



ALTIGEN COMMUNICATIONS, INC.
ANNUAL REPORT
For Fiscal Year Ended September 30, 2014

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

Disclosure Regarding Forward-Looking Statements

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

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

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

Certain prior period information has been reclassified to conform to the current year presentation and to reflect the write-down of our wholly-owned subsidiary business unit as a discontinued operation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

Available Information

In 2010, the Company deregistered its shares of common stock with the SEC, delisted from the NASDAQ Capital Market and listed on the OTCQX marketplace. By deregistering the Company’s common stock with the SEC, the Company is no longer required to file annual, quarterly and current reports with the SEC. As part of the OTCQX listing requirements, the Company is required to prepare and post material news, quarterly financial reports and annual audited financial reports on the OTCQX’s website. Although the Company is no longer required to file certain SEC reports, there are some references throughout this document to former filings with the SEC. These references are integral to the readers’ understanding of these financial statements and should be read in conjunction with this annual report. This annual report also summarizes various documents and other information. These summaries are qualified in their entirety by reference to the documents and information to which they relate.

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PART A - GENERAL COMPANY INFORMATION

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

Exact name of the issuer: AltiGen Communications, Inc.

Exact names of predecessor entities in the past five years and dates of name changes: N/A

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

Principal Executive Offices: 679 River Oaks Parkway
San Jose, CA 95134
Telephone: (408) 597-9000
Facsimile: (408) 597-2020
Website: www.altigen.com

Investor Relations Officer: Philip M. McDermott, Chief Financial Officer and
Director
679 River Oaks Parkway
San Jose, CA 95134
Telephone: (408) 597-9000
Email Address: ir@altigen.com

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

AltiGen Communications, Inc. was incorporated in the state of California in May 1994, and reincorporated in the State of Delaware in June 1999.

PART B – SHARE STRUCTURE

Item IV. The Exact Title and Class of Securities Outstanding

AltiGen Communications, Inc. has three classes of outstanding stock:

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

Title: Series A Participating Preferred Stock, par value \$0.001

Title: Treasury Stock

In addition, AltiGen has issued options and warrants to purchase shares of its common stock. No shares of preferred stock are currently outstanding.

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

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

The Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") authorizes 5,000,000 shares of preferred stock, par value \$0.001 per share. The Company may issue these shares of preferred stock without the approval of the holders of common stock. The Board of Directors has the discretion to issue the preferred stock in such series and with such preferences and rights as it may designate.

On April 21 2009, the Company adopted a Preferred Stock Rights Agreement (the "Plan") and declared a dividend distribution of one right for each outstanding share of the Company's common stock. The record date for the distribution was May 7, 2009. The Company designed the plan to protect the long-term value of the Company for its shareholders during any future unsolicited acquisition attempt. The Company did not adopt the Plan in response to any specific attempt to acquire the Company or its shares and the Company is not aware of any current efforts to do so. These rights will become exercisable only upon the occurrence of certain events specified in the Plan, including the acquisition of 15% of the Company's outstanding common stock by a person or group. Should a person or group acquire 15% or more of the outstanding common stock or announce an unsolicited tender offer, the consummation of which would result in a person or group acquiring 15% or more of the outstanding common stock, shareholders other than the acquiring person may exercise the rights, unless the Board of Directors has approved the transaction in advance. Each right will initially entitle stockholders to purchase one one-thousandths (0.001) of a share of the Company's Series A Participating Preferred Stock for \$4.00. However, the rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. If a person or group acquires, or announces a tender or exchange offer that would result in the acquisition of, fifteen percent (15%) or more of our common stock while the stockholder rights plan remains in place, then, unless the rights are redeemed by us for \$0.001 per right, the rights will become exercisable by all rights holders, except the acquiring person or group, for shares of AltiGen or shares of the third party acquirer having a value of twice the right's then-current exercise price. The rights will expire on May 7, 2019 or earlier exchange or redemption of the rights as described above. No shares of the Company's Series A Participating Preferred Stock are currently outstanding. The foregoing statements are subject to, and are qualified in their entirety by reference to, the Plan including the certificate of designation, the form of rights certificate and the summary of rights attached thereto, which have been filed as exhibits to the exhibit filed with the Company's Registration Statement on Form 8-K on April 23, 2009.

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

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

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

As of September 30, 2014					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,798,683	15,819,781	1,717	96
Preferred Stock	5,000,000	—	—	—	—
As of September 30, 2013					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	16,732,016	10,656,617	1,860	76
Preferred Stock	5,000,000	—	—	—	—
As of September 30, 2012					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	16,732,016	11,070,405	2,200	82
Preferred Stock	5,000,000	—	—	-	-

(1) For purposes of this calculation only, shares of common stock held by each of AltiGen's directors and officers on the given date and by each person who AltiGen knows beneficially owned 5% or more of the outstanding common stock on that date have been excluded in that such persons may be deemed to be affiliates.

(2) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions, Inc.

Item VII. The Name and Address of the Transfer Agent

Transfer Agent: Computershare
 350 Indiana Street Suite 750
 Golden, CO 80401
 (303) 262-0678

Computershare is currently registered under the Securities Exchange Act of 1934, as amended, and is an authorized transfer agent subject to regulation by the U.S. Securities and Exchange Commission.

PART C – BUSINESS INFORMATION

Item VIII. The Nature of the Issuer’s Business

AltiGen Communications, Inc. (“AltiGen,” “we” or the “Company”) is a leading provider of premise and cloud-based IP-PBX and Contact Center solutions. We design, deliver and support VoIP phone systems and call center solutions that combine high reliability with integrated IP communications applications. As one of the first companies to offer VoIP solutions, AltiGen has been deploying systems since 1996.

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

AltiGen was formed in 1994 as a California corporation and was reincorporated in the State of Delaware in 1999. Our fiscal year end is September 30 of each year. In March 2010, we voluntarily delisted our common stock from the NASDAQ Capital Market and moved our common stock listing to the OTCQX over-the-counter market. The Company has not been in bankruptcy, receivership, or any similar proceeding.

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

AltiGen’s hardware and software products are available from independent authorized resellers and strategic partners.

EMPLOYEES

As of September 30, 2014, we had 40 full-time employees, including 19 in research and development and support, 11 in sales and marketing, 4 in operations, and 6 in finance and administration. Our future success will depend, in part, on our ability to continue to attract, retain and motivate highly qualified technical, marketing, engineering and management personnel.

COMPETITION

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

These competitors may enter our existing or future markets with products that may be less expensive, that may provide higher performance or additional features or that may be introduced more quickly than our products. Key competitive factors in each of

the segments in which we currently compete and may compete in the future include: low cost of ownership, product features, price and performance. We believe that our principal competitive advantages include:

- Ability to reduce communications costs;
- Ease of system manageability;
- Ease of use;
- Simple deployment in single and multi-site implementations;
- Ability to achieve rapid product development;
- Experience in service and technical support of Internet protocol telephony;
- Complete call center application which is now standard with all MaxCS systems;
- Decentralized voice processing support for advanced and integrated telephony application;
- Innovative mobility capabilities supporting mobile telephone devices such as the telephone system extensions; and
- Reliable redundant configurations supported.

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

INTELLECTUAL PROPERTY

We generally rely upon patent, copyright, trademark and trade secret laws to protect and maintain our proprietary rights for our technology and products. As of September 30, 2014, we have been issued three registered trademarks, “AltiGen™,” “AltiServ™” and “Zoomerang™.” In addition, the AltiGen logo is a trademark of ours in the United States and other jurisdictions. All other trademarks and trade names used in this annual report are the property of their respective owners.

We have filed several U.S. patent applications relating to various aspects of our client and server software, mixed-media communications and computer telephony. As of September 30, 2014, we have been issued twenty U.S. patents. The duration of our patents is 20 years from the date of its filing depending upon when the patent application was filed. We expect to continue to file patent applications to protect our technology and products. We cannot be sure that our patent applications will result in the issuance of patents, or that any issued patents will provide commercially significant protection for our technology. We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to software, documentation and other proprietary information. Notwithstanding the steps we have taken to protect our intellectual property rights, third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our products and services.

MANUFACTURING AND ASSEMBLY

As of September 30, 2014, our in-house manufacturing operations occupied approximately 3,200 square feet of our corporate headquarters in San Jose, California. Our manufacturing operations consist of two phases. In the first phase, we send out components of our products to a third party assembler. The third party assembler auto-inserts the components into the printed circuit boards. In the second phase, we insert the assembled circuit boards into the burn-in process for a minimum of two weeks and after that we perform the final test of the circuit boards. In fiscal year 2014, we engaged Zytek Corporation in Milpitas, California as our third party assembler.

We source components from a number of suppliers and manufacturing vendors. During fiscal year 2014, AAEON Electronics, Inc., BCM Communications, Inc and Yealink Network Technology Co., LTD. provided us with approximately 61% of our hardware product components. We purchase single board computers for our MAX products from AAEON Electronics and internet protocol phones from BCM Communications and Yealink Network.

We test our products after the assembly process using internally developed product assurance testing procedures, which include visual inspection, functional testing and final systems testing. Although we generally use standard components for our products and try to maintain alternative sources of supply, we purchase some key components from sole source suppliers for which alternative sources are not currently available. Therefore, the loss of supply from any of these suppliers or vendors, whether temporary or permanent, could materially adversely affect our business and financial condition.

We incorporate the following sole-sourced components in our products:

- Zarlink Corporation chips are included in all of our boards and are the means by which our boards communicate with each other to enable our products to function correctly.
- Texas Instruments' digital signal processor ("DSP") chips are included in our MaxCS Access family of boards. The DSP chip is designed to perform the mathematics, data compression and other tasks required to manipulate voice communications that are routed through our products.
- Xilinx, Inc. provides chips for our MaxCS Access family of boards, which allow our boards to work with digital communications lines.
- PMC Sierra, Inc. provides chips for our MaxCS Digital product line, which allow our boards to work with digital communications lines.
- BCM Communications, Inc. manufactures our IP720 internet protocol phone loaded with customized firmware to work with our system.
- AAEON Electronics, Inc. manufactures single board computers for our MAX products.
- Yealink Network Technology Co., LTD manufactures our IP805 internet protocol phone loaded with customized firmware to work with our system.

LEGAL PROCEEDINGS

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit— China segment. In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable at this time, therefore, we did not record any liabilities related to this matter in fiscal year 2014.

On November 3, 2011, Klausner Technologies, Inc. filed a civil lawsuit in the United States District Court for the Eastern District of Texas naming the Company and alleging patent infringement. Klausner Technologies had asserted one patent purportedly relating to a telephone answering device that displays information about messages recorded within the device and provides selective access to those messages based on the displayed information. During the third quarter of fiscal 2014, Klausner Technologies, Inc. and the Company entered into a settlement agreement and the case was dismissed on May 19, 2014.

From time to time, we become involved in litigation claims and disputes 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 condition or cash flows. We currently are not aware of any legal proceedings or claims that we believe will have, individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

Item IX. The Nature of Products or Services Offered

AltiGen's solutions portfolio is divided into three key categories: MaxCommunications Server (MaxCS) IP-PBX, MaxACD VoIP Contact Center and MaxACD Contact Center for Microsoft Lync.

MaxCS IP-PBX

MaxCommunications Server (MaxCS) IP-PBX, is a complete state-of-the-art, software-based phone system designed with an open architecture, leveraging today's powerful computing technologies including Intel processors, Microsoft software, and VMware and Hyper-V virtualization. No matter the business size, single or multi-site, MaxCS can scale in size and capability to meet the business' communications needs.

The MaxCS IP-PBX provides customers with a complete business communications solution which includes: Voicemail, Unified Messaging, Mobility, Automatic Call Distribution, Call Recording, Call Activity Reporting, and Mobility solutions. This innovative solution takes advantage of the convergence of voice and data communications to enable companies to achieve superior business results. Additionally, the system provides intuitive and easy to use system administration software to allow for customer self-administration or remote administration by our authorized reseller partners.

MaxACD VoIP Contact Center

AltiGen's MaxACD is a complete, all software VoIP contact center solution that seamlessly integrates to our MaxCS business phone system. At the heart of MaxACD is a powerful, software-based Automatic Call Distribution (ACD) engine which offers sophisticated call routing and call distribution options. It includes a comprehensive call center feature set comprising of agent/supervisor clients, monitoring, management, call reporting and advanced capabilities like skills-based routing, priority queuing, and centralized call recording. The capabilities may be added on a per agent/supervisor basis as the customer grows. This allows a smaller business or branch office to enjoy the same capability as a large professional call center organization. MaxACD is ideal for businesses that require a departmental call center for customer service, technical support, telemarketing or collections.

MaxACD Contact Center for Microsoft Lync

MaxACD Contact Center for Microsoft Lync takes advantage of AltiGen's 15 years of contact center technology innovation to deliver a complete, integrated software-based contact center solution. MaxACD has been certified by Microsoft's ISV Qualification Program for Lync 2010 and 2013.

Simple to use and manage, MaxACD is a complete and fully featured contact center solution, designed specifically to complement Microsoft Lync. It's entirely software-based, with no special proprietary hardware requirements. MaxACD utilizes industry standard Intel-based physical or virtual servers, allowing for cost-effective on-site or in-the-cloud deployments.

MaxACD includes advanced call queuing and automated call distribution capabilities, interactive voice response (IVR), real time and historical reporting, and support for remote agents. The MaxACD Lync clients provide a unified desktop application for both agents and supervisors.

All-Software Solutions with Flexible Deployment Models

AltiGen's all-software MaxCS and MaxACD solutions are available in two different deployment models:

- *Cloud Hosted* - Monthly service subscription deployed in the AltiGen Cloud and fully managed by AltiGen; and
- *Software as a Service (SaaS)* - Monthly software subscription deployed in the customer's cloud or on premise.

Deployable in the Cloud or on-premise our customers have the option to leverage their IT infrastructure investments for maximum flexibility to obtain the lowest total cost of ownership.

Key features of our phone systems include:

- **Scalability.** AltiGen's software based MaxCS 6.7 softswitch architecture was designed to scale in both size and capability to meet the evolving needs of the small and medium-sized business (SMB) and enterprise markets. As a software-based system, AltiGen can rapidly deploy new features to our customers without requiring expensive hardware upgrades.
- **Native Microsoft Lync Server 2010 and 2013.** MaxACD fully supports native integration to Microsoft's Unified Communications platform to provide advance Contact Center solutions. AltiGen's solution has been tested and certified by Microsoft's ISV Qualification Program.
- **Native Microsoft Exchange Server Integration.** MaxCS fully supports native integration into Microsoft Exchange Server 2007 and 2010 to unlock the embedded Unified Messaging capabilities of Exchange. As the "Voice of Microsoft Exchange," mutual Microsoft and AltiGen customers now have voice access to e-mails, calendar events, and personal and global company contact information via Text-to-Speech services.
- **Measurable Information to Ensure Best Business Practices.** We provide a complete view into individual and group performance. The amount, type and duration of calls can be tracked and analyzed. An individual can record a call for later review, or a company can centrally record all or a percentage of calls for quality control.
- **Reduced Administration Costs.** Our easy to use self-administration software allows customers to manage their own telephone system. This reduces or eliminates ongoing operating costs of any business telephone system, which

are typically referred to as adds, moves and changes. AltiGen phone systems allow administrators to perform many of these tasks on site or remotely without assistance from third parties.

- **Lower Toll Costs.** By routing voice over data networks, our systems reduce toll charges associated with long-distance calls between locations. Using our products, businesses can send and receive voice communications over the Internet or a private data network.
- **Unified Company Locations.** For companies with AltiGen systems in multiple locations, we provide a seamless dialing plan. Customers calling into one location can automatically be routed to the correct group or individual. This allows a multi-site business to operate under a unified dialing plan and allows users in different sites to operate as if they were supported by a single system rather than an individual system for each location.
- **Survivability Options.** Our systems allow practical and cost efficient options for disaster recovery planning. Redundant system hard drives allow all voicemail and configuration information to be copied to a spare hard drive. The system allows nightly backup to another network drive. If weather or other problems prevent employees from reaching the office, MaxMobile, One Number Access and VoIP telephones can be utilized to keep operations running. We provide multiple options based upon what best fits the customer environment.
- **Innovative Desktop Productivity Software.** Our systems provide desktop software applications to increase user productivity. Call control, changes in extension configuration and the ability to view and manage voicemail messages improve an employee's ability to process calls. In addition, we provide software for group supervisors, agents, system administrators and operators. Applications are centrally upgraded from the phone system to allow for quick and efficient deployment.
- **Integration with Customer Relationship Management Software.** The MaxCommunicator Agent Edition and MaxCommunicator desktop interface provide automatic contact record retrieval and “screen pops” of contact records to a user's desktop. Microsoft Outlook users can type in a name to automatically retrieve telephone numbers and click and dial from an integrated contact record directory. We provide built-in integration with other Microsoft software applications like Microsoft Outlook and Microsoft Exchange.
- **Ease of Installation, Use and Maintenance.** AltiGen phone systems allow easy installation and system maintenance. Administrators can manage call routing, extension management, voice messaging, email and Internet features of our products through a single AltiAdmin administrator interface. By using industry standards we believe that AltiGen systems make it easier for resellers and end-user customers to implement and maintain systems.
- **Improved Customer Service Capabilities.** AltiGen phone systems provide integrated call center functionality. For more advanced call center or centralized call recording requirements, we offer the AltiContact Manager software application. Both Contact Center applications are designed to enhance our customers' communications with their respective customers by employing comprehensive Contact Center and call center routing, reporting and recording technologies.
- **Integrated Centralized Call Recording.** Voice calls can be recorded on demand by employees, agents and supervisors or automatically centrally recorded by the phone system. Traditional phone systems require a separate system to be tied to a PBX to centrally record calls. Modular feature licensing allows businesses to add capabilities on a per-feature or per-user basis offering a reduced up-front investment.
- **True Employee Mobility.** We provide flexible and useable mobility options while retaining accountability. We provide several powerful options. MaxMobile is a native smart phone application designed to allow any phone with a direct telephone number to be enabled as a live extension on the system. Call handling, call transfer, conferencing and voicemail capability are retained. Our “One Number Access” feature allows the system to search and then transfer a call at up to four numbers. For remote employees, we offer a VoIP telephone to connect to an employee's high speed Internet access. Our mobility options are flexible and simple to use.

PRODUCTS

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

Product	Description
MaxCS IP-PBX	MaxCS server software consists of a comprehensive suite of software applications to provide a high value, all-in-one solution. The systems include software and licensing necessary to support analog and VoIP telephones, operator software, and desktop call control software for each extension on the system. By providing a bundled approach, we maintain quality and reliability while providing for easy deployment. The platforms are scalable, and are packaged according to the size of the customer.
MaxACD VoIP Contact Center	MaxACD is available as a software upgrade to an existing AltiGen phone system. This product is capable of skills-based routing, priority queuing, centralized call recording and advanced monitoring and reporting. This capability may be added on a per agent/supervisor basis as a company's needs grow. This allows a smaller business or branch office to enjoy the same capability as a larger organization with a professional call center. If a company has more than one location, calls to call centers can automatically be routed to other locations based on conditions the customer chooses.
IP720 Voice over IP Telephone	The IP720 is a fully featured SIP-compatible IP telephone designed to empower the user. Bringing stylish form and functionality to the desktop, the IP720 makes sophisticated features simple and intuitive to use. Users have single button access to voicemail, activity/presence selection, voicemail greeting selections, call recording, call conferencing, call transferring, and even placing calls to employees in other countries. The IP720 has integrated Power over Ethernet and Gigabit Ethernet support.
IP805 Voice over IP Telephone	The IP805 is a mid-level SIP-based VoIP phone designed to empower the user and has integrated Power over Ethernet. Users have convenient single button access to voicemail, call conferencing, call transferring, redial and call log lists. The IP805 has six programmable keys, speakerphone and intercom.
MaxMobile	MaxMobile extends a complete set of business PBX functionality to smart phone devices, often eliminating the need for a separate desktop phone. When users log in to MaxMobile, the smart phone is registered as the "business" PBX extension. All inbound business calls are routed through the PBX (so employees don't have to publish their mobile phone numbers). Outbound calls can be routed through the PBX (in accordance with corporate policies) or directly through the cellular network. In every case, MaxMobile graphical user interface extends a multitude of business PBX features to smart phone devices.
MaxCommunicator	MaxCommunicator is a Windows-based desktop application that provides call control and visual voice mail management to the desktop. It allows users to receive and place calls, listen to voicemail messages, identify the caller phone number and manage extension configuration. MaxCommunicator is standard with all AltiGen systems.
MaxAgent	MaxAgent is a Windows-based desktop application to bring call control and workgroup information to call center agents. Users can view a call queue, monitor work group status, check caller identification, measure performance, review log-on history, receive and place calls and listen to and manage voicemail messages.

