.

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. Although we believe we have adequate sources of liquidity over the long term, the success of our operations, the global economic outlook, and the pace of sustainable growth in our markets, in each case, in light of the market volatility and uncertainty as a result of the COVID-19 pandemic, among other factors, could impact our business and liquidity.

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

| | Nine Months Ended June 30, 2021 | Nine Months Ended June 30, 2020 |
|---|---|---|
| Cash and cash equivalents, beginning of period | $ 6,659 | $ 4,357 |
| Cash provided by operating activities | 252 | 1,751 |
| Cash used in investing activities | (526) | (820) |
| Cash provided by financing activities | 71 | 819 |
| Cash and cash equivalents, end of period | $ 6,456 | $ 6,107 |

*Operating Activities*

During the nine months ended June 30, 2021, cash provided by operating activities was $252,000, driven by net income of $701,000, net cash outflows of $349,000 due to changes in our operating assets and liabilities, adjusted for non-cash charges of $704,000, partially offset by the gain on extinguishment of debt of $804,000. Non-cash charges primarily consisted of capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment. Fluctuations in operating assets and liabilities included a decrease in deferred revenue of $169,000, a decrease in accounts payable and accrued expenses of $54,000, and an increase in accounts receivable and prepaid expenses of $126,000. Gain on extinguishment of debt is the result of the forgiveness of our PPP Loan (See "Paycheck Protection Program" above) under the SBA's Paycheck Protection Program.

During the nine months ended June 30, 2020, cash provided by operating activities of $1.8 million was primarily comprised of net income of $1.4 million, a decrease of $67,000 in operating assets and liabilities coupled with non-cash charges of $393,000. Non-cash charges primarily consisted of capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment.

*Investing Activities*

Cash flows from investing activities primarily relate to capitalized software costs associated with the development and enhancements of new and 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 $526,000 for the nine months ended June 30, 2021 comprised of capitalized software totaling $500,000, changes in long-term deposits of $15,000, and capital expenditures of property and equipment totaling $11,000. Cash used in investing activities of $820,000 for the nine months ended June 30, 2020 was primarily attributable to capitalized software totaling $745,000, cash used in the acquisition of WorkSpace customers totaling $81,000, and changes in long-term deposits of $6,000.

*Financing Activities*

Cash provided by financing activities of $71,000 during the nine months ended June 30, 2021 comprised of proceeds from exercise of stock options. Cash provided by financing activities was $819,000 for the nine months ended June 30, 2020, primarily representing net cash proceeds of $804,000 from our loan under the Paycheck Protection Program, and proceeds of $15,000 from exercise of stock options.

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 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, especially in light of the market volatility and uncertainty as a result of COVID-19 outbreak. 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.

**Recent Accounting Pronouncements**

***Recently Adopted Accounting Guidance***

*ASU No. 2016-02, Leases*

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 is effective for nonpublic business entities for annual periods beginning after December 15, 2019. The Company adopted Topic 842 using the effective date transition method on October 1, 2019. Upon adoption, the Company recognized an ROU asset of $1.1 million and offsetting lease liability for operating leases of $1.1 million. The adoption of Topic 842 did not have a material impact on our condensed consolidated statement of operations or our condensed consolidated statement cash flows.

*ASU No. 2018-13, Fair Value Measurement*

In August 2018 the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820)*, which makes modifications to disclosure requirements on fair value measurements. The amendment is effective for public companies with fiscal years beginning after December 15, 2019. The adoption of this guidance did not have a material impact on our consolidated financial statements and related disclosures.

*ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting*

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*, an amendment of the FASB Accounting Standards Codification. Under this ASU companies will no longer be required to value non-employee awards differently from employee awards, but the accounting remains different for attribution and a contractual term election for valuing nonemployee equity share options. Equity-classified awards to nonemployees will now be measured at the grant date using fair value of the equity instruments the company is obligated to issue and recognition is associated with the probable outcome. Awards are subsequently measured using stock compensation guidance unless they are modified after the nonemployee stops providing goods or services. Existing disclosure requirements within the stock compensation guidance also apply to nonemployee awards. The Company adopted ASU 2018-07 effective October 1, 2019. The adoption of this ASU did not have an impact on our condensed consolidated financial statements.

*ASU 2018-15, Intangibles-Goodwill and Other-Internal Use Software*

In August 2018, the FASB issued ASU 2018-15, *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40)*, which reduces complexity for the accounting for costs of implementing a cloud computing service arrangement. The amendment is effective for public companies with fiscal years beginning after December 15, 2019. The Company adopted ASU 2018-15 and it did not have a material impact on our consolidated financial statements.