Product	Description
MaxSupervisor	MaxSupervisor is a Windows-based desktop application for call center supervisors. The application allows a call center or workgroup supervisor to effectively manage a workgroup. MaxSupervisor provides four major real time module views for workgroup management: agent status, agent statistics, group statistics, and queue status with a quality of services capability. MaxSupervisor allows coaching, silent monitoring of agents with barge-in call participation and call recording functionality.
MAX 4x4xT1 Access Board	The MAX 4x4xT1 Access Board is a microprocessor-controlled board that allows the MAX1000 and MAX2000 phone system to connect to four (4) analog trunk lines, four (4) analog telephone extensions, and one (1) T1/E1/PRI digital central office telephone line.
MAX 4x8 Access Board	The MAX 4x8 Access Board is a microprocessor-controlled board that allows the MAX1000 and MAX2000 phone system to connect to four (4) analog trunk lines and eight (8) analog telephone extensions.
MAX 8x4 Access Board	The MAX 8x4 Access Board is a microprocessor-controlled board that allows the MAX1000 and MAX2000 phone system to connect to eight (8) analog trunk lines and four (4) analog telephone extension.
MAX 0x12 Access Board	The MAX 0x12 Access Board is a microprocessor-controlled board that allows the MAX1000 and MAX2000 phone system to connect 12 analog telephone extensions.
MAX1000	The MAX1000 Server is an “all-in-one” PBX solution that comes preloaded with Altigen’s MaxCS IP PBX software. It supports various MAX Access Boards for Public Switched Telephone Network (PSTN) access and supports up to 48 users.
MAX2000	The MAX2000 Server is an “all-in-one” PBX solution that comes preloaded with Altigen’s MaxCS IP PBX software. It supports various MAX Access Boards for Public Switched Telephone Network (PSTN) access and supports up to 100 users.
MaxACD for Lync	MaxACD for Lync is a robust call center solution with native integration to Microsoft Lync Server 2010 and 2013. Similar to Alticon Manager, this product is capable of advanced call distribution (ACD), skills-based routing, priority queuing, centralized call recording and advanced monitoring and reporting.

Altigen Hardware and Firmware

We have developed a single base circuit board with high performance digital signal processing technology, which means that the circuit board has an integrated computer built in that can run special, high-speed software programs, called firmware. Firmware can receive, send and modify digital information for communications with network services. Our digital signal processing board, MAX, is designed to allow us to create different circuit boards to meet many communication requirements by simply adding a few hardware and/or software components to the basic board. For example, the MAX digital signal processing board can become an Integrated Services Digital Network communication circuit board or a circuit board supporting VoIP with simple changes in on-board software and, in some cases, new circuits.

This modular design not only enables us to provide new capabilities, but we also believe that it enables our products to achieve a high degree of reliability and cost reduction since the underlying technology is consistent across our products.

AltiGen Modular Software

Our software products are based on modular software components similar to the concept described above for our hardware and firmware. The service provider layer of software is composed of separate software components, each of which communicates with a hardware circuit board within the AltiGen phone system. The middleware layer interacts with all the service providers in the system and manages their resources. This middleware layer communicates with the hardware and allows application programs to provide specific features. The application program layer consists of components that implement the application logic, such as voicemail and auto attendant menus. These applications do not depend on any particular hardware integration.

We believe that the layered architectural structure of our MaxCS products provides important benefits:

- New features can be developed without changing hardware.
- Development time is generally shorter.
- New hardware and software features can be added to installed systems.
- Changing one component in the system does not require other components to be changed.

Service Support Program

Our Software Assurance Programs provide our customers with the latest updates, new releases, and technical support for the applications they are licensed to use. These programs have an annual subscription and can range from one to three years. Sales from our service support programs are recorded as deferred revenue and recognized as revenue over the terms of their subscriptions.

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

	Fiscal Year Ended September 30,		
	2014	2013	2012
Hardware.....	34%	42%	53%
Software.....	25%	23%	18%
Service Support Plans	41%	35%	29%
Total.....	<u>100%</u>	<u>100%</u>	<u>100%</u>

Customers

Our customers are primarily end-users, resellers and distributors. We have distribution agreements with Altisys Communications, Inc. (“Altisys”) and Synnex Corporation (“Synnex”) in the North America segment. 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 insolvency or bankruptcy. For a period of sixty (60) days following termination of the agreement, Altisys and Synnex may distribute any products in their possession at the time of termination or, at their option, return any products to us that are in their inventories. Upon termination of the distribution agreement, all outstanding invoices for the products will become due and payable within thirty (30) days of the termination.

We also have a reseller agreement with Fiserv Solutions, Inc. (“Fiserv”) in the North America segment. Our agreement with Fiserv has an initial term of ten years ending on August 28, 2019, and shall be renewed automatically for additional five year terms unless either party provides the other party with ninety (90) days’ written notice of termination prior to the end of the initial term or any subsequent term of the agreement. 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.

The foregoing statements are subject to, and are qualified in their entirety by reference to, the agreements with Fiserv, Synnex and Altisys described above, which have been filed with the Securities and Exchange Commission (SEC) as exhibits to the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2009, Annual Report on Form 10-K for the

fiscal year ended September 30, 2003, and Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, respectively.

The following table sets forth our net revenue by customers that individually accounted for more than 10% of our revenue for the periods indicated:

	Fiscal Year Ended September 30,		
	2014	2013	2012
Synnex	22%	27%	28%
Fiserv	12%	12%	16%
Total.....	34%	39%	44%

MARKETING, SALES AND CUSTOMER SUPPORT

Marketing

We focus our marketing efforts on market knowledge, product definition, new product introduction, product marketing and advertising. We may use advertising both domestically and internationally to market our products independently and in cooperation with our distributors, dealers and strategic partners. Our marketing efforts currently focus on increasing demand for our products in North America and Rest of World. Our product information is available on our website, which contains overview presentations and technical information.

Sales

We market and distribute our products through a worldwide network of sales representatives and we use a broad distribution channel to bring our products and solutions to our customers. Our distribution channel is comprised of distributors and resellers. We are organized and operate as two operating segments, the North Americas and Rest of World. The North America segment is comprised of the United States, Canada, Mexico, Central America and the Caribbean. The Rest of World segment is primarily comprised of Europe. Our two geographical segments both sell similar products to similar types of customers.

We currently have sales and support staff in more than 8 locations in the United States. Our inside sales group answers incoming calls from end users and refers new leads to a qualified dealer near each end user's location. The inside sales group is also responsible for account management of our smaller resellers. Our outside sales force, which is primarily based in North America, includes enterprise account executives and technology solutions managers who work with direct enterprise accounts and larger resellers.

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

	Fiscal Year Ended September 30,		
	2014	2013	2012
North America	99%	99%	94%
Rest of World.....	1%	1%	6%
Total.....	100%	100%	100%

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

Customer Support

We believe that consistent, high-quality service and support are key factors in attracting and retaining customers. Our customer support groups located in California, Texas, Colorado, Minnesota and Virginia, coordinate service and technical support of our products and provide service twenty-four hours a day, seven days a week. Our support personnel assist our distributors and resellers in resolving installation and support issues that arise from their sales to end users and also provide limited support to

end-users to supplement dealer support. Resellers and end-user customers can also access technical information and receive technical support through our website.

RESEARCH AND DEVELOPMENT

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

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

The majority of our product development is conducted in-house. We also use a small number of independent contractors to assist with certain product development and testing activities. We intend to continue working with our strategic partners to enhance our products. As of September 30, 2014, we employed 19 employees in engineering, research and development and support.

We believe our future success relies on continued product enhancement. To accomplish this objective, we seek to improve product reliability, advance and broaden employed technologies while maintaining or reducing product cost. In addition, we actively pursue development of potential new products. Our efforts to enhance existing products and develop new products require extensive investment in research and development. We expense research and development costs relating to both present and potential future products in the period incurred. These expenses totaled approximately \$2.9 million, \$3.1 million and \$3.8 million during fiscal years 2014, 2013 and 2012, respectively. We also capitalize certain costs of product development when the projects under development reach technological feasibility. Capitalized costs include purchased materials and external services. Capital costs of product development for fiscal year 2012 were immaterial and were expensed as incurred. During fiscal years 2014 and 2013, we did not incur any capital costs related to product development.

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

RISK FACTORS

Because of the following factors, as well as other variables affecting our operating results, past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods. See also “Disclosure Regarding Forward-Looking Statements” elsewhere in this report.

Risks Related to Our Business

Our common stock no longer trades on the NASDAQ Capital Market.

In March 2010, we voluntarily delisted our common stock from the NASDAQ Capital Market and moved our common stock listing to the OTCQX over-the-counter market. As a result, investors may find it more difficult to dispose of or obtain accurate quotations as to the market value of our common stock, and the ability of our stockholders to sell our securities in the secondary market may be materially limited.

Our stock price may be volatile.

The trading price of our common stock has been and may continue to be volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. Factors that could affect the trading price of our common stock could include:

- variations in our operating results;
- announcements of technological innovations, new products or product enhancements, strategic alliances or significant agreements by us or by our competitors;
- the gain or loss of significant customers;

- recruitment or departure of key personnel;
- the impact of unfavorable worldwide economic and market conditions, including the restricted credit environment impacting our customers' ability to obtain credit;
- changes in estimates of our operating results or changes in recommendations by any securities analysts who follow our common stock;
- significant sales, or announcement of significant sales, of our common stock by us or our stockholders; and
- adoption or modification of regulations, policies, procedures or programs applicable to our business.

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

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

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

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

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

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

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

Our board of directors declared a dividend of one (1) right for each share of common stock under the terms and conditions of a Preferred Stock Rights Agreement by and between AltiGen and Computershare Trust Company, N.A., as rights agent, dated April 21, 2009, which right is exercisable for shares of AltiGen's Series A Participating Preferred Stock after the date on which a hostile acquiror obtains, or announces a tender offer for, 15% or more of the Company's common stock. If an acquiror obtains 15% or more of the Company's common stock, each stockholder (except the acquiror) may purchase either our common stock or in certain circumstances, the acquiror's common stock, at a discount, resulting in substantial dilution to the acquiror's interest. Such rights could delay or discourage a potential acquisition of AltiGen.

Our extensive research and development efforts may not result in products that are successful in the marketplace.

To maintain our market share for existing products and to gain market share in new markets, we must invest heavily each year in research and development spending. This research and development spending often involves new technologies or updates to existing technology. We can provide no assurance that our research and development efforts to develop new technology will be successful or that new products we may develop through such efforts will be successful in the marketplace.

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

We have had a history of operating losses since our inception and, as of September 30, 2014, we had an accumulated deficit of \$69.1 million as compared to \$68.2 million as of September 30, 2013. We may incur operating losses in the future, and these losses could be substantial and impact our ability to attain profitability. We do not expect to significantly increase expenditures for product development, general and administrative expenses, and sales and marketing expenses; however, if we cannot maintain current revenue or revenue growth, we will not achieve or sustain profitability or positive operating cash flows. Even if we achieve profitability and positive operating cash flows, we may not be able to sustain or increase profitability or positive operating cash flows on a quarterly or annual basis.

We sell the majority of our products through dealers and distributors, which limits our ability to control the timing of our sales, which makes it more difficult to predict our revenue.

We do not recognize revenue from the sale of our products to our distributors until these products are sold to either resellers or end-users. We have little control over the timing of product sales to resellers and end users. Our lack of control over the revenue that we recognize from our distributors' sales to resellers and end-users limits our ability to predict revenue for any given period. Our future projected budgets and commitments are based in part on our expectations of future sales. If our sales do not meet expectations, it will be difficult for us to reduce our expenses quickly, and consequently our operating results may suffer.

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

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

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

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

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

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

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

difficult to protect. If we fail to protect our proprietary information effectively, or if third parties use our proprietary technology without authorization, our competitive position and business will suffer.

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

Our headquarters is located in San Jose, California, where we lease approximately 14,316 square feet of office space. This facility accommodates global sales and marketing, manufacturing, research and development and administration and finance. The term of the lease for this facility expires in May 2019 with an option to renew for an additional five years or cancel the lease.

We believe that our existing facility is adequate for our present and foreseeable future needs.

PART D - MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Certain prior period information has been reclassified to conform to the current year presentation and to reflect the write-down of our wholly-owned subsidiary business unit as a discontinued operation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

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

The information concerning our directors and executive officers required by this Item is incorporated by reference from the information set forth in the sections entitled “Election of Directors” and “Executive Officers” in our Proxy Statement related to the Annual Stockholder Meeting scheduled to be held in 2015 and will be filed by the Company through OTC Disclosure and News Service, available at www.otcqx.com.

Item XII. Financial Information for the Issuer’s Most Recent Fiscal Period

The following documents are filed as a part of this Annual Report:

1. Consolidated Financial Statements – The consolidated financial statements are included in the index and listed on the “Index to Consolidated Financial Statements” described at F-1.
2. Exhibits – Certain of the exhibits to this Annual Report are hereby incorporated by reference, as summarized in Part F below.

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

See Item XII of this annual report, and the information contained in Item XII of this annual report is incorporated herein by reference.

Item XIV. Beneficial Owners

The information required by this section is incorporated by reference from the information in the section titled: “Security Ownership of Certain Beneficial Owners, Management and Members of the Board of Directors” in our Proxy Statement for the Annual Stockholder Meeting scheduled to be held in 2015 and will be filed by the Company through OTC Disclosure and News Service, available at www.otcqx.com.

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

Designated Advisor for Disclosure:	B. Riley & Co, LLC 11100 Santa Monica Blvd, Suite 800 Los Angeles, CA 90025 Telephone: (310) 966-1444 Email: corpfin@brileyco.com
Counsel:	Perkins Coie LLP 1900 Sixteenth Street Suite 1400 Denver, CO 80202-5255 Telephone: (303) 291-2442 Email: AVillier@perkinscoie.com
Auditor:	Moss Adams LLP, 635 Campbell Technology Parkway Campbell, CA 95008 Telephone: (408) 916-0565 Email: arlene.chan@mossadams.com

Tax Accountant:

Moss Adams LLP,
3100 Zinfandel Drive, Suite 500
Rancho Cordova, CA 95670-6062
Telephone: (916) 503-8152
Email: mark.harrison@mossadams.com

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

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

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

Discontinued Operations

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit—China segment. In order to provide a more meaningful comparison of our financial results, prior year results have been reclassified to reflect the discontinued China operations. As a result of this write-down, we categorize our operations into two reportable business segments: North America and Rest of World. Additionally, in connection with the discontinued China operation, a write-down of approximately \$620,000 was recorded in the second quarter of fiscal year 2014, which includes the investment in the subsidiary, accounts receivables and other assets and liabilities. The resulting write-down had no impact on our cash and cash equivalents.

In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable at this time, therefore, we did not record any liabilities related to this matter in fiscal year 2014.

Certain prior period information has been reclassified to conform to the current year presentation and to reflect the write-down of our wholly-owned subsidiary business unit as a discontinued operation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

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. The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company's estimates are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for the Company's conclusions. The Company continually evaluates the information used to make these estimates as its business and the economic environment change. The Company's management believes that certain estimates, assumptions and judgments derived from the accounting policies have significant impact on its financial statements, so the Company considers the following to be its critical accounting policies.

Revenue Recognition

Revenue from sales of our hardware and software products consists of direct sales to end-users, resellers and distributors. Revenue from sales to end-users and resellers is recognized upon shipment, when risk of loss has passed to the customer, collection of the receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed and determinable. We provide for estimated sales returns and allowances and warranty costs related to such sales at the time of shipment. Net revenue consists of product revenue reduced by estimated sales returns and allowances. Sales to distributors are made under terms allowing certain rights of return and protection against subsequent price declines on our products held by the

distributors. Upon termination of such distribution agreements, any unsold products may be returned by the distributor for a full refund. These agreements may be canceled without cause for convenience following a specified notice period. As a result of these provisions, we defer recognition of distributor revenue until such distributors resell our products to their customers.

We also record deferred revenue from our service support programs. Revenue from these programs is deferred and recognized ratably over the service coverage periods, generally twelve to thirty six months. Our service support programs provide our customers with the latest updates, new releases and technical support for the applications they are licensed to use.

Revenue that is deferred as a result of this policy is classified as “deferred revenue” in the accompanying consolidated balance sheets. The related cost of such revenue is also deferred and reported in the consolidated balance sheets as inventory. As of September 30, 2014 and 2013, the Company had approximately \$2.1 million and \$1.8 million, respectively, in short-term deferred revenue, of which \$2.0 million and \$1.7 million, respectively, were comprised of service support revenue, and less than \$100,000 represented deferred channel revenue for both fiscal years 2014 and 2013. Long-term deferred revenue is primarily comprised of revenue generated from our service support program and is discussed below under the heading “Service Support Program.”

Service Support Program

Our Software Assurance Programs provide our customers with the latest updates, new releases, and technical support for the applications they are licensed to use. These programs have an annual subscription and can range from one to three years. Sales from our service support programs 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 “other long-term liabilities” in the accompanying consolidated balance sheets. As described above, short-term service support revenue was approximately \$2.0 million and \$1.7 million as of September 30, 2014 and 2013, respectively. Long-term deferred revenue was approximately \$123,000, as compared to \$106,000 as of September 30, 2014 and 2013, respectively. Our service plan offering remains a key part of our business as we continue to add new service customers.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash on hand and highly liquid investments, such as time deposits. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash represents cash that serves as collateral for our revolving line of credit. The cash is restricted as to withdrawal or use and provides financial assurance that the Company will fulfill certain contractual obligations. At September 30, 2014, cash, cash equivalents and restricted cash totaled approximately \$3.8 million, as compared to \$2.9 million at September 30, 2013. Restricted cash represents approximately \$2.0 million and is recorded as part of our cash and cash equivalents in our consolidated balance sheets.

Inventories

Inventory is stated at the lower of cost (first-in, first-out method) or market. We perform a detailed review of inventory each fiscal quarter, with consideration given to future customer demand for our products, obsolescence from rapidly changing technology, product development plans, and other factors. If future demand or market conditions for our products are less favorable than those projected by management, or if our estimates prove to be inaccurate due to unforeseen technological or other changes, we may be required to record an additional inventory obsolescence provision which would negatively affect gross margins in the period when the write-downs are recorded. Our inventory balance was \$476,000 and \$1.0 million as of September 30, 2014 and 2013, respectively. Provisions for excess and obsolete inventory totaled \$120,000 and \$10,000 for fiscal years 2014 and 2013, respectively. The increase was due primarily to a significant slowdown in sales of the iFusion SmartStations during fiscal year 2014, which required us to write-down the excess inventory during the fourth quarter.

Warranty Cost

We accrue for warranty costs based on estimated product return rates and the expected material and labor costs to provide warranty services. If actual product return rates, repair cost or replacement costs differ significantly from management’s estimates, adjustments to recognize additional cost of sales may be required in future periods. The reserve for product warranties was \$41,000 and \$91,000 as of September 30, 2014 and 2013, respectively.

Stock-Based Compensation

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

Results of Operations

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

	Fiscal Year Ended September 30,					
	2014		2013 (3)		2012 (3)	
Net revenue:						
Hardware	33.8	%	41.8	%	52.6	%
Software	25.4		22.9		18.3	
Service support	40.8		35.3		29.1	
Total net revenue	100.0		100.0		100.0	
Cost of revenue:						
Hardware	30.4		30.1		42.4	
Software	0.6		0.2		0.6	
Service support (2)	—		—		—	
Total cost of revenue	31.0		30.3		43.0	
Gross profit	69.0		69.7		57.0	
Operating expenses:						
Research and development	30.0		28.3		26.7	
Sales and marketing	23.1		21.2		22.2	
General and administrative	22.1		23.8		17.0	
Total operating expenses	75.2		73.3		65.9	
Loss from continuing operations	(6.2)		(3.6)		(8.9)	
Equity in net loss of investee	—		—		(0.4)	
Interest and other income, net	3.4		(0.1)		(0.1)	
Loss from continuing operations before income taxes	(2.8)		(3.7)		(9.4)	
Income taxes	—		—		—	
Loss from continuing operations after income taxes	(2.8)		(3.7)		(9.4)	
Discontinued operations:						
Loss from discontinued operations	(3.8)		(8.4)		(3.5)	
Write-down of investment from discontinued operations	(2.7)		—		—	
Total loss from discontinued operations	(6.5)		(8.4)		(3.5)	
Net loss	(9.3)	%	(12.1)	%	(12.9)	%

- (1) Net revenue from continuing operations includes revenue generated from the following segments: North America and Rest of World.
- (2) Service support cost represents less than 0.1% of our total cost of revenue.
- (3) Prior year results have been reclassified to reflect the discontinued China operations for comparison purposes.

Results of Operations—Fiscal Year 2014 Compared to Fiscal Year 2013

Net Revenue

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

We categorize our operations into two operating segments - North America and Rest of World. The North America segment is comprised of the United States, Canada, Mexico, Central America and the Caribbean. The Rest of World segment is primarily comprised of Europe.

Net revenue from continuing operations was \$9.6 million in fiscal year 2014, as compared to \$10.8 million in fiscal year 2013. The change in net revenue was a decrease of approximately 11% and was primarily driven by a shift in our product mix and the impact of lower sales volume over the prior year.

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

	Fiscal Year Ended September 30,	
	2014	2013
North America	99%	99%
Rest of World	1%	1%
Total	<u>100%</u>	<u>100%</u>

Net revenue by customers that individually accounted for more than 10% of our revenue for the twelve months ended September 30, 2014 and 2013, respectively, were as follows:

	Fiscal Year Ended September 30,	
	2014	2013
Synnex.....	22%	27%
Fiserv.....	12%	12%
Total	<u>34%</u>	<u>39%</u>

Cost of Revenue

Our cost of revenue consists primarily of component and material costs, direct labor costs, provisions for excess and obsolete inventory, warranty costs and overhead related to the manufacturing of our products. The majority of these costs vary with the unit volumes of product sold.

Cost of revenue decreased 9% to \$3.0 million in fiscal year 2014 from \$3.3 million in fiscal year 2013 primarily due to lower product sales. As a percentage of revenue, cost of revenue increased to 31% in fiscal year 2014 from 30% in fiscal year 2013.

Research and Development (“R&D”) Expenses

Research and development expenses consist primarily of costs related to personnel and overhead expenses, consultant fees, prototype development expenses and other costs associated with the design, development and testing of our products and enhancements of our converged telephone system software. We expense all research and development expenses as incurred.

Research and development expenses decreased 6% from \$3.1 million in fiscal year 2013 to \$2.9 million in fiscal year 2014. As a percentage of revenue, research and development expenses increased to 30% in fiscal year 2014 from 28% in fiscal year 2013. The expense decrease in fiscal year 2014 as compared with fiscal year 2013 was mainly driven by our continuing efforts to limit the growth of our operating expenses through initiatives that are helping drive operational improvement throughout our organization. Such expenses include a reduction of approximately \$181,000 in consulting and personnel-related and overhead expenses.

We will continue to develop new products and services and to enhance our existing ones through research and product development. Management believes that investment in research and development is required to remain competitive and we expect to continue to invest in research and development activities in future periods. However, if business conditions deteriorate or the rate of improvement does not meet our expectations, we may implement additional cost-cutting measures. We believe that our ability to develop and meet enterprise customer requirements is essential to our success. Accordingly, we have assembled a team of engineers with expertise in various fields, including voice and IP communications, unified communications network design, data networking and software engineering.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries, commissions and related expenses for personnel engaged in marketing, sales and customer support functions, as well as trade shows, advertising, and promotional expenses.

Sales and marketing expenses decreased 4% to \$2.2 million in fiscal year 2014 from \$2.3 million in fiscal year 2013. As a percentage of revenue, sales and marketing expenses increased to 23% in fiscal year 2014 from 21% in fiscal year 2013. The expense decrease in fiscal year 2014 as compared with fiscal year 2013 was mainly driven by our continuing efforts to limit the growth of our operating expenses through initiatives that are helping drive operational improvement throughout our organization. Such expenses include a reduction of \$43,000 in consulting related services, a reduction of \$30,000 in travel related expenses and a reduction of \$13,000 in service related expenses.

We plan to continue investing in our domestic marketing activities to help build brand awareness and create sales leads for our channel partners. To the extent that the Company achieves higher sales levels, we anticipate that sales and marketing expense will increase in the future periods over the long term due to increased staffing levels as well as increased commission expense. We also anticipate that sales and marketing expenses will remain relatively flat in the short term due in part to our continued emphasis on expense control. If business conditions deteriorate or the rate of improvement does not meet our expectations, we may implement cost-cutting measures.

General and Administrative Expenses

General and administrative expenses consist of salaries and related expenses for executive, finance and administrative personnel, facilities, allowance for doubtful accounts, legal and other general corporate expenses.

General and administrative expenses decreased 18% to \$2.1 million in fiscal year 2014 from \$2.6 million in fiscal year 2013. As a percentage of revenue, general and administrative expenses decreased to 22% in fiscal year 2014 from 24% in fiscal year 2013. The expense decrease in fiscal year 2014 as compared with fiscal year 2013 was mainly driven by a reduction of 37% in legal expenses associated with corporate governance matters. Additional contributors to the expense decrease were our continuing efforts to limit the growth of our operating expenses through initiatives that are helping drive operational improvement throughout our organization.

We expect general and administrative expenses will remain relatively flat due in part to our continued emphasis on expense control.

Interest Expense and Other Income, Net

Interest expense consists primarily of interest charged on the outstanding borrowing of our revolving line of credit. Other income consists primarily of interest income earned on our cash and cash equivalents. For both fiscal years 2014 and 2013, the Company recorded \$16,000 as interest expense and \$4,000 as interest income.

Additionally, in September 2014, the Company reversed an accrual of \$338,000 in connection with a license agreement that never finalized. The accrual was established in 2003 through fiscal year 2011. Based on a recent assessment, management believes that the Company's liability is not probable and therefore has reversed the accrual and reported the reversal as other income in the fourth quarter of fiscal 2014.

Revolving Line of Credit

On September 1, 2014, the Company renewed its \$2.0 million Revolving Line of Credit Note (“Line of Credit”) with our primary financial lender, Wells Fargo Bank. Under the renewed terms, the line of credit was extended for a period of one year and expires on August 31, 2015. The total amount available for the Company to borrow remains \$2.0 million. Furthermore, the terms of the Line of Credit also require us to maintain restricted cash with Wells Fargo Bank equal to the aggregated principal amount of \$2.0 million as collateral. The restricted cash is recorded as part of our cash, cash equivalents and restricted cash in our consolidated balance sheets as of September 30, 2014. Under the amended credit agreement, we are not subject to any restrictive financial covenants.

The Line of Credit is available to finance working capital and for general corporate purposes and requires monthly interest payments based on the prevailing 30-day LIBOR rate plus 0.75% (1% at September 30, 2014), and the interest rate is reset monthly. For both fiscal years 2014 and 2013, the Company incurred approximately \$16,000 of interest expense associated with the line of credit.

As of September 30, 2014, the availability under the revolving line of credit was approximately \$456,000 and we had outstanding borrowings of \$1.5 million, which was included in current liabilities on the accompanying Consolidated Balance Sheet. The unpaid balance of this line of credit will increase and decrease with each new advance or payment hereunder, as the case may be. Any outstanding borrowings and accrued interest is due and payable in full on September 1, 2015.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity securities and cash flows from operations. As of September 30, 2014, total cash and cash equivalents represents approximately 79% of total current assets.

The following table shows the major components of our consolidated statements of cash flows for the last three fiscal years:

	Fiscal Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Cash and cash equivalents, beginning of period (1).....	\$ 2,942	\$ 2,739	\$ 2,760
Cash provided by (used in) operating activities	272	193	(1,427)
Cash (used in) provided by investing activities.....	(185)	10	182
Cash provided by financing activities	785	—	1,224
Cash and equivalents, end of period.....	\$ 3,814	\$ 2,942	\$ 2,739

(1) Amounts reflect reclassification for discontinued operations.

Cash provided by operating activities

Net cash provided by operating activities was \$272,000 for the year ended September 30, 2014. This was driven by a net loss of \$270,000 from continuing operations, a decrease of \$544,000 in net inventories, a decrease of \$311,000 in accrued liabilities and an increase of \$242,000 in deferred revenue. The cash impact was partially offset by depreciation and amortization expense of \$126,000 and stock-based compensation expense of \$135,000. Other non-cash factors contributing to net cash provided by operating activities include the following: net loss of \$620,000 from discontinuing operations and changes in operating assets and liabilities of \$398,000 as a result of the China subsidiary write-down.

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit— China segment. The resulting write-down had no impact on our cash and cash equivalents. For additional information, see “Discontinued Operations” above and Note 3 to the Consolidated Financial Statements.

Cash Used in Investing Activities

Cash used in investing activities was \$185,000 in fiscal year 2014. The Company spent approximately \$149,000 on capital expenditures related to technological equipment, software licenses and to a lesser degree office equipment. Additionally, during the second quarter of fiscal year 2014, we entered into a lease for a new corporate headquarters located in San Jose, California.

The lease agreement required a security deposit of approximately \$31,000, which is classified as long-term deposit in the Consolidated Balance Sheets.

Cash Provided by Financing Activities

Cash provided by financing activities was \$785,000 for the twelve months ended September 30, 2014, which was primarily the result of \$1.0 million in net proceeds to us from the private placement offering of our common stock that closed in December 2013. Additionally, in July 2014, the Company entered into an agreement with Lloyd I. Miller, the Company's largest shareholder, under which the Company repurchased 600,000 shares of our common stock from stockholders affiliated with Mr. Miller. The aggregate purchase price in the privately negotiated transaction was \$165,000, or \$0.275 per share. Furthermore, in the first half of fiscal 2014, net cash was used to pay down borrowing under our revolving line of credit of \$50,000.

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 over the next 12 months.

Our cash needs depend on numerous factors, including market acceptance of and demand for our products, our ability to develop and introduce new products 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, the timing and expense associated with expanding our distribution channels, increases in manufacturing costs and the prices of the components we purchase, as well as other factors. If we are unable to raise additional capital or if sales from our new products or enhancements are lower than expected, we will be required to make additional reductions in operating expenses and capital expenditures to ensure that we will have adequate cash reserves to fund operations.

Additional financing, if required, may not be available on acceptable terms, or at all. If we cannot raise additional funds in the future if needed, on acceptable terms, we may not be able to further develop or enhance our products, take advantage of opportunities, or respond to competitive pressures or unanticipated requirements, which could seriously harm our business. Even if additional financing is available, we may be required to obtain the consent of our stockholders, which we may or may not be able to obtain. In addition, the issuance of equity or equity-related securities will dilute the ownership interest of our stockholders and the issuance of debt securities could increase the risk or perceived risk of investing in our securities.

We did not have any material commitments for capital expenditures as of September 30, 2014. We had total outstanding commitments on non-cancelable operating leases of \$1.3 million as of September 30, 2014. Lease terms on our existing operating leases generally range from three to five years.

Contractual Obligations

The Company's existing facility lease expires in May 2019. The following table presents certain commitments that will require the use of cash in future periods under contractual obligations with minimum firm commitments as of September 30, 2014:

Contractual Obligations	Payments Due by Period				
	Total	Payments Due in Less Than 1 Year	Payments Due in 1 - 3 Years	Payments Due in 4 - 5 Years	Payments Due in More Than 5 Years
(In thousands)					
Operating leases obligation(1)	\$ 1,303	\$ 270	\$ 564	\$ 469	\$ —

(2) Refer to discussion of "Commitments and Contingencies" Note 5 to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

As of September 30, 2014, we did not have any off-balance sheet arrangements.

PART E - ISSUANCE HISTORY

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

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

Date of Issuance	Type of Security Issued	Person/Entity	Number of Shares of Underlying Common Stock	Per Share Exercise Price	Trading Status	Legend Yes/No
8/6/2014	Stock option	Employees	10,000	\$0.17	Restricted	Yes
4/23/2014	Stock option	Employees	15,000	\$0.18	Restricted	Yes
4/16/2013	Stock option	Employees	15,000	\$0.29	Restricted	Yes
11/13/2012	Stock option	Employees	20,000	\$0.31	Restricted	Yes

PART F - EXHIBITS

Item XVIII. Material Contracts

The Information required by this Item has been included in the Company's previous filings with the SEC and is herein incorporated by reference.

The following exhibits are included in this annual report for fiscal year 2014:

Exhibit Number	Description
1.1	Lease Agreement for 679 River Oaks Parkway, San Jose, California, dated as of December 31, 2013, between Montague Ridge LLC and AltiGen Communications, Inc.

Item XIX. Articles of Incorporation and Bylaws

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

Item XX. Purchases of Equity Securities by the Issuer and Affiliated Purchaser

In July 2014, the Company entered into an agreement with Lloyd I. Miller, the Company's largest shareholder, under which the Company repurchased 600,000 shares of our common stock from stockholders affiliated with Mr. Miller. The aggregate purchase price in the privately negotiated transaction was \$165,000, or \$0.275 per share. The repurchased shares represent approximately 2.6% of the Company's total shares outstanding prior to the transaction.

Item XXI. Issuer's Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

1. I have reviewed this annual disclosure statement of AltiGen Communications, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: December 23, 2014

/s/ Jeremiah J. Fleming

Jeremiah J. Fleming

Chairman of the Board, President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Philip McDermott, certify that:

1. I have reviewed this annual disclosure statement of AltiGen Communications, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: December 23, 2014

/s/ Philip McDermott

Philip McDermott

Chief Financial Officer and Director

ALTIGEN COMMUNICATIONS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Certain prior period information has been reclassified to conform to the current year presentation and to reflect the write-down of our wholly-owned subsidiary business unit as a discontinued operation. In the opinion of management, all adjustments considered necessary for a fair presentation have been included.

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

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Report of Independent Auditors	F-2
Consolidated Balance Sheets as of September 30, 2014 and 2013	F-3
Consolidated Statements of Operations and Comprehensive Loss for the years ended September 30, 2014, 2013 and 2012	F-4
Consolidated Statements of Stockholders' Equity for the years ended September 30, 2014, 2013, and 2012.....	F-5
Consolidated Statements of Cash Flows for the years ended September 30, 2014, 2013, and 2012	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT AUDITORS

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

Report on Financial Statements

We have audited the accompanying consolidated balance sheets of AltiGen Communications, Inc. and subsidiary (the “Company”) as of September 30, 2014 and 2013, and the consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years ended September 30, 2014, 2013 and 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AltiGen Communications, Inc. and subsidiary as of September 30, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years ended September 30, 2014, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ MOSS ADAMS LLP

San Francisco, California
December 23, 2014

ALTIGEN COMMUNICATIONS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30,	
	2014	2013
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash	\$ 3,814	\$ 2,942
Accounts receivable, less allowance for doubtful accounts of \$4 and \$66 at September 30, 2014 and 2013, respectively	472	467
Inventories	476	1,020
Prepaid expenses and other current assets	68	164
Current assets of discontinued operations	—	1,622
Total current assets	4,830	6,215
Property, plant and equipment, net	145	122
Long-term deposit	36	—
Non-current assets of discontinued operations	—	91
Total assets	<u>\$ 5,011</u>	<u>\$ 6,428</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 359	\$ 487
Accrued expenses	618	929
Deferred revenue, short-term	2,052	1,827
Revolving line of credit	1,544	1,594
Current liabilities of discontinued operations	—	997
Total current liabilities	<u>4,573</u>	<u>5,834</u>
Other long-term liabilities	188	106
Long-term liabilities of discontinued operations	—	7
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; Authorized—5,000,000 shares; Outstanding—none at September 30, 2014 and 2013	—	—
Common stock, \$0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—22,798,683 shares at September 30, 2014 and 16,732,016 shares at September 30, 2013	25	18
Treasury stock at cost—1,918,830 shares at September 30, 2014 and 1,318,830 shares at September 30, 2013	(1,565)	(1,400)
Additional paid-in capital	70,921	69,793
Accumulated other comprehensive income	—	311
Accumulated deficit	<u>(69,131)</u>	<u>(68,241)</u>
Total stockholders' equity	<u>250</u>	<u>481</u>
Total liabilities and stockholders' equity	<u>\$ 5,011</u>	<u>\$ 6,428</u>

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

ALTIGEN COMMUNICATIONS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	Fiscal Year Ended September 30,		
	2014	2013	2012
	(In thousands, except per share amounts)		
Net revenue:			
Hardware	\$ 3,240	\$ 4,518	\$ 7,414
Software	2,429	2,475	2,573
Service support.....	3,907	3,822	4,111
Total net revenue (1).....	9,576	10,815	14,098
Cost of revenue:			
Hardware	2,912	3,256	5,982
Software	60	24	26
Service support (2)	—	—	—
Total cost of revenue.....	2,972	3,280	6,008
Gross profit	6,604	7,535	8,090
Operating expenses:			
Research and development	2,874	3,059	3,767
Sales and marketing.....	2,209	2,298	3,128
General and administrative.....	2,116	2,574	2,394
Total operating expenses.....	7,199	7,931	9,289
Loss from continuing operations	(595)	(396)	(1,199)
Equity in net loss of investee	—	(3)	(58)
Interest and other income, net.....	326	(12)	(15)
Loss from continuing operations before income taxes	(269)	(411)	(1,272)
Income taxes	(1)	(1)	(1)
Loss from continuing operations after income taxes	\$ (270)	\$ (412)	\$ (1,273)
Discontinued operations:			
Loss from discontinued operations	(361)	(908)	(499)
Write-down of investment from discontinued operations.....	(259)	—	—
Total loss from discontinued operations	\$ (620)	\$ (908)	\$ (499)
Net loss	\$ (890)	\$ (1,320)	\$ (1,772)
Other comprehensive loss:			
Cumulative foreign currency translation	(311)	25	(40)
Total comprehensive loss	\$ (1,201)	\$ (1,295)	\$ (1,812)
Basic and diluted net loss per share	\$ (0.04)	\$ (0.08)	\$ (0.11)
Weighted average shares used in computing basic and diluted net loss per share	22,798	16,732	16,732

(1) Net revenue from continuing operations includes revenue generated from the following segments: North America and Rest of World.

(2) Service support cost represents less than 0.1% of our total cost of revenue.

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

ALTIGEN COMMUNICATIONS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2014, 2013 AND 2012

	<u>Common Stock</u>		<u>Treasury</u>	<u>Additional</u>	<u>Accumulated</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Stock</u>	<u>Paid-in</u>	<u>Other</u>	<u>Deficit</u>	<u>Stockholders'</u>
				<u>Capital</u>	<u>Comprehensive</u>		<u>Equity</u>
					<u>Income</u>		
(In thousands, except per share data)							
BALANCE, SEPTEMBER 30, 2011	16,732,016	\$ 18	\$ (1,400)	\$ 69,208	\$ 326	\$ (65,149)	\$ 3,003
Net loss	—	—	—	—	—	(1,772)	(1,772)
Cumulative foreign currency translation	—	—	—	—	(40)	—	(40)
Total comprehensive loss							(1,812)
Stock-based compensation	—	—	—	402	—	—	402
BALANCE, SEPTEMBER 30, 2012	16,732,016	18	(1,400)	69,610	286	(66,921)	1,593
Net loss	—	—	—	—	—	(1,320)	(1,320)
Cumulative foreign currency translation	—	—	—	—	25	—	25
Total comprehensive loss							(1,295)
Stock-based compensation	—	—	—	183	—	—	183
BALANCE, SEPTEMBER 30, 2013	16,732,016	18	(1,400)	69,793	311	(68,241)	481
Net loss – as restated, see Note 3	—	—	—	—	—	(890)	(890)
Cumulative foreign currency translation	—	—	—	—	(311)	—	(311)
Total comprehensive loss							(1,201)
Repurchase of treasury stock	(600,000)	—	(165)	—	—	—	(165)
Issuance of common stock in conjunction with private placement offering	6,666,667	7	—	993	—	—	1,000
Stock-based compensation	—	—	—	135	—	—	135
BALANCE, SEPTEMBER 30, 2014	22,798,683	\$ 25	\$ (1,565)	\$ 70,921	\$ —	\$ (69,131)	\$ 250

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

ALTIGEN COMMUNICATIONS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Cash flows from operating activities:			
Net loss from continuing operations.....	\$ (270)	\$ (412)	\$ (1,273)
Net loss from discontinued operations	(620)	(908)	(499)
Net loss	(890)	(1,320)	(1,772)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	126	156	189
Write-down of construction in progress	—	—	233
Stock-based compensation	135	183	402
Equity in net loss of investee	—	4	185
Changes in operating assets and liabilities:			
Accounts receivable	(5)	(31)	362
Inventories.....	544	538	1,108
Prepaid expenses and other current assets.....	96	(46)	78
Accounts payable	(128)	122	(1,747)
Accrued expenses.....	(311)	(80)	(136)
Deferred revenue.....	242	(211)	(348)
Other long-term liabilities	65	(46)	(59)
Net changes in assets and liabilities of discontinued operations..	398	924	78
Net cash provided by (used in) operating activities	272	193	(1,427)
Cash flows from investing activities:			
Changes in long-term deposits.....	(36)	—	201
Purchases of property and equipment	(149)	10	(19)
Net cash (used in) provided by investing activities	(185)	10	182
Cash flows from financing activities:			
Proceeds from sale of common stock	1,000	—	—
Repurchase of treasury stock	(165)	—	—
Proceeds from (payment to) line of credit.....	(50)	—	1,224
Net cash provided by financing activities	785	—	1,224
Net change in cash and cash equivalents during year	872	203	(21)
Cash and cash equivalents, beginning of year	2,942	2,739	2,760
Cash and cash equivalents, end of year	\$ 3,814	\$ 2,942	\$ 2,739

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

ALTIGEN COMMUNICATIONS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

AltiGen Communications, Inc. was incorporated in the state of California in May 1994, and reincorporated in the State of Delaware in June 1999. We are a leading provider of premise and cloud-based IP-PBX and Contact Center solutions. We design, deliver and support VoIP phone systems and call center solutions that combine high reliability with integrated IP communications applications. As one of the first companies to offer VoIP solutions, AltiGen has been deploying systems since 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying audited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In our opinion, these audited condensed consolidated financial statements include all adjustments necessary (which are of a normal and recurring nature) for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior year amounts in the consolidated financial statements and notes thereto have been reclassified to conform to the current year's presentation.