***Accounting Guidance Pending Adoption***

*ASU 2016-13, Financial Instruments-Credit Losses*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, an amendment of the FASB Accounting Standards Codification. This ASU will change how entities account for credit losses for most financial assets and certain other instruments. For trade receivables, loans and held-to-maturity debt securities entities will be required to estimate lifetime expected credit losses. For available-for-sale debt securities entities will be required to recognize an allowance for credit losses rather than a reduction to the carrying value of the asset. Additionally, there will be a significant increase in the amount of disclosures by year of origination for certain financing receivables. For smaller reporting public entities, the new standard is effective for annual periods beginning after December 15, 2022 (as amended by ASU 2019-10), including interim periods within that annual period. The Company is currently evaluating the impact this ASU will have on the financial statements and related disclosures, as well as the timing of adoption.

## Item 5. 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.

*Altigen v. CTI*

In February 2019, we filed a complaint against CTI Communications, LLC ("CTI"), a former reseller of the Company and Richard Browne, sole owner, in the United States District Court for the District of Colorado. The complaint alleges (i) copyright infringement, (ii) trademark infringement, (iii) common law trademark infringement; and (iv) violation of the Colorado consumer protection act. The complaint seeks damages, attorney fees and costs, and other relief as the court deems equitable and proper. In July 2020, the court entered final judgment and rendered a verdict in favor of the Company as to trademark infringement with actual damages of $0 and profit damages of $3,200. The jury also rendered a verdict in favor of CTI and Richard Browne as to copyright infringement and violation of the Colorado consumer protection act. Furthermore, in November 2020, the court ordered a judgment awarding CTI attorney fees of approximately $77,000. Consequently, the Company accrued such amount during the fourth quarter of fiscal 2020. A Satisfaction of Judgment was issued on November 23, 2020.

*CTI v. Altigen*

In March 2016, 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. In March 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. In August 2017, the court dismissed with prejudice all of CTI's claims against Mr. Fleming. In March 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. Moreover, in October 2018, the court awarded CTI approximately $433,000 in attorney fees and costs, jointly and severally against all defendants. The Company and all defendants appealed this ruling to the Colorado Court of Appeals, and in October 2019, the court issued its rulings and determined that (i) the underlying judgment 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.

In January 2020, the trial court rendered its final judgement and awarded CTI approximately $724,000 in damages. The court also awarded CTI post-judgment interest (based on statutory rate) of approximately $115,000 on certain categories of damages. In May 2020, the trial court ordered a final judgment awarding CTI attorney fees and costs and post-judgement interest of approximately $447,000. The trial court also awarded CTI attorney fees of approximately $76,000 for the appellate portion of the case in June 2020. In February 2021, the Company and all defendants entered into a Settlement Agreement and Mutual Release (the "Agreement") with CTI to settle the lawsuit. Pursuant to the Settlement Agreement, the Company paid CTI $312,500 in return for dismissal of the case with prejudice. The case was subsequently dismissed on February 24, 2021.

In connection with such claims described above, during the first quarter of fiscal 2019, 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. Additionally, in the fourth quarter of fiscal 2020, the Company received a settlement payment of approximately $168,000 from its insurance carrier to recover certain insured legal defense fees with respect to the above claim.

*Intellitalk v. Altigen*

In February 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. ("Intellitalk"), a former reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside in January 2019. The complaint alleges interference with prospective economic advantage and unfair competition. The Company filed a motion to dismiss all claims in the complaint.  On June 9, 2021, the Court denied the Company's motion for summary judgement. A trial date is scheduled on March 22, 2022.

Although the outcome of this matter is not determinable as of the date of this Quarterly Report, the Company believes Intellitalk's claims are without merit and the Company intends to vigorously defend itself against these allegations. The Company has not recorded an accrual related to this matter as of June 30, 2021, as the Company does not believe a loss is probable or reasonably estimable.

**Item 6.  Defaults upon Senior Securities.**

None.

**Item 7.  Other Information.**

None.

**Item 8.  Exhibits.**

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 Quarterly Report:

- Promissory Note dated May 14, 2020, by and between the Company and Sonabank pursuant to the Paycheck Protection Program as administered by the United States Small Business Administration.
- 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.
- Reseller Agreement between Fiserv Solutions, Inc. and the Company, dated as of August 28, 2009.
- Executive Employment Agreement by and between Jeremiah J. Fleming and the Company, dated as of December 18, 2007.
- 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.
- Distribution Agreement between Synnex Information Technologies, Inc. and the Company, dated as of December 22, 1999.
- OEM Agreement between Altisys Communications and the Company, dated as of January 18, 1999.

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 9. Certifications.**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Jeremiah J. Fleming, certify that:

1. I have reviewed this quarterly 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: September 29, 2021

BY: /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 quarterly 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: September 29, 2021

BY: /s/ Carolyn David
Carolyn David
Vice President of Finance