Our fiscal year end is September 30. Unless otherwise stated, all references to fiscal years 2014, 2013, and 2012 refer to the twelve months ended September 30 of that year.

Use of Estimates in Preparation of Financial Statements

The preparation of the financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods. Key estimates include provisions for excess and obsolete inventories, certain accruals including warranty, doubtful accounts reserve, valuation on tax assets, long-term investments and the fair value of stock options granted and outstanding. We believe that the estimates and judgments upon which we rely are reasonable based upon information available to us at the time that these estimates and judgments are made. To the extent there are material differences between these estimates and actual results, our consolidated financial statements will be affected.

Discontinued Operations

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit— China segment. Please refer to Note 3, "Discontinued Operations" of this annual report.

Reclassifications

Certain prior period information has been reclassified to conform to the current year presentation relating to the presentation of the Company's discontinued operations. Please refer to Note 3, "Discontinued Operations" of this annual report. The reclassification had no impact on the previously reported net loss or comprehensive loss.

Subsequent Events

We have performed an evaluation of subsequent events through December 29, 2014, the date on which these financial statements were disclosed on the OTCQX. There were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.

Concentration of Risk and Certain Significant Risks and Uncertainties

We purchase substantially all our hardware product components from three suppliers and purchase other manufacturing services from a relatively small number of suppliers. Our purchases are concentrated with these suppliers and certain key chip components of our products are sole sourced. For fiscal year 2014, these three suppliers provided approximately 61% of all raw materials purchased. The loss of one of these suppliers could adversely impact our operations.

We believe that changes in any of the following areas could have a material adverse effect on the Company's future financial position or results of operations:

- availability of necessary components;
- changes in customer relationships;
- risks associated with having a concentration of a few suppliers; and
- risks associated with changes in domestic and international economic and/or political conditions or regulations.

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and restricted cash, investments and accounts receivable. The Company invests its cash and cash equivalents in high credit-quality financial institutions. The Company is exposed to credit risk in the event of default by these institutions to the extent of the amount recorded on the consolidated balance sheet.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash on hand and highly liquid investments, such as time deposits. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash represents cash that serves as collateral for our revolving line of credit. The cash is restricted as to withdrawal or use and provides financial assurance that the Company will fulfill certain contractual obligations. At September 30, 2014, cash, cash equivalents and restricted cash totaled approximately \$3.8 million, as compared to \$2.9 million at September 30, 2013. Restricted cash represents approximately \$2.0 million and is recorded as part of our cash and cash equivalents in our consolidated balance sheets.

Accounts Receivable

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

The allowance for doubtful accounts reflects management's analysis of receivables and the probability of collecting those accounts. Trade accounts receivable are charged against the allowance when the Company determines that payments will not be received. Any subsequent receipts are credited to the allowance.

Inventories

Inventories (which include costs associated with components assembled by third-party assembly manufacturers, as well as internal labor and allocable overhead) are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market value. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. We regularly monitor inventory quantities on hand and record a provision for excess and obsolete inventories based primarily on our estimated forecast of product demand and production requirements for the next six months. We record a write-down for product and component inventories that have become obsolete or are in excess of anticipated demand or net realizable value. Raw material inventory is considered obsolete and is fully reserved if it has not moved in 365 days. During fiscal years 2014, 2013 and 2012, we recognized write-downs of \$120,000, \$10,000 and \$1.1 million, respectively, for excess and obsolete inventories.

The components of inventories include (in thousands):

	Fiscal Year Ended September 30,	
	2014	2013
Raw materials.....	\$ 134	\$ 213
Finished goods	342	807
Total	<u>\$ 476</u>	<u>\$ 1,020</u>

Property, Plant and Equipment, Net

Property, plant, and equipment are stated at cost, which includes purchase cost, applicable taxes and freight costs. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which is three years except for tooling and leasehold improvements. Our tooling is depreciated using the greater of the value using a five year straight-line method or the number of phones shipped in the period. We depreciate leasehold improvements over the shorter of the lease term or the improvement's estimated useful life. Depreciation expense for fiscal years 2014, 2013 and 2012, was approximately \$126,000, \$156,000 and \$189,000, respectively. Repairs and maintenance costs for all periods presented were immaterial and were expensed as incurred.

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

	Fiscal Year Ended September 30,	
	2014	2013
Machinery and equipment.....	\$ 66	\$ 60
Furniture and equipment	1,247	1,204
Tooling	960	960
Computer software	952	952
Leasehold improvements	206	106
Total	3,431	3,282
Accumulated depreciation and amortization	<u>(3,286)</u>	<u>(3,160)</u>
Property and equipment, net.....	<u>\$ 145</u>	<u>\$ 122</u>

Software Development Cost

The Company capitalizes eligible computer software development costs upon the establishment of technological feasibility, which it has defined as completion of a working model. The amount of costs eligible for capitalization, after consideration of factors such as realizable value, were not material and, accordingly, all software development costs have been charged to research and development expense in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

Revenue Recognition

Revenue consists of direct sales to end-users, resellers and distributors. Revenue from sales to end-users and resellers is recognized upon shipment, when risk of loss has passed to the customer, collection of the receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed and determinable. We provide for estimated sales returns and allowances and warranty costs related to such sales at the time of shipment. Net revenue consists of product revenue reduced by estimated sales returns and allowances. Sales to distributors are made under terms allowing certain rights of return and protection against subsequent price declines on our products held by the distributors. Upon termination of such distribution agreements, any unsold products may be returned by the distributor for a full refund. These agreements may be canceled without cause for convenience following a specified notice period. As a result of these provisions, we defer recognition of distributor revenue until such distributors resell our products to their customers. The amounts deferred as a result of this policy are reflected as "deferred revenue" in the accompanying consolidated balance sheets. The related cost of revenue is also deferred and reported in the consolidated balance sheets as inventory.

Software components are generally not sold separately from our hardware components. Software revenue consists of license revenue that is recognized upon delivery of the application products or features. We provide software assurance consisting

primarily of the latest software updates, patches, new releases and technical support. Revenue earned on software arrangements involving multiple elements is allocated to each element based upon the relative fair value of the elements. The revenue allocated to software support program is recognized with the initial licensing fee on delivery of the software. This software assurance revenue is in addition to the initial license fee and is recognized over a period of one to three years. The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing the services, including upgrades and enhancements, are spread over the life of the software assurance contract term.

Net revenue by customers that individually accounted for more than 10% of our revenue during fiscal years 2014, 2013 and 2012 is as follows:

	Fiscal Year Ended September 30,		
	2014	2013	2012
Synnex.....	22%	27%	28%
Fiserv.....	12%	12%	16%
Total	34%	39%	44%

Segment Reporting

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

The following table shows our sales by geographic region as percentage of total sales for the periods indicated:

	Fiscal Year Ended September 30,		
	2014	2013	2012
North America	99%	99%	94%
Rest of World	1%	1%	6%
Total	100%	100%	100%

Product Warranty

The Company provides a warranty for hardware products for a period of one year following shipment to end users. We have historically experienced minimal warranty costs. Factors that affect our reserves for warranty liability include the number of installed units, historical experience and management's judgment regarding anticipated rates of warranty claims and cost per claim. We assess the adequacy of our reserves for warranty liability every quarter and make adjustments to those reserves if necessary.

Changes in the Company's warranty liability for the fiscal years ended September 30, 2014 and 2013, respectively, are as follows (in thousands):

	Fiscal Year Ended September 30,	
	2014	2013
	(In thousands)	
Accrued warranty, beginning of year	\$ 91	\$ 122
Provision for warranty liability	51	73
Warranty cost including labor, components and scrap	(101)	(104)
Accrued warranty, end of year	\$ 41	\$ 91

Computation of Basic and Diluted Net Loss Per Share

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

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except net loss per share amounts):

	Fiscal Year Ended September 30,		
	2014	2013	2012
Net loss.....	\$ (890)	\$ (1,320)	\$ (1,772)
Weighted average shares outstanding—basic and diluted loss per share.....	22,798	16,732	16,732
Basic and diluted net loss per share.....	\$ (0.04)	\$ (0.08)	\$ (0.11)

Options to purchase 10.2 million, 4.4 million and 4.9 million shares of common stock were outstanding for the years ended September 30, 2014, 2013 and 2012, respectively, and were excluded from the computation of diluted net earnings per share for these periods because their effect would have been antidilutive.

3. DISCONTINUED OPERATIONS

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit— China segment. In order to provide a more meaningful comparison of our financial results, prior year results have been reclassified to reflect the discontinued China operations. As a result of this write-down, we categorize our operations into two reportable business segments: North America and Rest of World. Additionally, in connection with the discontinued China operation, a write-down of approximately \$620,000 was recorded in the second quarter of fiscal year 2014, which includes the investment in the subsidiary, accounts receivables and other assets and liabilities. The resulting write-down had no impact on our cash and cash equivalents.

The following table summarizes the components of assets and liabilities from discontinued operations for the period indicated (in thousands):

	Discontinued Operations Balance Sheet September 30, 2013
ASSETS	
Cash and cash equivalents.....	\$ 490
Accounts receivable	776
Allowance for doubtful accounts	(66)
Inventories.....	304
Prepaid expenses and other current assets.....	118
Total current assets related to discontinued operations	1,622
Property, plant and equipment, net.....	3
Non-current assets	88
Total assets related to discontinued operations	\$ 1,713
LIABILITIES	
Accounts payable	\$ 4
Accrued expenses	302
Deferred revenue, short-term	698
Total liabilities related to discontinued operations.....	\$ 1,004

The following table summarizes certain operating data for discontinued operations (in thousands):

	Discontinued Operations Income Statements September 30,		
	2014	2013	2012
Revenue	\$ 1,068	\$ 2,236	\$ 2,842
Cost of revenue	253	482	750
Gross profit	815	1,754	2,092
Operating expenses:			
Research and development	379	940	988
Sales and marketing	604	1,393	1,263
General and administrative	197	394	356
Total operating expenses	1,180	2,727	2,607
Loss from discontinued operations	(365)	(973)	(515)
Interest and other income, net	4	65	16
Write-down of investment in subsidiary	(259)	—	—
Net loss before taxes	(620)	(908)	(499)
Income taxes	—	—	—
Net loss from discontinued operations	<u>\$ (620)</u>	<u>\$ (908)</u>	<u>\$ (499)</u>

In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable at this time, therefore, we did not record any liabilities related to this matter in fiscal year 2014.

4. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

Equity Offering

In the first quarter of fiscal year 2014, the Company completed a private placement offering with certain accredited investors and management, pursuant to which the Company sold to the purchasers an aggregate of 6.7 million shares of Company common stock at a purchase price of \$0.15 per share for aggregate gross proceeds of \$1.0 million. Each purchaser also received a warrant to purchase one share of common stock for every share of common stock acquired in the offering with an exercise price of \$0.30 per share. The warrants are immediately exercisable and have a term of three years. The Company intends to use proceeds of the offering for working capital purposes. The securities offered pursuant to the private placement have not been registered under the Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

Stock Option Plans

On March 10, 2009, our 1999 Stock Plan (the "1999 Stock Plan") expired; however, the plan will continue to govern the securities previously granted under it. On April 21, 2009, our Board of Directors approved a 2009 Equity Incentive Plan (the "2009 Stock Plan" and together with the 1999 Stock Plan, the "2009 Stock Plan") was approved by our stockholders on June 18, 2009. The shares available for future grants under the 1999 Stock Plan rolled into the 2009 Stock Plan. Under the Plan, the Board of Directors may grant incentive stock options, non-qualified stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance units and performance shares to eligible employees, directors and consultants. In accordance with the 2009 Stock Plan, the exercise price per share for stock options cannot be less than 100% of the fair market value, as determined by the Board of Directors, on the date of grant. Additionally, 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. 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. Options under the 2009 Stock Plan will generally expire ten years after the date of grant. Upon approval of the 2009 Stock Plan, 6.5 million shares were reserved for issuance.

The foregoing statements are subject to, and are qualified in their entirety by reference to, the 1999 Stock Plan and 2009 Stock Plan described above and the forms of agreement hereunder, which have been filed as exhibits to the Company's Annual Report

on Form 10-K for the fiscal year ended September 30, 2003, and Registration Statement on Form S-8 on June 29, 2009, respectively.

As of September 30, 2014, shares of common stock issuable pursuant to outstanding awards granted under the 2009 Stock Plan and our previous stock plans were 3.5 million shares and there were 2.7 million shares reserved for future grants.

The following table summarizes the Company's stock option activities under the Stock Plans during the three fiscal years ended September 30, 2014, 2013 and 2012:

	Options Outstanding	Weighted Average Exercise Price
Outstanding at September 30, 2011	5,335,707	\$ 0.89
Options granted.....	20,000	\$ 0.34
Options exercised.....	—	\$ —
Options forfeited or expired.....	(419,581)	\$ 0.91
Outstanding at September 30, 2012	4,936,126	\$ 0.89
Options granted.....	35,000	\$ 0.30
Options exercised.....	—	\$ —
Options forfeited or expired.....	(541,798)	\$ 0.95
Outstanding at September 30, 2013	4,429,328	\$ 0.88
Options granted.....	25,000	\$ 0.18
Options exercised.....	—	\$ —
Options forfeited or expired.....	(896,644)	\$ 0.93
Outstanding at September 30, 2014	3,557,684	\$ 0.86
Exercisable at September 30, 2012	3,674,729	\$ 0.90
Exercisable at September 30, 2013	3,560,349	\$ 0.89
Exercisable at September 30, 2014	3,186,037	\$ 0.87

Total stock options vested and expected to vest at September 30, 2014 were 3.4 million shares with a weighted average exercise price of \$0.86, aggregate intrinsic value of \$70 and a weighted average remaining contractual term of 5.1 years. The total exercisable stock options as of September 30, 2014 were 3.2 million shares with an aggregate intrinsic value of \$0, weighted average exercise price of \$0.87 and a weighted average remaining contractual term of 5.0 years.

The Company has unamortized share-based compensation expense relating to options outstanding of \$190,000, which will be amortized to expense over a weighted average period of 4.1 years.

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

The table below provides the range of exercise prices of stock options outstanding and stock options exercisable at September 30, 2014:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.17 – \$0.72	118,281	5.15	\$ 0.44	69,740	\$ 0.58
0.73 – 0.74	599,051	5.37	\$ 0.74	599,051	\$ 0.74
0.75 – 0.86	2,126,352	4.73	\$ 0.86	1,837,934	\$ 0.86
0.87 – 0.90	20,000	4.15	\$ 0.90	20,000	\$ 0.90
0.91 – 0.92	485,000	6.34	\$ 0.92	469,792	\$ 0.92
0.93 – 1.15	140,000	6.44	\$ 1.03	120,520	\$ 1.03
1.16 – 1.30	41,000	1.56	\$ 1.30	41,000	\$ 1.30
1.31 – 1.34	5,000	3.12	\$ 1.34	5,000	\$ 1.34
1.35 – 2.00	3,000	0.82	\$ 2.00	3,000	\$ 2.00
2.01 – 2.98	20,000	0.12	\$ 2.98	20,000	\$ 2.98
\$0.17 – \$2.98	<u>3,557,684</u>	5.07	\$ 0.86	<u>3,186,037</u>	\$ 0.87

Employee Stock Purchase Plan

On April 21, 2009, our Board of Directors approved a 2009 Employee Stock Purchase Plan (the “2009 Purchase Plan”), which was approved by our stockholders on June 18, 2009. The 2009 Purchase Plan allows eligible employees to purchase shares of the Company’s common stock at a discount through payroll deductions. The 2009 Purchase Plan consists of six-month offering periods commencing on June 1st and December 1st, each year. Employees purchase shares in the purchase period at 85% of the market value of the Company’s common stock at either the beginning of the offering period or the end of the offering period, whichever price is lower.

Participants under the 2009 Purchase Plan generally may not purchase shares on any exercise date to the extent that, immediately after the grant, the participant would own stock totaling 5% or more of the total combined voting power of all stock of the Company, or greater than \$25,000 worth of stock in any calendar year. The maximum number of shares of common stock that any employee may purchase under the 2009 Purchase Plan during any offering period is 10,000 shares.

Under the plan, 1.3 million shares were reserved for future grants and a total of 221,129 shares were issued at an average price of \$0.60 per share.

During the second quarter of fiscal year 2012, the 2009 Purchase Plan was temporarily suspended. Therefore, the Company did not issue any shares under the ESPP during fiscal year 2014 and 2013.

The foregoing statements are subject to, and are qualified in their entirety by reference to, the 1999 Purchase Plan and 2009 Purchase Plan described above, which have been filed with the Securities and Exchange Commission (SEC) as exhibits to the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2002, and Registration Statement on Form S-8 on June 29, 2009, respectively.

Share-Based Compensation

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

The underlying weighted-average assumptions used in the Black-Scholes model and the resulting estimates of fair value per share were as follows for options granted during the twelve months ended September 30, 2014, 2013 and 2012:

Employee Stock Option Plans			
Fiscal Year Ended September 30,			
	2014	2013	2012
Expected life (in years)	7	7	7
Risk-free interest rate	1.5-1.7%	0.67-0.71%	0.62-0.91%
Volatility	146%-163%	113%-136%	93%-112%
Expected dividend	0.0%	0.0%	0.0%

The following table summarizes stock-based compensation expense related to employee and director stock options for the years ended September 30, 2014, 2013 and 2012:

	Fiscal Year Ended September 30,		
	2014	2013	2012
	(In thousands)		
Cost of goods sold	\$ —	\$ 1	\$ 8
Research and development	27	40	106
Sales and marketing	9	20	80
General and administrative	99	122	208
Total	<u>\$ 135</u>	<u>\$ 183</u>	<u>\$ 402</u>

5. COMMITMENTS AND CONTINGENCIES

Commitments

On December 31, 2013, the Company entered into a lease for a new corporate headquarters for a period of five years with an option to extend for an additional five years. This facility is leased through May 2019 and will serve as our headquarters in San Jose, California. Under the terms of the lease agreement, we will pay rent of approximately \$1.4 million for a period of five years. The terms of the lease required a security deposit of approximately \$31,000, which is classified as long-term deposit in the Consolidated Balance Sheets. Furthermore, the terms of the lease includes rent escalations and a tenant allowance of \$64,000 for certain leasehold improvements. The term of the lease commenced on May 15, 2014.

Future non-cancellable minimum lease payments under all operating leases as of September 30, 2014 are shown in the following table (in thousands):

Fiscal Year	Future Lease Payments
2015	\$ 270
2016	278
2017	286
2018	294
2019	175
Thereafter	—
Total	<u>\$ 1,303</u>

Contingencies

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit— China segment. In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such

contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable at this time, therefore, we did not record any liabilities related to this matter in fiscal year 2014.

On November 3, 2011, Klausner Technologies, Inc. filed a civil lawsuit in the United States District Court for the Eastern District of Texas naming the Company and alleging patent infringement. Klausner Technologies had asserted one patent purportedly relating to a telephone answering device that displays information about messages recorded within the device and provides selective access to those messages based on the displayed information. During the third quarter of fiscal 2014, Klausner Technologies, Inc. and the Company entered into a settlement agreement and the case was dismissed on May 19, 2014.

From time to time, we become involved in litigation claims and disputes 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 condition or cash flows. We currently are not aware of any legal proceedings or claims that we believe will have, individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

6. SHAREHOLDER RIGHTS PLAN

The Company adopted a Preferred Stock Rights Agreement (the “Plan”) and declared a dividend distribution of one right for each outstanding share of the Company’s common stock. The record date for the distribution was May 7, 2009. The Company designed the plan to protect the long-term value of the Company for its shareholders during any future unsolicited acquisition attempt. The Company did not adopt the Plan in response to any specific attempt to acquire the Company or its shares and the Company is not aware of any current efforts to do so. These rights will become exercisable only upon the occurrence of certain events specified in the Plan, including the acquisition of 15% of the Company’s outstanding common stock by a person or group. Should a person or group acquire 15% or more of the outstanding common stock or announce an unsolicited tender offer, the consummation of which would result in a person or group acquiring 15% or more of the outstanding common stock, shareholders other than the acquiring person may exercise the rights, unless the Board of Directors has approved the transaction in advance. Each right will initially entitle stockholders to purchase one one-thousandths (0.001) of the Company’s preferred stock for \$4.00. However, the rights are not immediately exercisable and will become exercisable only upon the occurrence of certain events. If a person or group acquires, or announces a tender or exchange offer that would result in the acquisition of, fifteen percent (15%) or more of our common stock while the stockholder rights plan remains in place, then, unless the rights are redeemed by us for \$0.001 per right, the rights will become exercisable by all rights holders, except the acquiring person or group, for shares of Altigen or shares of the third party acquirer having a value of twice the right’s then-current exercise price. The rights will expire on May 7, 2019 or upon earlier exchange or redemption of the rights as described above. The foregoing statements are subject to, and are qualified in their entirety by reference to, the Plan including the certificate of designation, the form of rights certificate and the summary of rights attached thereto, which have been filed as exhibits to the exhibit filed with the Company’s Registration Statement on Form 8-K on April 23, 2009.

7. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new standard on revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing and uncertainty of revenue and the related cash flows. The standard is effective for annual periods beginning after December 15, 2017 for nonpublic entities and early application is permitted for privately held companies for annual periods beginning after December 15, 2016. The Company is currently evaluating this new standard and the impact it will have on its financial statements, information technology systems, process and internal controls.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU 2014-15 provides guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is

effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is in the process of evaluating the provisions of ASU 2014-15.

8. INCOME TAXES

Worldwide loss from continuing operations before provision for income taxes consists of the following (in thousands):

	Years Ended September 30,		
	2014	2013	2012
United States (continuing operations)	\$ (270)	\$ (412)	\$ (1,273)
Foreign (discontinued operations).....	(620)	(908)	(499)
Net loss	<u>\$ (890)</u>	<u>\$ (1,320)</u>	<u>\$ (1,772)</u>

The provision for income taxes consisted of the following and is attributable to federal and state minimum taxes (in thousands):

	Years Ended September 30,		
	2014	2013	2012
Federal	\$ —	\$ —	\$ —
State	1	1	1
Foreign	—	—	—
Income tax provision.....	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 1</u>

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

	Years Ended September 30,	
	2014	2013
Net operating loss carryforwards	\$ 19,797	\$ 18,169
Reserve and other cumulative temporary differences	1,720	1,778
Research and development credit carryforward	<u>1,015</u>	<u>1,125</u>
	22,532	21,072
Valuation allowance.....	<u>(22,532)</u>	<u>(21,072)</u>
Net deferred tax asset.....	<u>\$ —</u>	<u>\$ —</u>

As of September 30, 2014, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$51.9 million that expire at various dates through 2034, and federal research and development tax credits of approximately \$903,000 that expire at various dates through 2034. The Company also had net operating loss carryforwards for state income tax purposes of approximately \$25.5 million that expire at various dates through 2034, and state research and development tax credits of approximately \$594,000 which do not have an expiration date and may be carried forward indefinitely. Utilization of the Company's net operating loss and tax credit carryforwards may be subject to substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

A valuation allowance has been recorded for the entire deferred tax asset as a result of uncertainties regarding realization of the asset, lack of profitability to date and uncertainty over future operating profitability and taxable income. During fiscal years 2014, 2013 and 2012, valuation allowance increased \$1.5 million, increased \$90,000 and decreased \$447,000, respectively. As of September 30, 2014 and 2013, the Company had no significant deferred tax liabilities.

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

	Years Ended September 30,		
	2014	2013	2012
Tax computed at federal statutory rate.....	35.0 %	35.0 %	35.0 %
Change in valuation allowance	(142.2)	(6.8)	25.2
State taxes	24.5	(8.2)	7.9
Meals & entertainment.....	(0.1)	(0.2)	(0.2)
Unbenefitted foreign loss.....	(8.2)	(17.4)	(8.8)
Stock-based compensation.....	(3.9)	(4.2)	(7.2)
ASC 740 liability	(4.1)	(6.6)	(1.1)
Expired net operating losses and credits	(113.6)	1.3	(72.5)
Tax loss on discontinued operations	219.3	—	—
Other	(6.7)	7.1	21.7
Provision for income taxes	—	—	—

In October 2007, the Company adopted the FASB's updated guidance related to income taxes, which establishes a single model to address accounting for uncertain tax positions. This updated guidance clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has reviewed its income tax positions and identified approximately \$1.3 million of total gross unrecognized tax benefits of which none, if recognized, would impact the effective tax rate as the Company has a valuation allowance on its carryforward attributes. The Company does not expect its unrecognized tax benefits to change materially over the next 12 months.

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

	Total Gross Unrecognized Tax Benefits
Balance at October 1, 2013.....	\$ 1,183
Additions based on tax positions related to the current year.....	119
Additions based on tax positions of prior years	—
Settlements of tax positions	—
Balance at September 30, 2014.....	\$ 1,302

Interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated condensed statements of operations and comprehensive loss did not change as a result of implementing the provisions of ASC 740. Management determined that no accrual for interest and penalties was required as of September 30, 2014.

The Company filed a consolidated U.S. income tax return and tax returns in various state and local jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such jurisdictions as United States and China. With some exceptions, the Company is no longer subject to U.S. federal, state or foreign income tax examinations for fiscal years before 1997. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or credit carryforward amount.

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

9. REVOLVING LINE OF CREDIT

On September 1, 2014, the Company renewed its \$2.0 million Revolving Line of Credit Note (“Line of Credit”) with our primary financial lender, Wells Fargo Bank. Under the renewed terms, the line of credit was extended for a period of one year and expires on August 31, 2015. The total amount available for the Company to borrow remains \$2.0 million. Furthermore, the terms of the Line of Credit also require us to maintain restricted cash with Wells Fargo Bank equal to the aggregated principal amount of \$2.0 million as collateral. The restricted cash is recorded as part of our cash, cash equivalents and restricted cash in our consolidated balance sheets as of September 30, 2014. Under the amended credit agreement, we are not subject to any restrictive financial covenants.

The Line of Credit is available to finance working capital and for general corporate purposes and requires monthly interest payments based on the prevailing 30-day LIBOR rate plus 0.75% (1% at September 30, 2014), and the interest rate is reset monthly. For both fiscal years 2014 and 2013, the Company incurred approximately \$16,000 of interest expense associated with the line of credit.

As of September 30, 2014, the availability under the revolving line of credit was approximately \$456,000 and we had outstanding borrowings of \$1.5 million, which was included in current liabilities on the accompanying Consolidated Balance Sheet. The unpaid balance of this Note shall increase and decrease with each new advance or payment hereunder, as the case may be. Any outstanding borrowings and accrued interest shall be due and payable in full on September 1, 2015.

10. SUBSEQUENT EVENTS

We have performed an evaluation of subsequent events through December 29, 2014, the date on which these financial statements were disclosed on the OTCQX. There were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.

LEASE AGREEMENT

between

Montague Ridge LLC

("Landlord")

and

AltiGen Communications, Inc.

("Tenant")

**679 River Oaks Parkway
San Jose, California**

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LEASE AGREEMENT

This Lease Agreement (this “**Lease**”) is dated December 31, 2013 and is between Montague Ridge LLC, a Delaware limited liability company (“**Landlord**”), and Altigen Communications, Inc., a Delaware corporation (“**Tenant**”).

1. Premises. Landlord leases to Tenant, and Tenant leases from Landlord, the premises at 679 River Oaks Parkway, San Jose, California depicted in **Exhibit A** (the “**Premises**”). The Premises are on the real property legally described in **Exhibit B** (the “**Land**”). The Land, the Premises, and the other buildings and improvements on the Land are the “**Project**”. The Project is part of the Montague Oaks project. The Premises, the Project, and the rest of the Montague Oaks project are depicted in **Exhibit A**. Landlord and Tenant agree the Premises will be deemed to contain 14,316 square feet of floor area for all purposes related to this Lease.

2. Tenant Improvements. Landlord agrees to construct tenant improvements in the Premises (the “**Tenant Improvements**”) in accordance with the space plan in **Exhibit C**. All work required to construct the Tenant Improvements, to put the existing mechanical, electrical, heating, ventilation and air conditioning and plumbing systems and fixtures in the Premises in good working order, and, if electricity and natural gas to the Premises are not already separately metered, to install separate electric and gas meters, is the “**Tenant Improvement Work**”.

3. Delivery and Acceptance of Possession. Landlord agrees to tender possession of the Premises to Tenant with the Tenant Improvement Work Substantially Completed (as defined below); the date it does so is the “**Delivery Date**”. The Tenant Improvement Work will be “**Substantially Completed**” when all of the following conditions have been satisfied: (i) Landlord has delivered to Tenant both a certificate of substantial completion signed by its architect and contractor on an AIA G704 or substantially similar form, and a temporary, conditional, or final certificate of occupancy issued by the appropriate governmental authority, or, if a certificate of occupancy is not available, the final sign off on the building permit, with the effect that Tenant is permitted to occupy and use the Premises; (ii) all mechanical, electrical, heating, ventilation and air conditioning and plumbing systems and fixtures in the Premises are in good working order; and (iii) Landlord and Tenant have conducted a walk-through of the Premises and have prepared a punch list of any items of the Tenant Improvement Work that need to be completed (the “**Punch List Work**”). Landlord agrees to give Tenant reasonable advance notice of the date for the walk-through and preparation of the punch list, and condition (iii) in the preceding sentence will be deemed satisfied on the earlier of the actual date the parties complete the walk-through and the punchlist or the date Landlord proposed for the walk through, as long as Landlord gives Tenant at least 5 days’ advance notice of the date for the walk-through. Subject only to Landlord’s obligations under Section 16 and to fully complete the Tenant Improvement Work (including the Punch List Work), Tenant agrees to accept the Premises on the Delivery Date in their “as-is”, “where-is” condition with all faults. Landlord agrees to complete all Punch List Work as soon after the Delivery Date as is reasonably practicable and, in doing so, to make good faith, reasonable efforts to avoid interfering with Tenant’s moving in and use of the Premises. Except for Landlord’s obligations to complete the Tenant Improvement Work and its maintenance, repair, and replacement obligations under Section 16, Landlord disclaims, and Tenant waives, any representation or warranty, whether express or implied, about the condition of the Premises or their suitability, safety, or fitness for Tenant’s intended use of the Premises or for any other purpose. Except for the Tenant Improvement Work, Landlord has no obligation to alter, remodel, repair, or improve any part of the Premises or any other part of the Project in connection with delivering possession of the Premises.

4. Allowance. Landlord agrees to pay Tenant a \$64,422 allowance within 15 days after the later of the Delivery Date or the date Tenant occupies the Premises.

5. Term.

(a) **Initial Term.** The “**Rent Commencement Date**” is the later of May 15, 2014 or the Delivery Date. The initial term of this Lease (the “**Initial Term**”) starts on the Delivery Date and ends at 5:00 p.m. San Jose time on the last day of the 60th full calendar month following the Rent Commencement Date; if the Rent Commencement Date is not the first day of a calendar month, the period from Rent Commencement Date until the end of the Initial Term will consist of the partial month starting on the Rent Commencement Date plus the following 60 full calendar months. The Initial Term, together with the Extension Term, if Tenant exercises the Extension Option, and any other extension or renewal of the term of this Lease, is the “**Term**”.

(b) **Optional Extension Term.** On the condition that Tenant is then occupying all or substantially all of the Premises for its business purposes in accordance with the Permitted Use and no Event of Default then exists, Tenant has one option (the “**Extension Option**”) to extend the Term for the 5 years (the “**Extension Term**”) that begin immediately after the Initial Term. The terms of this Lease will remain the same during the Extension Term except that Tenant agrees to pay Net Rent during the Extension Term at the prevailing market triple net rent rate for premises

of similar size, quality, and location, taking into account all relevant factors (including, without limitation the following factors: during the Extension Term Landlord will not be providing Tenant any tenant improvements, tenant improvement allowances or other inducements; and after the Prevailing Market Rate is determined for the first year of the Extension Term, it will increase by 3% in each year after the first year), and determined as of 9 months before the end of the Initial Term (the “**Prevailing Market Rate**”). Tenant can exercise the Extension Option only by delivering a written notice to Landlord that it is exercising the Extension Option (a “**Notice to Extend**”) at least 9 months but no more than 12 months before the end of the Initial Term. A Notice to Extend is irrevocable. The Extension Option will automatically expire if Tenant does not exercise it 9 months before the end of the Initial Term, time being of the essence. The Extension Option is personal to AltiGen Communications, Inc. and is not transferrable or assignable to any person other than a Permitted Transferee, whether by an Assignment or otherwise, and any attempt do so will make the Extension Option null and void. If AltiGen assigns or transfers this Lease to a Permitted Transferee and subsequently AltiGen ceases to be jointly and severally liable for the tenant’s obligations under this Lease, the Extension Option will terminate. If Tenant exercises the Extension Option and Landlord and Tenant do not agree in writing on the Prevailing Market Rate within 30 days after Tenant delivers the Notice to Extend (the “**Arbitration Deadline**”), the Net Rent for the first year of the Extension Term will be determined as follows:

- Each of Landlord and Tenant will appoint an arbitrator by written notice to the other within 30 days after the Arbitration Deadline. If one party does not, the one appointed arbitrator will make the determination alone. If both Landlord and Tenant appoint arbitrators, the two arbitrators will, within 10 days after being appointed, appoint a third arbitrator by notice to both Landlord and Tenant.

- Within 30 days after the third arbitrator is appointed, the three arbitrators will attempt to agree on the Prevailing Market Rate for the first year of the Extension Term using the definition of Prevailing Market Rate in this Section 5.b. If two or all three of the arbitrators agree on the Prevailing Market Rate for the first year of the Extension Term within the required 30-day period, the Prevailing Market Rate they agree on is the Prevailing Market Rate for the first year of the Extension Term. If none of the arbitrators agree on the Prevailing Market Rate for the first year of the Extension Term, the Prevailing Market Rate for the first year of the Extension Term will be the average of their three opinions of the Prevailing Market Rate for the first year of the Extension Term, except that (a) if only one of either the low opinion or the high opinion is more than 15% higher or lower than the middle opinion, it will be discarded and the Prevailing Market Rate for the first year of the Extension Term will be the average of the two remaining opinions, and (b) if both the low and high opinions differ from the middle opinion by more than 15%, the middle opinion will be the Prevailing Market Rate for the first year of the Extension Term.

- The arbitrators’ determination of the Prevailing Market Rate for the first year of the Extension Term in accordance with this Section 5.b is final and binding on Landlord and Tenant. Each party will pay the fees of the arbitrator it appoints, and they will split the fees of the third arbitrator. Each arbitrator must be either a licensed real estate broker with at least 10 years of continuous experience as a leasing broker for office and industrial property in Silicon Valley, or an MAI appraiser with at least 10 years of continuous experience appraising office and industrial property in Silicon Valley; provided that the third arbitrator selected by the arbitrators selected by Landlord and Tenant must be an MAI appraiser with at least 10 years of continuous experience appraising office and industrial property in Silicon Valley and must not have had any prior dealings with Landlord or Tenant or any of their respective affiliates. The arbitrators have no power or authority to add to, modify, or change any provision of this Lease.

6. Rent.

(a) **Net Rent.** In the following table, “**Lease Months**” means full calendar months during the Term, and the first Lease Month is the first full calendar month starting on or after the Rent Commencement Date. Tenant agrees to pay net rent (“**Net Rent**”) to Landlord in the following amounts during the following periods:

Lease Months	Monthly Net Rent	Monthly Net Rent per square foot
Rent Commencement Date through Lease Month 12	\$22,190	\$1.55
13-24	\$22,855	\$1.5965
25-36	\$23,541	\$1.6444
37-48	\$24,247	\$1.6937
49-60	\$24,975	\$1.7446

Landlord and Tenant intend this Lease to be a “triple net” lease and agree that, except to the extent this Lease provides to the contrary, Net Rent is absolutely net to Landlord of all costs of owning, insuring, operating, maintaining, repairing, and rebuilding the Project.

(b) **Operating Costs and Taxes.** In addition to Net Rent, Tenant agrees to pay to Landlord Tenant’s Share of Operating Costs and Taxes in monthly installments that are due and payable in advance on or before the first day of each calendar month, starting on the Rent Commencement Date and throughout the remainder of the Term, in the estimated amount for which Landlord invoices Tenant, subject to annual reconciliation under Section 6.c. However, if the Rent Commencement Date is not the first day of a calendar month, the Tenant’s Share of Operating Costs and Taxes for the calendar month in which the Rent Commencement Date occurs will be prorated as of the Rent Commencement Date and is due on the Rent Commencement Date.

▪ **“Tenant’s Share”** means a fraction, the numerator of which is the ground floor area of the Premises and the denominator of which is the ground floor area of all leasable areas of the Project excluding any part of the Common Areas. The Project is conclusively deemed for all purposes to contain approximately 86,227 square feet of floor area on the date of this Lease, except that if the measurement of the Premises is changed from 14,316 square feet under Section 1, the area of the Project will be adjusted by the same amount. If Landlord constructs additional leasable area in the Project, or if Landlord physically eliminates existing leasable area, Landlord will adjust Tenant’s Share at any time to reflect such change in the gross leasable area of the Project. In addition, Landlord may at any time exclude portions of the Land described in **Exhibit B** from the Project for the purposes of Operating Costs and Taxes; if it does so, Landlord will determine Operating Costs and Taxes and Tenant’s Share based only on the remaining portion of the Land within the Project, and the term “Project” will, for all purposes related to this Lease, refer only to that remaining portion of the Land. For the purposes of this Lease, the term “ground floor area” does not include any basements, mezzanines, or any other areas above or below the main floor level of the Project, and no such area will be used in determining Tenant’s Share. Landlord represents that, on the date of this Lease, none of the other premises in the Project have mezzanines or basements.

▪ Subject only to the limitations in the second paragraph of this Section 6.b(ii), **“Operating Costs”** means all actual costs of every nature that Landlord pays or becomes obligated to pay, because of or in connection with owning, managing, operating, maintaining, repairing, preserving, and replacing the Project. Operating Costs include, without limiting the generality of the foregoing definition, all costs relating to the following: • all insurance premiums and related costs for insurance that Landlord is obliged or elects to obtain for the Project, including but not limited to deductibles payable by Landlord under any insurance policy; • sweeping, cleaning, gardening, and landscaping; • garbage collection and disposal from the Common Areas and all leasable premises in the Project, except that if Landlord bills Tenant separately for garbage collection from the Premises, Operating Costs will exclude the cost of garbage collection from the other leased premises in the Project, and except that the denominator of the Tenant’s Share for the purposes of garbage collection costs will be the leased areas of the Project; • electrical service and all other utility services consumed at the Project, but not including utility services consumed in any leased premises within the Project, and water and sewer service for the Project, including all water and sewer services consumed in all leased premises in the Project, • security and traffic control in the Project; • all remuneration, including wages and medical benefits of personnel and employees (at the level of project manager and below) employed or engaged in the operation, maintenance, repair, replacement, supervision, and management of the Project and all payroll taxes, workers’ compensation, unemployment insurance, disability benefits insurance, and similar contributions, and expenses incurred by such personnel and employees in carrying out the operation, maintenance, repair, replacement, supervision and management of the Project, and uniforms and related expenses for such personnel and employees; • the operation of, and maintenance, repairs, and replacements to, the Common Areas and to the roof structure, roof membrane, exterior walls, foundations, floors, and other

structural components of the Project buildings, including, without limitation, maintaining all services and utilities and all repairs and replacements to all signs, machinery, equipment, facilities, and systems and property installed in or used in connection with the Project, including any repairs and replacements required to comply with then-current Laws (but only to the extent any instances of non-compliance occur with respect to Laws enacted after the Delivery Date), except that all capital costs that exceed \$5,000 per item will be amortized in the manner described in the second paragraph of this Section 6.b(ii); • repairs and replacements to and maintenance and operation of signs relating to the Project, whether owned or rented by Landlord and whether or not located in the Project; • engineering, accounting, legal and other consulting and professional services to the extent related to day-to-day operation of the Project, including the cost of preparing statements respecting Project expenses; • costs Landlord incurs in connection with the Project such as maintaining and sweeping and cleaning municipal sidewalks, bus-stop shelters, and other adjacent property; any and all other expenses, including equipment rental, related to the existence of the Common Areas and their use by and for the benefit of the tenants of the Project and their employees, licensees and invitees; and • a property management fee equal to 3% of the Net Rent; provided that Landlord may not collect from Tenant and all other tenants in the Project and any other person or entity (including insurance companies) for the same expense or cost more than once, regardless of the manner in which such expense or cost is characterized, collected, or recouped.

Notwithstanding the definition of “Operating Costs” in the preceding paragraph, all capital costs that exceed \$5,000 per item will be amortized over Landlord’s reasonable estimate of the customary economic life of each such item, together with interest on the unamortized cost at the rate of interest charged by Landlord’s Mortgagee, if any or, if there is no Landlord’s Mortgagee, at the Wall Street Journal “Prime Rate” on the first business day of each year with respect to any calendar year, except that amortization of capital costs may not exceed 7% of Tenant’s Share of Operating Costs and Taxes in any calendar year. Also notwithstanding anything in the definition in the preceding paragraph to the contrary, “Operating Costs” does not include the cost of any of the following: ○ the act, omission or violation of any law, agreement, covenants, conditions, and restrictions and rules and regulations applicable to the Project by Landlord or any other tenant of the Project; ○ repairs or replacements required by Law on the date of this Lease; ○ work or expenses paid for under warranties or guarantees, by insurance proceeds, by condemnation proceeds, by other tenants of the Project, or by any other person; ○ interest, amortization, or other payments on loans or ground leases; ○ the funding of any expense reserves; ○ leasing commissions and other similar payments paid to agents or employees of Landlord, independent brokers and other persons and all other expenses incurred in attracting tenants, including tenant improvement allowances and other lease inducements; ○ attorney, accounting, consulting, and other professional fees incurred in negotiating or enforcing leases, in disputes with tenants, in obtaining or negotiating financing, in marketing or selling all or any part of the Project, in zoning proceedings or actions, or otherwise in connection with an activity unrelated to the operation or maintenance of the Project; ○ any construction, renovation, or improvement of leasable space for other tenants of the Project; ○ any items and services for which Tenant otherwise reimburses Landlord; ○ any advertising, marketing, and publicity expenditures; ○ cleaning up or removing Hazardous Materials, except for the cost of purchasing, using, handling, and disposing of Hazardous Materials in the ordinary course of operating, maintaining, and repairing the Project, including but not limited to cleaning chemicals, construction materials, batteries, and fluorescent tubes; ○ wages, compensation, and labor burden for any employee to the extent such employee’s time is not devoted to the Project; ○ depreciation; ○ income, excess profits, franchise taxes, or other such taxes imposed on or measured by Landlord’s income from the Project; ○ overhead and profit paid to Landlord’s subsidiaries or affiliates for services related to the Project to the extent the cost of such services exceeds competitive costs charged by firms that are not related to Landlord; ○ installing, operating, and maintaining any specialty service in the Project, such as but not limited to, luncheon club, cafeteria, retail store, sundry shop, newsstand, concession, athletic or recreational club, fitness room or daycare center; ○ insurance premiums to the extent any tenant causes Landlord’s insurance premiums to increase; ○ penalties and interest for late payment, including, without limitation, taxes, insurance, equipment leases, and other past due amounts; ○ contributions to charitable organizations; ○ acquiring, installing, moving, insuring, or restoring objects of art; ○ obtaining permits for work or improvements to the extent the cost of such work and improvements are not includable in Operating Costs; ○ contributions to operating expense reserves; and ○ repairs, replacements or other work occasioned by fire, windstorm, earthquake or other casualty, or the exercise by governmental authorities of the right of eminent domain, other than insurance deductibles under Landlord’s casualty insurance, which are included in Operating Costs.

▪ **“Taxes”** means all taxes, assessments, and other governmental charges, general and special, ordinary and extraordinary, of any kind and nature whatsoever, including but not limited to assessments for public improvements or benefits against the Project that are payable to any lawful authority. “Taxes” also includes any tax, assessment, excise, or surcharge of any kind with respect to all or any part of the Rent or the

parking areas or the number of parking spaces in the Project, and all costs Landlord incurs in contesting or negotiating the valuation of the Project or the amount of Taxes, provided that if Landlord obtains a refund, Landlord will apply it against the Taxes during the period covered by the refund and will pay Tenant any refund or credit that applies. "Taxes" does not include: (i) penalties and interest resulting from Landlord's delinquency in the payment of taxes; (ii) any succession, transfer, gift, capital levy, or corporation tax levied against Landlord; or (iii) any real estate transfer tax, mortgage lien tax, documentary stamp tax, or recording fees. Tenant waives any right to contest any Taxes, but this does not preclude Tenant from contesting taxes imposed on Tenant's property.

(c) **Annual Statements of Operating Costs.** Within 180 days after the end of each of Landlord's fiscal years during the Term, Landlord will deliver to Tenant a reasonably detailed statement of the Operating Costs and Taxes for that fiscal year (the "**Annual Statement**"). If an Annual Statement reveals that Tenant paid more for Operating Costs and Taxes than the actual Tenant's Share of Operating Costs and Taxes for the year covered by the Annual Statement, Landlord will, at its option, within 30 days, either credit or reimburse Tenant for the excess, except that if the Term has expired, Landlord may apply the excess to any unpaid Rent or to the cure of any default by Tenant, and Landlord will reimburse any remaining amount to Tenant within 30 days after Tenant satisfies all of its obligations and liabilities under this Lease. If an Annual Statement reveals that Tenant paid less for Operating Costs and Taxes than the actual Tenant's Share of Operating Costs for the year covered by the Annual Statement, Tenant will, within 30 days after demand, pay the deficiency to Landlord. Landlord's failure to deliver an Annual Statement when due does not waive Landlord's right to collect any underpayment and does not affect Tenant's right to collect any overpayment until Landlord delivers the Annual Statement. During the 12 months after Tenant receives each Annual Statement, Tenant may review Landlord's records of Operating Costs and Taxes for the year covered by that Annual Statement. Tenant may challenge the amount of any Operating Costs and Taxes according to that Annual Statement by delivering to Landlord a written notice specifically describing the item or items Tenant is challenging and the reason for its challenge within 12 months after receiving the Annual Statement. If Tenant timely challenges the amount of any Operating Costs and Taxes set forth in an Annual Statement and Landlord and Tenant do not resolve the challenge within 60 days after Tenant's challenge, either party may initiate arbitration proceedings in Santa Clara County in accordance with the rules of the American Arbitration Association in order to resolve the matter. If, as a result of a challenge, Tenant establishes that Landlord overcharged for Operating Costs and Taxes in any year by more than 2.5%, Landlord will reimburse Tenant for its reasonable cost of auditing Landlord's Annual Statement, not to exceed \$2,500. Tenant will pay Landlord any underpayment, and Landlord will refund any overpayment to Tenant, within 30 days after a challenge is resolved, whether by agreement or by arbitration. Except for any items Tenant expressly challenges in writing within 12 months after receiving an Annual Statement, each Annual Statement will become final and accepted by both Landlord and Tenant at the end of such 12-month period and Tenant will be deemed to have fully and forever waived any claim or demand with respect to Operating Costs and Taxes for the year covered by that Annual Statement.

(d) **Definition of Rent.** "**Additional Rent**" means all of the following: (i) Tenant's Share of Operating Costs and Taxes; (ii) all utility costs for which Tenant is responsible under Section 9; (iii) all late charges under Section 6.f; (iv) any amortization of the cost of replacing HVAC units under the second paragraph of Section 15; and (v) all other fees, charges, and other amounts this Lease obligates Tenant to pay to or for Landlord's benefit or to any person other than Landlord. "**Rent**" means, collectively, Net Rent and Additional Rent.

(e) **Payment of Rent and Application of Payments.** Tenant agrees to pay all Rent to Landlord without any notice or demand except to the extent this Lease expressly provides to the contrary, and without any abatement, deduction, credit, or offset of any kind. Tenant agrees to pay all Rent to the person and at the address that Landlord designates in writing. All Rent is expressed and due in U.S. Dollars. Tenant's obligation to pay Rent is independent from Landlord's obligations and liabilities under this Lease and from Landlord's warranties and representations, express or implied, that relate in any way to this Lease or the Premises. Landlord has the same rights under California law for any non-payment of Additional Rent as Landlord would have for non-payment of Net Rent, but Additional Rent is not rent for the purpose of any rent or similar tax. Landlord may, in its sole discretion, apply any payments from Tenant (whether equal to or less amount than the amount Tenant owes) to any Rent or other debts Tenant then owes in any order Landlord elects in its sole discretion. No endorsement or statement on any check or other payment or in any letter accompanying any check or other payment will be effective as an accord and satisfaction or bind Landlord or limit any of Landlord's rights. Landlord's acceptance of any check or other payment in partial payment of any past-due Rent does not waive Landlord's right to receive all past-due Rent in full and does not waive Landlord's right to evict Tenant or exercise any other right or remedy Landlord has with respect to any past-due Rent or other default by Tenant.

(f) **Late Payment.** If Tenant does not pay any Rent when due and does not cure the default within 5 business days after written notice, Landlord may elect, in its sole discretion, to charge either or both (i) an additional 5% of the delinquent amount to compensate Landlord for its costs incurred in connection with the late payment, and (ii) interest on the unpaid amount from the date due at a per-annum rate equal to Wall Street Journal "Prime Rate for the first business day of the applicable calendar year plus 4% but not more than the maximum interest rate permitted by applicable Laws (the **"Interest Rate"**). Tenant must pay any such late fee and interest to Landlord together with the next monthly installment of Rent coming due after Landlord gives Tenant written notice of the charge. Landlord's election not to charge a late fee or impose any interest that it would be entitled to charge with respect to any particular month or period of months does not waive Landlord's right to do so at any later time, regardless of any pattern of late payment by Tenant, and Tenant waives any such defense to the payment of any late fee or interest that Landlord elects to charge under this Section 6.f. Nothing in this Section 6.f in any way authorizes or permits Tenant to pay any Rent after the date the Rent is due. The parties agree that such late fees and interest are liquidated damages for late payment and represent a fair and reasonable estimate of the costs that Landlord will incur because of late payment by Tenant. Landlord's acceptance of any late fee or interest or any partial payment of any past-due Rent does not waive Tenant's default with respect to the delinquent amount and does not prevent Landlord from exercising any of its other rights and remedies with respect to Tenant's default under this Lease.

(g) **Tenant's Personal Property Taxes.** Tenant must pay, before delinquency, all taxes assessed or levied on its occupancy of the Premises, or on Tenant's leasehold improvements, trade fixtures, furnishings, equipment, and all other personal property in the Premises, and when possible, Tenant will cause such leasehold improvements, trade fixtures, furnishings, equipment, and other personal property to be assessed and billed separately from the Project or Landlord's property. If any or all of Tenant's leasehold improvements, trade fixtures, furnishings, equipment, and other personal property, or Tenant's occupancy of the Premises, is assessed and taxed with Landlord's property, Tenant agrees to pay to Landlord its share of such taxes within 10 days after Landlord delivers a written statement of the amount of such taxes that apply to Tenant's personal property.

7. **Prepaid Rent.** On the same day Tenant signs and delivers this Lease, Tenant agrees to pay to Landlord \$28,439 to be applied to the first monthly installment of Net Rent and Operating Costs.

8. **Security Deposit.** On the same day Tenant signs and delivers this Lease, Tenant agrees to pay Landlord \$31,307 (the **"Security Deposit"**) to secure Tenant's payment and performance of its obligations and liabilities under this Lease. The Security Deposit is not an advance payment of Rent nor a measure or limit of Landlord's damages for any default by Tenant. Landlord may, at any time an Event of Default exists, without prejudice to any other remedy, use all or a part of the Security Deposit to perform or satisfy any obligation or liability that Tenant does not pay or perform under this Lease. Following any such application of the Security Deposit, Tenant agrees to pay to Landlord, within 10 days after demand, the amount Landlord applied in order to restore the Security Deposit to its original amount. Landlord will return to Tenant the unapplied portion of the Security Deposit within 30 days after the later of (i) the last day of the Term, or (ii) the day Tenant fully pays and performs all of its obligations and liabilities (or the day Landlord performs such obligations on behalf of Tenant). Landlord may commingle the Security Deposit with other funds, and no interest will accrue or be owed on the Security Deposit. If Landlord transfers its interest in the Premises and transfers the Security Deposit to the transferee, Landlord will have no obligation or liability to Tenant with respect to the return of the Security Deposit.

9. **Utilities.** As soon as is practicable after the Delivery Date, Tenant will cause each utility provider, other than the water and sewer utility provider, to set up an account for the Premises in Tenant's name and to bill Tenant directly for all utilities supplied to the Premises from the Delivery Date throughout the Term. Tenant will pay when due for electrical service, water, sewer service, natural gas, telecommunications services, garbage removal, and all other utility services supplied to or consumed in, at, or from the Premises and all related access charges and connection fees, including the cost of any separate metering other than for electricity and gas. No discontinuance of any utility service to the Premises will entitle Tenant to terminate this Lease, to any abatement of or credit against any Rent, or to any damages or any other relief from Landlord. The cost of water and sewer service for the entire Project, including all leased premises, is currently included in Operating Costs. If any utility expenses other than water and sewer service are not billed or metered separately to Tenant, Tenant agrees to pay to Landlord, on the first day of each calendar month throughout the Term, the amount that Landlord reasonably estimates or determines is attributable to Tenant's use of the utilities or similar services.

10. **Permitted Use, Restrictions on Use.** Tenant may use and occupy the Premises during the Term for general office purposes, including but not limited to administration, research and development and any other related lawful use (the **"Permitted Use"**), but not for any other purpose. Tenant will not use, and will not permit any other Tenant Party to use, the Premises for any retail or residential purpose or for any purpose that is prohibited by or will cause a cancellation of any

insurance policy that covers the Project, or that will increase the cost of any insurance that covers Project. Tenant will not commit, or permit any other Tenant Party to commit, any waste in the Premises, or any public or private nuisance, or any other act or thing that disturbs or offends Landlord or any other tenant in the Project or interferes with the quiet enjoyment of any other tenant. Tenant will not permit any objectionable odors, smoke, dust, gas, noise, or vibrations to emanate from the Premises. Tenant will not do anything in the Premises or anywhere else in the Project that will damage the Premises or the Project and Tenant will not overload the floor capacity of the Premises or the Project. Tenant will not, and will not permit any other Tenant Party to, use any machinery or equipment that in any manner injures, vibrates, or shakes the Premises. Tenant will not, and will not permit any other Tenant Party to, conduct any sale by auction, any fire sale, or any bankruptcy or going-out-of-business sale in the Premises. Tenant will not, and will not permit any other Tenant Party to, broadcast from the Premises any music, public addresses, or advertisements, or maintain or display in the Premises or in the Project any excessively bright lights, changing, flashing, or flickering lights or lighting devices. Tenant will not, and will not permit any other Tenant Party to, dump, place or leave any garbage or waste except in trash containers placed inside exterior enclosures that Landlord designates for that purpose. Tenant will not permit, and will not permit any other Tenant Party to, dispose of any Hazardous Materials through the Premises' plumbing or sewage system.

11. Common Areas. All areas of and improvements installed or constructed in the Project that Landlord designates at any time, exclusive of areas leased or designated for immediate lease to tenants, are the "**Common Areas**". Tenant has the nonexclusive right to use the Common Areas, except for the roof, maintenance and utility areas, storage areas, and landscaped areas, and any other areas Landlord designates as not for common use, in common with all other occupants of the Project and their employees, licensees, and invitees, subject to any reasonable rules and regulations Landlord prescribes at any time, including but not limited to designating employee parking areas reasonably close to the Premises in which the employees of Tenant and any subtenant, licensee, or concessionaire are required to park their vehicles. Landlord has no obligation to enforce any rules and regulations or any lease against any other tenant or occupant of any part of the Project. Landlord may close off or restrict access to any part of the Common Areas for the minimum time reasonably necessary to prevent the public or any other person from obtaining rights in the Common Areas, by adverse possession or otherwise, to perform repairs and replacements, and to construct new improvements. So long as Tenant at all times has reasonable access to the Premises and the reasonable ability to use the parking rights granted in this Lease, Landlord reserves the right at any time to alter or add to any improvements on the Project, including building additional stories, eliminating buildings, building additional buildings, building elevated or multi-level parking facilities, increasing or decreasing the land area of the Project, and changing the name, address, or other designation by which the Project is commonly known, all without any liability to Tenant for business interference or interruption or additional expense or inconvenience to any Tenant Party.

12. Compliance with Laws and Recorded Matters. Tenant's right to use the Premises and the Common Areas is subject to Tenant's obligation to comply at its sole cost with, and to cause its subtenants, any other sub occupant of the Premises, and their employees, agents, representatives, licensees, contractors, and invitees (each of Tenant and such other persons is a "**Tenant Party**") to comply with, the following: (i) all statutes, laws, rules, regulations, ordinances, codes, permits and orders of all federal, state and local governments, departments and agencies that apply to the Premises, including but not limited to the condition of, and Tenant's use, occupancy or alteration of the Premises (collectively, "**Laws**"); (ii) all documents, matters, and instruments that have been or are in the future recorded in the real estate records (collectively, the "**Recorded Matters**"), except that Tenant has no obligation to pay any fees or amounts the Recorded Matters obligate the owner of the encumbered land to pay, and except that Tenant will not be bound by the terms of any Recorded Matter first recorded after the date of this Lease to the extent such future Recorded Matter materially reduces Tenant's rights or increases Tenant's obligations under this Lease; and (iii) the requirements of any insurance underwriting board, inspection bureau or insurance carrier insuring the Premises or any other part of the Project. Tenant is solely responsible for ensuring that the Premises meet Tenant's needs, and that each Tenant Party's occupancy and use of the Premises complies with all Laws and Recorded Matters throughout the Term. Tenant will perform, at its sole cost, any modifications to the Premises, the Common Areas, or any other part of the Project that any Law requires because of Tenant's special needs, use, or business. Except as provided in the immediately preceding sentence, Tenant has no obligation to modify the Premises, the Common Areas, or any other part of the Project. This Lease will remain in full force and effect notwithstanding any loss of use or other effect on Tenant's enjoyment of the Premises as the result of any Laws that are now in effect or that first come into effect in the future.

13. Signs. Tenant may place its sign on the front exterior wall of the Premises, but only if the sign complies with the sign criteria for the Project and all Laws, and only after obtaining Landlord's written consent to the sign. It is reasonable for Landlord to withhold its consent to Tenant's sign on the front exterior wall of the Premises if the proposed sign does not comply with any reasonable sign criteria for the Project that Landlord promulgates or is not reasonably harmonious with the other tenant signs in the Project. Tenant may not place, or permit any other Tenant Party to place, any other sign, marquee, awning, banner, decoration, or other attachment (any of such items being a "**Sign**") on the roof, on the front or side exterior walls of the Premises, on the exterior windows of the Premises, or in any other area of the Project. No Sign may be flashing, moving, or

audible, or have exposed neon tubes, exposed ballast boxes or exposed transformers, and no part of any Tenant Party's Sign may be anywhere on the front or side exterior walls of any other leasable space in the Project. Tenant will, at its sole cost, obtain all required governmental permits and approvals for the installation, maintenance, and replacement of each Sign. Tenant will, at its sole cost, maintain all Signs in first-class condition, and will promptly perform all repairs and replacements needed to keep its Signs in first-class condition. Landlord may enter the Premises and remove any Sign this Lease does not permit and Tenant will pay Landlord's cost of removing any such Sign.

14. Parking. Tenant may use, at no additional cost, on a non-exclusive basis in common with the other occupants and users of the Project and their employees, agents, customers, and invitees, 53 regular passenger vehicle parking stalls in the Project ("**Tenant's Number of Stalls**"). Tenant does not have the right to reserved parking stalls or to have any parking stalls designated as being for Tenant's use. Landlord may designate and re-designate for the exclusive use of other particular tenants, particular parking stalls or areas in the Project, as long as Landlord continues to provide Tenant the nonexclusive right to use Tenant's Number of Stalls. Landlord may tow any vehicles that are parked where they are not permitted and charge the vehicle owner for the towing costs and charges. Tenant will comply with, and cause all Tenant Parties to comply with, all reasonable parking rules and regulations that Landlord establishes. Tenant will reimburse Landlord for all reasonable costs it incurs in enforcing parking rules and regulations against Tenant or any other Tenant Parties and will indemnify and defend Landlord against all claims and liabilities from reasonable enforcement efforts. In addition, whenever Landlord reasonably believes Tenant Parties may be using more than Tenant's Number of Stalls, Landlord may require Tenant to devise, institute, and enforce, at Tenant's sole cost, reasonable parking control measures that ensure Tenant Parties do not use more than Tenant's Number of Stalls.

15. Tenant's Maintenance and Repair Responsibilities. Except for repairs during the first 6 months that Landlord agrees to perform under the first sentence of Section 16, and except with respect to HVAC replacements under the second paragraph of this Section 15, Tenant will, at its sole cost, perform all maintenance, repairs, and replacements to all parts of the Premises (excluding only the roof membrane, roof structure, the foundation, the exterior face of exterior walls, the load-bearing portions of load-bearing walls, and any other structural elements of the Premises) that are necessary to keep the Premises sanitary, neat, presentable, and in good working order, condition, and repair at all times. Without limiting the generality of the preceding sentence, Tenant's maintenance, repair, and replacement obligations under this Section apply to, but are not limited to, all of Tenant's signs; all windows, doors, truck doors, and other penetrations in the outer walls of the Premises; all loading docks and lifts that serve the Premises; all portions of all walls other than the exterior face of exterior walls and the load-bearing portion of load-bearing walls, floor coverings, and ceilings; all HVAC equipment and systems that serve the Premises; all other mechanical, electrical, plumbing, lighting, life-safety, and utility systems, equipment, conduits, pipes, ducts, and lines that serve only the Premises; and all fixtures and appliances inside the Premises. Tenant will also repair, or reimburse Landlord for, any blockage of or damage to the sewer lines and sewer system at the Project that results from anything that enters the sewer lines from the Premises. Except to the extent Landlord provides garbage removal, Tenant will provide and pay for all garbage removal from the Premises. If Landlord designates a garbage removal service at a commercially reasonable cost, Tenant will use that service and pay Tenant's Share of the cost on the first day of each calendar month in advance. Tenant will perform all repairs and replacements with materials and with workmanship commensurate with the rest of the building. Tenant will, at Tenant's sole cost, maintain throughout the Term a contract or contracts with a contractor or contractors specializing and experienced in the maintenance of HVAC equipment, for the maintenance of the HVAC equipment serving only the Premises that requires that the filters be changed at least every 90 days. Notwithstanding the preceding sentence, Landlord may at any time, upon 30 days' notice to Tenant, enter into such a contract or contracts and Tenant will reimburse Landlord for the cost of all such HVAC maintenance within 30 days after demand.

If any of the rooftop HVAC units that serve the Premises must be replaced, (i) Tenant will give Landlord notice, (ii) Landlord will replace the HVAC unit or units, (iii) the cost of the replacement will be amortized over the useful life of the unit, and (iv) Tenant will pay the amortized cost, including interest at the rate charged by Landlord's Mortgagee, if any or, if there is no Landlord's Mortgagee, at the Wall Street Journal "Prime Rate", in monthly installments until the Term ends or the cost is fully amortized, whichever occurs first.

16. Landlord's Maintenance and Repair Responsibilities. During the first 6 months after the Delivery Date, Landlord will make any repairs to the electrical, mechanical, heating, ventilation, and air conditioning and plumbing systems in the Premises required to keep them in good working order at Landlord's sole cost without reimbursement through Operating Costs. Landlord will, subject to reimbursement under Section 6.b. for all of the following that are Operating Costs, maintain, repair, replace, and keep clean and in good working order throughout the Term: the Common Areas; the exterior surface of all exterior walls, but not including any exterior improvements or elements installed by or for any Tenant Party; the load-bearing elements of load-bearing walls; the foundation of the Premises; the roof structure; the roof membrane; and any other structural elements of the Premises. If Tenant believes any part of the Premises needs repairs that Landlord is responsible for under this Lease, Tenant will give Landlord prompt written notice and Landlord will not be responsible for not making any such repairs

until a reasonable time after Landlord received Tenant's written notice. Landlord's obligation under this Section is limited to only the repairs this Section requires Landlord to make and Landlord is not liable for any damages or injury arising out of any condition or occurrence that causes a need for such repairs. Tenant waives all rights under and benefits of California Civil Code Sections 1932(1), 1941, and 1942 and under any similar law, statute, or ordinance now or hereafter in effect.

17. Tenant's Alterations. "**Alterations**" means all improvements any Tenant Party constructs in the Premises, all alterations and modifications any Tenant Party makes to the Premises, and all equipment and personal property that becomes a fixture upon being installed in or attached to the Premises in any manner by any Tenant Party. Tenant may not make any Alterations without Landlord's written consent, except that Tenant does not need Landlord's consent to make non-structural Alterations that do not affect building systems and cumulatively cost less than \$25,000 per year. It is reasonable for Landlord to withhold or condition its consent to any Alteration that would affect the building's structure or its HVAC, plumbing, electrical systems, or other mechanical systems, and any alteration or improvement to the exterior of the Premises. Landlord may also, in its sole discretion, condition its consent to any Alterations on the right to require Tenant to remove some or all of those Alterations at the time the Term or Tenant's right to possession ends. Tenant will construct and install all Alterations at its sole risk and expense, in a good and workmanlike manner, in accordance with any plans and specifications that Landlord has approved in writing, and in accordance with all Laws. Landlord's approval of any plans and specifications for any Alterations is not a representation by Landlord that such Alterations comply with any Law. Tenant will not make any Alterations that results or would result in a labor dispute or otherwise would materially interfere with Landlord's operation of the Project. Subject to applicable Law, if any work results in a labor dispute, Tenant will stop the work immediately, remove the workers, contractors, or mechanics responsible for the dispute, and replace them with workers, contractors and mechanics reasonably acceptable to Landlord and whose work will not result in a labor dispute. The Tenant Improvements and any other Alterations are Tenant's property until the earlier of the end of the Term or the termination of Tenant's right to possession, but upon the earlier of the end of the Term or the termination of Tenant's right to possession, all Alterations will automatically become Landlord's sole property without signing or delivering any document or taking any action, and without any additional payment or other consideration from Landlord. Notwithstanding the foregoing, Landlord is entitled, for tax purposes, to depreciation with respect to the Tenant Improvements in the amount of the Allowance and any other allowance Landlord pays. Tenant will not remove any Alterations from the Premises except removable trade fixtures that Tenant installs at its own cost. Tenant will repair any damage that results from removing any Alterations. Tenant will perform all such removals and repairs in a good and workmanlike manner. If Tenant does not remove any Alterations that Landlord requires it to remove, Tenant will reimburse Landlord for the cost of removing them and repairing all damage. Any work involving a penetration of any part of the roof of the Project (including installation of any satellite system and work on the rooftop HVAC unit by Tenant's contractor) or that might otherwise affect the integrity of the roof or any roof warranty is "**Roof Work**". Tenant will, at least 10 days before starting any Roof Work, deliver detailed plans and specifications for such Roof Work for Landlord's approval. Tenant will use Landlord's roofing contractor or another qualified roofing contractor that Landlord approves in writing for all Roof Work. Tenant will perform all Roof Work only in accordance with the detailed plans and specifications that Landlord approves. If any Roof Work adversely affects the integrity of the roof or voids or adversely affects any roof warranty Tenant will, within 30 days after demand, pay Landlord for all costs and damages Landlord incurs as a result.

18. Liens. Before starting any work or services that could give rise to a lien, Tenant will post on the Premises a Notice of Non-Responsibility and give Landlord at least 10 days' notice before the work starts so that Landlord can confirm that the Premises have been properly posted, and Tenant will maintain the posting as long as is necessary to give effective notice that Landlord has not authorized and is not responsible for any lienable work, materials, or services. Landlord's consent to any work does not constitute Landlord's authorization of such work or services for the purposes of any lien law, and will not subject Landlord's interest in the Project to liability under any lien law. Tenant must pay when due all labor, material, and services provided to or for Tenant's benefit in connection with the Premises, and Tenant will keep the Project free from any liens arising out of any labor, materials, or other services provided to or for Tenant's benefit. Upon Tenant's receipt of a preliminary 20-day notice filed by a claimant in accordance with California Civil Code Section 3097 or any successor or similar statute, Tenant will immediately give Landlord a copy of the notice. If any lien is recorded or otherwise placed on all or any part of the Project because of any such labor, materials, or services, Tenant will immediately give Landlord written notice of the lien and remove it of record within 10 days after it receives notice of the lien. If Tenant does not remove the lien within 10 days, Landlord may, but has no obligation to, remove the lien of record by bond, payment, or other means and Tenant will pay Landlord the full cost of removing the lien within 10 days after demand, including all attorney fees. Tenant is solely responsible for all work, materials, and other services provided with respect to the Premises during the Term except for the Tenant Improvements. If Tenant is required to post an improvement bond with a public agency in connection with any work performed by Tenant on or to the Premises, Tenant will include Landlord as an additional obligee.

19. Insurance and Indemnification.

(a) **Tenant's Insurance.** Tenant will, at Tenant's sole cost, but for the benefit of both Landlord and Tenant, obtain and maintain throughout the entire Term: (i) commercial general liability insurance on an occurrence form covering claims for bodily injury, death, personal injury or property damage occurring on, in or about the Premises with a combined single limit of not less than \$3,000,000 (which amount may be satisfied by Tenant's umbrella policy), including blanket contractual liability coverage to insure Tenant's performance of its indemnity obligations under this Lease; (ii) special form property insurance coverage in the amount of the full replacement value of the Tenant Improvements and any additional Alterations; (iii) workers compensation insurance as required by Law; (iv) employer's liability insurance, as required by Law, in the amount of \$1,000,000 each accident for bodily injury, \$1,000,000 policy limit for bodily injury by disease and \$1,000,000 each employee for bodily injury by disease; and (v) automobile liability insurance including coverage for owned, hired, and non-owned automobiles. Not more frequently than every 3 years, if, in the opinion of a qualified insurance broker or insurance consultant selected by Landlord, the amount of public liability or property insurance coverage this Lease requires is not adequate, Tenant will increase the insurance coverage to such commercially reasonable levels as the broker or consultant recommends. Tenant will pay in full all insurance premiums when due.

(b) **Landlord's Insurance.** Landlord will maintain special form property insurance coverage in the amount of the full replacement value of the roof, exterior walls, exterior doors and windows, foundation, floor, and other structural components of the building in which the Premises are located (collectively, the "**Building Shell**") and the Common Areas. Neither Tenant nor any of its affiliates or subtenants is liable to Landlord for any loss or damage (including loss of income), regardless of cause, resulting from any cause covered by the property insurance this Section requires Landlord to maintain. Landlord's property insurance may include rent loss coverage, flood insurance, or earthquake insurance, but Landlord has no obligation to maintain any of those coverages. Landlord is not obligated to insure the Tenant Improvements or any other Alterations that Tenant or any other Tenant Party constructs or installs.

(c) **Policy Requirements.** All insurance policies this Lease requires either Landlord or Tenant to maintain must name the other party as an additional insured and must be written with insurance companies licensed to do business in the State of California, with an A.M. Best's rating of A-VII or better. In addition, Landlord may require Tenant to have Landlord's Mortgagee named as an additional insured or loss payee on the insurance this Lease obligates Tenant to maintain. Before the Delivery Date, Tenant will deliver to Landlord certificates of insurance evidencing that all insurance this Lease requires Tenant to maintain is in full force and effect. If any insurance this Lease requires Tenant to maintain is cancelled or not renewed or is materially changed, Tenant will give Landlord written notice within 10 days after Tenant becomes aware that coverage has ended or will end or has been or will be materially changed, whichever occurs first. Tenant must deliver renewal certificates for each policy by the later of 30 days before the policy is set to expire or 2 business days after Tenant receives them. All insurance this Lease requires Tenant to maintain must, except for workers' compensation and employer's liability insurance, be primary, without right of contribution from any insurance maintained by Landlord, whose insurance is excess insurance only. Any umbrella liability policy or excess liability policy must provide that if the underlying aggregate is exhausted, the excess coverage will drop down as primary insurance. The limits of insurance Tenant maintains do not limit Tenant's liability under this Lease. The insurance this Lease requires Tenant to maintain must cover all damage or injury that results from Tenant's operations of its business or any Tenant Party's use of the Premises or any other part of the Project, whether such events occur in the Premises or in any other part of the Project, so that Tenant's insurance carriers, and not Landlord's, bear such risks of loss.

(d) **Indemnification.** Landlord will indemnify and defend Tenant and its officers, directors, equity interest owners, and employees against all losses, damages, claims, lawsuits, actions, judgments, and costs, including reasonable attorney fees, that arise from injury to or death of persons or damage to property in the Common Areas, to the extent covered or coverable by general commercial liability insurance, except to the extent caused by Tenant's intentional acts or intentional omissions or Tenant's breach of this Lease. Tenant will indemnify and defend Landlord, any Mortgagee, and their officers, directors, stockholders, and employees against all losses, damages, claims, suits or actions, judgments and costs (including reasonable attorney fees) that arise from injury to or death of persons or damage to property in the Premises, to the extent covered or coverable by general commercial liability insurance, except to the extent caused by Landlord's intentional acts or intentional omissions or Landlord's breach of this Lease.

(e) **Waiver.** Each of Landlord and Tenant releases the other from any claim for any injury to or death of any person or persons or damage to or theft, destruction, loss, or loss of use of any property, or for any loss or damage caused by fire or any other casualty, to the greater of the extent such loss is insured against under any property

insurance policy the releasing party actually maintains, or to the extent such loss would be insured by any property insurance policy this Lease requires the releasing party to maintain, regardless of whether the negligence of the other party caused or contributed in any manner to such loss, and regardless of whether the releasing party is self-insuring any such risk. If any other part of this Lease conflicts with this Section 19.e, this Section 19.e controls.

(f) **Increase in Premiums.** Tenant will pay any increase in the premiums for any insurance policies Landlord maintains that results from any use Tenant makes of the Premises. In determining whether increased premiums are the result of Tenant's use of the Premises, a schedule, issued by the organization making the insurance rate on the Premises, showing the various components of such rate, will be conclusive evidence of the items and charges that make up the insurance rate on the Premises. Tenant will reimburse Landlord for any such additional premiums within 30 days after receiving Landlord's written invoice.

20. Landlord's Right to Enter. Tenant grants Landlord and its authorized representatives the right, upon reasonable prior notice, except in the case of an emergency, to enter the Premises at all reasonable times to: (i) inspect the Premises; (ii) perform any obligations this Lease requires or permits Landlord; (iii) show the Premises to prospective purchasers, current and, during the last 9 months of the Term, prospective investors, current and prospective lenders, and prospective tenants; (iv) post notices; (v) maintain, repair, or alter the Premises or any other parts of the Building; and (vi) cure any breach of this Lease by Tenant. In entering the Premises under this Section, Landlord will make reasonable efforts to minimize any interference with Tenant's business use of the Premises. Landlord may use any and all means Landlord deems necessary to enter the Premises in an emergency. Tenant waives any claim for damages or for any injury or inconvenience to or interference with Tenant's business, or any other loss caused by any entry by Landlord in the Premises except for any claim arising out of (a) the intentional misconduct of Landlord or its agents, employees, contractors or invitees, or (b) Landlord's failure to make good faith, reasonable efforts to minimize interference with Tenant's use and occupancy of the Premises. Tenant reserves the right to have a representative of Tenant accompany Landlord during any entry; provided that the unavailability of a representative of Tenant to so accompany Landlord will not prevent Landlord from exercising its entry rights under this Section.

21. Damage or Destruction. If fire or any other casualty makes all or any part of the Premises (excluding the Tenant Improvements and any other Alterations) untenable and if the Building Shell can reasonably be expected to be repaired within 270 days after the date of the casualty, Landlord will repair and restore the Building Shell to substantially the condition in which Landlord delivered it to Tenant on the Delivery Date and Tenant will, as soon as is reasonably practicable, restore the remainder of the Premises to substantially the same condition that existed before the casualty and reopen for business, and this Lease will remain in full force and effect, except that following such casualty and during Landlord's repair and restoration work Rent (including Tenant's payments of Operating Costs and Taxes) will abate in proportion to the area of the Premises that is untenable. If fire or any other casualty makes all or any part of the Premises untenable and the Building Shell cannot reasonably be expected to be repaired within 270 days from the date of the casualty, either Landlord or Tenant, by written notice to the other within 90 days from the date of the casualty, may terminate this Lease effective as of the date of such notice (and for the portion of the Term following the casualty until such notice, Rent will abate and Tenant's Share shall be adjusted as set forth above). If more than 50% of the value of the Project is damaged or destroyed by fire or any other casualty, and regardless of whether such damage or destruction can be repaired within 270 days, then at Landlord's option, by written notice to Tenant within 90 days after the date of the casualty, Landlord may terminate this Lease effective on a date within 270 days after the date of the notice to Tenant. Landlord's obligation to perform any repairs and restoration is limited to the amount of the actual net insurance proceeds it receives plus its deductible, or that it would have been entitled to receive if Landlord had maintained the property insurance this Lease requires it to maintain, plus deductible. Accordingly, if any Mortgagee refuses to release the proceeds of any casualty insurance to be applied to the repair and restoration of the Premises, Landlord may terminate this Lease upon written notice to Tenant. Each of Landlord and Tenant waives its rights under California Civil Code sections 1932(2) and 1933(4) (which permit the termination of a lease upon destruction of the leased premises), and agrees that this Section governs with respect to any damage to or destruction of the Premises or any other part of the Project.

22. Condemnation. If all or any part of the Premises is permanently taken or condemned under any Law, or by right of eminent domain, or by private purchase in lieu of condemnation (a "**Taking**"), or a material portion of the Common Areas serving the Premises is permanently taken and that Taking materially interferes with Tenant's use of the Premises, the Term will end on the date possession is to be taken by the authority and Tenant must pay all Rent due up to that date, and Tenant waives any claim against Landlord or the authority effecting the Taking for the value of the unexpired portion of the Term or for damages or for any other reason, except that Tenant reserves the right to make a separate claim against the authority effecting the Taking for reimbursement of its relocation expenses and for the value of its movable personal property in the Premises. If a Taking occurs and this Lease is not terminated under the preceding sentence, this Lease will remain in full force and effect and Tenant has no right to any part of any award. Tenant's rights under this Section are its sole and exclusive rights with respect to any Taking. To the maximum extent permitted by Law, Tenant waives the benefits of any Law that gives

Tenant any abatement or termination rights or any right to receive any payment or award in connection with any Taking other than the rights this Section gives Tenant. Each of Landlord and Tenant waives its rights under Section 1265.130 of the California Code of Civil Procedure (which allows either party to petition the Superior Court to terminate this Lease in the case of a partial Taking of the Premises).

23. Assignment, Subletting, and Change in Control. “**Lease Transfer**” means any of the following: (i) any assignment or other conveyance or transfer of any or all of Tenant’s rights or obligations under or interest in this Lease (an “**Assignment**”); (ii) any sublease of all or any part of the Premises or other grant to any other person of any right to occupy or use all or any part of the Premises (a “**Sublease**”); or (iii) any mortgage, security interest, or other lien or encumbrance on any or all of Tenant’s interest in this Lease or in the Premises. Tenant agrees not to cause or permit any Lease Transfer without Landlord’s prior written consent, except that Landlord agrees that Tenant may, without Landlord’s consent, enter into an Assignment or Sublease with or to a parent, subsidiary, or other entity that owns and controls, or is owned and controlled by Tenant, or is under common ownership and control with Tenant, as a result of a merger or otherwise, or acquires all or substantially all of Tenant’s assets and will continue to carry on Tenant’s business at the Premises (a “**Permitted Affiliate Lease Transfer**”). The transferee of a Permitted Affiliate Lease Transfer is a “**Permitted Transferee**”. It is reasonable for Landlord to withhold or condition its consent to any Lease Transfer other than a Permitted Affiliate Lease Transfer if, among other things: (a) Tenant has requested a change in the Permitted Use; or (b) the Lease Transfer requires any Mortgagee’s consent and the Mortgagee does not consent. If Tenant enters into any Assignment, including any Permitted Affiliate Lease Transfer, the assignee must sign and deliver to Landlord an assumption of all of the tenant’s obligations and liabilities under this Lease that arise or relate to any time on and after the Assignment. If Tenant enters into any Assignment or Sublease other than a Permitted Affiliate Lease Transfer, Landlord is entitled to receive, as Additional Rent, 50% of the excess of (1) all sublease rent, any fee paid in connection with any Assignment, and all other consideration or compensation of any nature whatsoever that Tenant receives for or in connection with any Assignment or Sublease for use of the Premises, less any brokers’ commission and attorneys’ fees Tenant pays as a result of the Assignment or Sublease, to the extent the commission does not exceed a market rate commission, less the reasonable cost of any work Tenant performs in the Premises or any tenant improvement allowance Tenant pays, and less unamortized TIs and less the fair market value of any personal property transferred to the assignee or sublessee, over (2) the Rent allocable to the portion of the Premises covered by the Assignment or Sublease. Landlord’s consent to any particular Lease Transfer is not consent to any other Lease Transfer. This prohibition against assigning or subletting without consent includes a prohibition against any assignment or subletting by operation of law. If Tenant enters into any Assignment or Sublease, Landlord has the right to collect rent or receive rent directly from the assignee, subtenant, or occupant and apply the net amount collected to the Rent, but such collection or receipt of rent will not be deemed a consent to such Assignment or Sublease. Notwithstanding any Lease Transfer, including any Permitted Affiliate Lease Transfer, either without or without Landlord’s consent, Tenant and any guarantor of Tenant’s obligations under this Lease will remain fully and primarily liable for all of the obligations and liabilities of the tenant under this Lease, jointly and severally with the assignee or other transferee, during the remainder of the Term, except that if this Lease is Assigned to a person who is not an affiliate of AltiGen Communications, Inc., or if a Permitted Transferee ceases to be an affiliate of AltiGen, AltiGen’s liability will terminate at the end of the then-current Term and AltiGen will not be liable for any increase in the Tenant’s obligations or liabilities under this Lease after the Tenant ceases to be an affiliate of AltiGen. Except pursuant to a public offering or if Tenant is publicly traded, if all or any part of the ultimate beneficial ownership interests in Tenant are transferred in any manner, in one or more transactions, including but not limited by sale, assignment, bequest, inheritance, merger, consolidation, redemption, issuance of new interests, operation of Law, or any disposition so as to result in a change in the present effective voting control of Tenant by the person or persons holding such voting control on the date of this Lease, that event will constitute an Assignment for the purposes of this Section. Tenant agrees to make available to Landlord or its lawful representatives all organizational books and records of Tenant for inspection at all reasonable times, to ascertain whether there has in fact been a change in control. If Tenant requests Landlord’s consent to any Lease Transfer, Tenant will pay Landlord \$500 for Landlord’s internal costs for considering such request, and will also reimburse Landlord, promptly upon demand, for all reasonable attorney fees, not to exceed \$2,500, that Landlord incurs in connection with the request.

Other than for a Permitted Affiliate Lease Transfer, if Tenant requests Landlord’s consent to an Assignment of the Lease, or to a Sublease of substantially all of a Building for substantially all of the remaining Term, Landlord has the right to terminate the Lease, if the transfer is of the entire Premises, or recapture the applicable portion of the Premises, as applicable, upon written notice to Tenant (the “**Recapture Right**”). If Landlord exercises this Recapture Right, the Lease will terminate, or the relevant portion of the Premises will be excluded from the Premises under this Lease, as applicable, effective on the date the proposed Assignment or Sublease would have occurred, except that Tenant may nullify the recapture by withdrawing its request for an Assignment by written notice to Landlord within 10) business days after Tenant receives Landlord’s notice it is exercising of the Recapture Right.

24. Events of Default. Any one or more of the following will, at Landlord’s option, constitute an “**Event of Default**” under this Lease:

(a) **Rent Default.** Tenant does not pay any installment of Rent as and when due and the failure continues for 5 days after Tenant's receipt of written notice of delinquency, except that if Landlord delivers a written notice of a Rent default, Tenant is not entitled to notice of any Rent default in the following 12 months, and any Rent default during those 12 months will be an Event of Default without notice.

(b) **Non-Rent Default.** Tenant does not comply with any term of this Lease other than its obligation to pay Rent and either: (i) Tenant does not cure the default within 30 days after notice (or within any shorter cure period this Lease provides for), or (ii) if Tenant can reasonably cure the default but not within 30 days after notice, (a) Tenant does not promptly start to cure the default but not later than within 30 days after notice, (b) Tenant does not continue to diligently pursue a reasonable cure, (c) Tenant does not act in good faith, or (d) Tenant does not complete its cure of the default within a reasonable time after the written notice.

(c) **Guarantor Default.** Any guarantor of Tenant's obligations under this Lease defaults under its guaranty and the default continues beyond any notice and grace period to which the guarantor is entitled, or such guarantor dies, becomes legally incompetent, is dissolved, or is liquidated.

(d) **Insolvency.** Any of the following (collectively, "**Events of Bankruptcy**"): (i) Tenant or any guarantor of Tenant's obligations under this Lease becomes insolvent, as that term is defined in Title 11 of the United States Code entitled Bankruptcy, 11 U.S.C. §101 et seq. (the "**Bankruptcy Code**"), or under the insolvency Laws of any State, District, Commonwealth or territory of the United States ("**Insolvency Laws**"); (ii) the appointment of a receiver or custodian for any and all of the property or assets of Tenant or any guarantor of Tenant's obligations under this Lease, or the institution of a foreclosure action upon any of the real or personal property of Tenant or any guarantor of Tenant's obligations under this Lease; (iii) the filing of voluntary petition under the provisions of the Bankruptcy Code or Insolvency Laws by Tenant or any guarantor of Tenant's obligations under this Lease; (iv) the filing of an involuntary petition against Tenant or any guarantor of Tenant's obligations under this Lease as the subject debtor under the Bankruptcy Code or Insolvency Laws that either is not dismissed within 30 days of filing, or results in the issuance of an order for relief against the debtor, whichever is later; (v) the making or consenting to an assignment for the benefit of creditors or a common law composition of creditors by Tenant or any guarantor of Tenant's obligations under this Lease; or (vi) the filing of petition or other action to reorganize or modify the capital structure of Tenant or any guarantor of Tenant's obligations under this Lease if Tenant or such guarantor is a corporation or other business entity.

25. Remedies.

(a) **Remedies for an Event of Default.** At any time after the occurrence of an Event of Default:

Remain out of Possession. Landlord may remain out of possession of the Premises and sue Tenant at any time for all past-due Rent, for specific performance of Tenant's obligations under this Lease, and for any other damages or injunction to which Landlord is entitled.

Terminate Right to Possession Only. Landlord may, without demand or notice to Tenant, terminate Tenant's right to possession of the Premises only without terminating this Lease or the Term, in which case Landlord has the option to pursue any one or more of the following remedies without any notice or demand whatsoever:

Landlord is entitled to take possession of the Premises. If Tenant or any other Tenant Party does not surrender possession, Landlord is entitled to evict such Tenant Party pursuant to California law without being liable for prosecution or any claim for damages. No eviction action, and no reentry or accepting or taking possession of the Premises by Landlord constitutes an election by Landlord to terminate this Lease, and Tenant waives any claim that Landlord has terminated this Lease unless Landlord delivers an express written notice of termination to Tenant.

Landlord may perform on Tenant's behalf, and at Tenant's cost, any action this Lease obligates Tenant to perform.

Tenant will continue to pay all Rent as and when due, even if Landlord has relet any or all of the Premises.

Landlord may re-let all or any part of the Premises, in the name of Landlord or otherwise, for such term or terms (which may be greater or less than the period that would otherwise have constituted the balance of the Term) and on such other conditions (which may include concessions or free rent) that are satisfactory to Landlord in its sole discretion. Upon any re-letting, Landlord may determine and collect and receive all rent. Landlord will make commercially reasonable efforts to mitigate its damages at any time before or after declaring an Event of Default and/or exercising any remedies hereunder, provided that Landlord will be deemed to have satisfied any obligation to mitigate damages, whether under this Lease or any Law, if Landlord markets the Premises for lease in the ordinary course of business and uses its reasonable business judgment in determining whether to accept or reject any offer in the same manner it would if this Lease had expired on the scheduled expiration date and Tenant no longer had any obligation to pay any Rent or damages to Landlord.

If Landlord relets any or all of the Premises, Tenant will pay Landlord, within 10 days after demand, the costs Landlord incurs in such reletting and in making alterations and repairs. Landlord will apply all rent it receives from any re-letting to any indebtedness Tenant owes Landlord other than Net Rent and Operating Costs and Taxes, to the cost of any repairs that are required to return the Premises to good condition, including the cost of alterations and the cost of storing any of Tenant's property left on the Premises at the time of reletting, and to Net Rent and Operating Costs and Taxes that Tenant owes. Landlord will hold the residue, if any, and apply it to any future Rent or damages resulting from the termination of this Lease as those amounts become due and payable and Landlord is entitled to the balance, if any, at the end of the Term. If the monthly rent Landlord receives from any such reletting during any month is less than the Net Rent and Operating Costs and Taxes Tenant owes under this Lease for that month, Tenant will pay the deficiency to Landlord. Landlord will determine any such deficiency and Tenant will pay the deficiency monthly in advance. No such reletting will be construed as an election by Landlord to terminate this Lease unless Landlord gives Tenant an express written notice that it has terminated this Lease. Notwithstanding any such reletting without termination, Landlord may, at any time, terminate this Lease for Tenant's previous breach.

Landlord may, in its sole discretion, at any time after having terminated Tenant's right to possession only, to terminate this Lease in accordance with Section 25.a(iii).

Terminate Lease. Landlord may terminate this Lease at any time after an Event of Default has occurred, including at any time after Tenant's right to possession has been terminated, by delivering to Tenant a written notice expressly exercising Landlord's right to terminate this Lease. If Landlord elects to terminate this Lease, Tenant's right to possession of the Premises will terminate, to the extent it has not already terminated, Tenant will vacate and surrender possession of the Premises to Landlord in the condition this Lease requires upon the expiration of the Term, Landlord has the immediate right of entry and may remove all persons and property from the Premises and all rights and remedies of a landlord under California Civil Code Section 1951.2 or any successor code section, and Tenant will pay to Landlord on demand, and Landlord may recover from Tenant, all damages Landlord incurs as a result of Tenant's default, including, without limitation, (i) the cost of recovering the Premises, (ii) the worth at the time of award of the unpaid Rent that had been earned at the time of termination; (iii) the worth at the time of award of the amount by which the unpaid Rent that would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; (iv) the worth at the time of the award of the amount by which the unpaid Rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and (v) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or that in the ordinary course of events would be likely to result from Tenant's failure to perform its obligations under this Lease. The "worth at the time of award" of the amounts referred to in clauses (ii) and (iii) of the preceding sentence is computed by allowing interest at the Interest Rate. The "worth at the time of award" of the amount referred to in clause (iv) above will be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%. Tenant waives the provisions of Section 1179 of the California Code of Civil Procedure (which Section allows Tenant to petition a court of competent jurisdiction for relief against forfeiture of this Lease). Landlord may store any property Landlord removes from the Premises in a public or private warehouse or elsewhere at the sole cost and expense of Tenant, which Tenant will pay within 10 days after demand. If Tenant does not pay the cost of storing such property after it has been stored for 30 days or more, Landlord may sell any or all of the

property at a public or private sale in such manner and at such times and places that Landlord, in its sole discretion, deems proper, without notice to or demand upon Tenant. Nothing in this Section 25 limits or prejudices Landlord's right to prove and obtain damages in an amount equal to the maximum amount allowed by Law, regardless of whether such damages are greater than the amounts this Section obligates Tenant to pay. If the fair market rental value of the Premises for the remaining Term exceeds the Rent under this Lease, Landlord is solely entitled to receive the benefit of that excess without offset of any sort against the amounts Tenant owes under this Lease.

(b) **Landlord's Right to Cure.** If Tenant does not perform any of its obligations under this Lease beyond any notice and cure period, Landlord may, at Landlord's option without any obligation to do so, and in its sole discretion as to whether it is necessary to do so, perform any such obligation on Tenant's behalf, without any liability or responsibility for any loss or damage to Tenant or anyone holding under or through Tenant sustains as a consequence. If Landlord so performs any of Tenant's obligations under this Lease, Tenant will pay to Landlord all damages Landlord incurs as a result, including the cost of performing Tenant's obligations on behalf of Tenant, within 10 days after demand, plus a 10% administrative charge, plus interest from the date Landlord paid the cost at the Interest Rate.

(c) **Remedies are Cumulative.** Landlord may exercise any other right or remedy allowed at law or in equity or by statute or otherwise, including, without limitation, all rights and remedies Landlord has under California Civil Code Section 1951.4 or any successor Code section or any other California statute. If Tenant breaches or threatens to breach this Lease, Landlord is entitled to enjoin such breach or threatened breach and may invoke any right or remedy allowed at law or in equity or by statute or otherwise as though entry, reentry, summary proceedings and other remedies were not provided for in this Lease. Each remedy or right this Lease grants to Landlord is cumulative and is in addition to every other right or remedy this Lease grants Landlord, or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or the beginning of the exercise by Landlord of any one or more of such rights or remedies will not preclude the simultaneous or later exercise by Landlord of any or all other rights or remedies.

(d) **Enforcement Costs.** If Tenant defaults under this Lease, Tenant will pay to Landlord, within 10 days after demand, all costs Landlord incurs in connection with enforcing Landlord's rights or Tenant's obligations under this Lease, including attorney fees, expert fees, court costs, and filing, service and recording fees. In the case of any other proceeding between the parties, the party that loses will pay the prevailing party all costs the prevailing party incurs in connection with the proceeding, including attorney fees, expert fees, court costs, and filing, service and recording fees.

(e) **Waivers, Venue.** Tenant waives and relinquishes, to the fullest extent permitted by Law, any and all right of redemption or reentry or repossession or to revive the validity and existence of this Lease if Tenant is dispossessed by a judgment or by order of any court having jurisdiction over the Premises or the interpretation of this Lease, in case of any entry, reentry or repossession by Landlord, or in case of any expiration or termination of this Lease. Landlord and Tenant waive any right to a jury trial in any matter relating to this Lease, the use or occupancy of the Premises or any other part of the Project, or any claim of injury, loss, or damage. Venue on any action instituted with respect to any matter related to this Lease or the Premises is proper only in Santa Clara County, California. Tenant waives the right to seek any injunction that would stay, extend, or otherwise toll any time limitation in this Lease or in any notice delivered in connection with this Lease.

(f) **Landlord Default.** Landlord will not be deemed to be in default under this Lease unless Landlord does not perform its obligations within 30 days after written notice by Tenant to Landlord and to each Mortgagee whose name and address has then been delivered to Tenant in writing; provided that Landlord will diligently attempt to complete any emergency repairs it is obligated to perform under this Lease as soon as is commercially reasonable, and further provided that if the nature of Landlord's obligations is such that more than 30 days are required for performance, then Landlord is not in default if Landlord commences performance within such 30-day period and thereafter diligently prosecutes the same to completion. Except to the extent this Lease provides to the contrary, if Landlord does not perform any of its obligations under this Lease, Tenant's sole remedy is to sue Landlord in a court of competent jurisdiction; and unless and until Tenant has been awarded a judgment in such court, Tenant waives and agrees that it has no right to offset any amounts Landlord owes it against any Rent. Landlord's liability to Tenant for any default by Landlord under this Lease is limited to Landlord's actual interest in the Project and Tenant will look only to Landlord's interest in the Project (including sale proceeds, insurance proceeds, and rents) for the satisfaction of any liability. Tenant waives and agrees not to seek any recourse against any partner, member, shareholder, director,

governor, officer, manager, agent, or employee of Landlord.

(g) **Insolvency or Bankruptcy.** Upon the occurrence of any Event of Bankruptcy, Landlord may terminate this Lease by giving written notice to Tenant; provided, however, that this Section 25(g) will have no effect while a case in which Tenant is the subject debtor under the Bankruptcy Code is pending, unless Tenant or its trustee in bankruptcy is unable to comply with the provisions of this Section 25(g). Otherwise, this Lease will automatically cease and terminate, and Tenant is immediately obligated to quit the Premises upon the giving of notice pursuant to this Section 25(g). Tenant waives any other notice to quit or notice of Landlord's intention to re-enter. If Landlord elects to terminate this Lease, all of Landlord's obligations under this Lease will cease without prejudice, subject however, to Landlord's right to recover from Tenant all Rent and other sums accrued up to the time of termination or recovery of possession by Landlord, whichever is later, and any other monetary damages or loss of Rent sustained by Landlord. If Tenant becomes the subject debtor in a case pending under the Bankruptcy Code, Landlord's right to terminate this Lease pursuant to this Section 25 is subject to the rights of the trustee in bankruptcy to assume or assign this Lease. The trustee will not have the right to assume or assign this Lease unless the trustee promptly cures all defaults under this Lease, promptly compensates Landlord for monetary damages the default causes, and provides adequate assurance of future performance. Landlord and Tenant agree in advance that adequate assurance of future performance, as used in this Section 25(g), will mean that all of the following minimum criteria must be met: (i) the trustee must pay to Landlord, at the time the next payment of Rent is then due under this Lease, in addition to such payment of Rent, an amount equal to the next payment of Rent due under this Lease, or the next three months' Rent due under this Lease, whichever is greater, and Landlord will hold that amount in escrow until either the trustee or Tenant defaults in its payments of Rent or other obligations under this Lease (whereupon Landlord will have the right to draw upon such escrowed funds) or until the expiration of the Term (whereupon the funds will be returned to the trustee or Tenant); (ii) Tenant or the trustee must agree to pay to Landlord, at any time Landlord is authorized to and does draw on the funds escrowed pursuant to clause (i) of this Section 25(g), the amount necessary to restore such escrow account to the original level required by that provision; (iii) Tenant must pay its estimated pro rata share of the cost of all services provided by Landlord (whether or not the cost of such services is to be passed through to Tenant) in advance of the performance or provision of such services; (iv) the trustee must agree that Tenant's business will be conducted in a first class manner, and that no liquidating sales, auctions, or other non-first class business operations will be conducted in the Premises; (v) the trustee must agree that the permitted use of the Premises as stated in this Lease will remain unchanged; and (vi) the trustee must agree that the assumption or assignment of this Lease will not violate or affect the rights of other tenants in the Project. If Tenant is unable to (A) cure its defaults, (B) reimburse Landlord for its monetary damages (C) pay the Rent due under this Lease, or any other payments required of Tenant under this Lease, on time (or within 5 days of the due date), or (d) meet the criteria and obligations imposed by this Section 25(g), then Tenant agrees in advance that it has not met its burden to provide adequate assurance of future performance, and Landlord may terminate this Lease in accordance with this Section 25(g). Landlord and Tenant acknowledge that the Project and the Premises are part of a Project within the meaning of 11 U.S.C. § 101 *et seq.*

26. Hazardous Materials. Tenant will not engage or permit any other Tenant Party to engage in any activity in the Premises or in the Project that involves the use, generation, transportation, treating, handling, storage, manufacture, emission, disposal, spill, release, leak, seepage, or discharge of any dangerous, toxic or hazardous pollutants, wastes or substances as defined in the Federal Comprehensive Environmental Response Compensation and Liability Act of 1980, the Federal Resource Conservation and Recovery Act of 1976, or any other federal, state or local environmental Laws now in effect, as hereafter amended, and as hereafter enacted ("**Hazardous Materials**"), in violation of any Law. Promptly after learning of the occurrence of any of the following, Tenant will give Landlord written notice of the following, describing the occurrence and the steps Tenant has taken, is taking, and intends to take with respect to the following: (i) the spill, release, leak, seepage, discharge or clean-up by any Tenant Party of any Hazardous Material in the Premises or anywhere else in the Project, (ii) any litigation, arbitration proceeding or governmental proceeding against Tenant that affects the Premises, (iii) the delivery of any notice from a governmental agency that Tenant's operations in the Premises are not in compliance with environmental, health and safety Laws, (iv) the delivery of any notice that Tenant is subject to federal or state investigation evaluating whether any remedial action is needed to respond to the release of any Hazardous Material or other substance from the Premises into the environment, or (v) the delivery of any notice that the Premises are subject to a lien in favor of any governmental entity for any liability under federal or state environmental Laws or damages arising from or costs incurred by such governmental entity in response to a release of a Hazardous Material or other substance into the environment. Tenant will indemnify and defend Landlord against all claims, actions, damages, losses, liabilities and expenses including actual attorney fees incurred by Landlord as a result of any use, generation, transportation, treating, handling, storage, manufacture, emission, disposal, spill, release, leak, seepage, or discharge of Hazardous Materials inside the Premises during the Term by any person other than Landlord or its employees or

agents, or anywhere in the Project outside the Premises during the Term by Tenant or its employees or agents. Landlord will indemnify and defend Tenant against all claims, damages, fines, judgments, penalties, costs, liabilities or losses (including, without limitation, any and all sums paid for settlement of claims, attorney fees, consultant fees, and expert fees) arising at any time from or in connection with the presence or release, or suspected presence or release, of Hazardous Materials in the Premises or anywhere else in the Project, except to the extent the presence or release or suspected presence or release occurred inside the Premises during the Term or was caused by any Tenant Party.

27. Subordination; Attornment; Notice to Mortgagee.

(a) **Subordination.** This Lease is and will remain entirely subject and subordinate to the lien and the terms of any deed of trust, mortgage or other security instrument or any ground lease (each of such instruments, together with any replacements, renewals, amendments, modifications, or extensions is a “**Mortgage**”), that on or at any time after the date of this Lease covers all or any part of the Premises (the mortgagee under any Mortgage such mortgage or the lessor under any such lease, and any person acquiring any interest in the Premises or this Lease by or through any such mortgagee or lessor is referred to in this Lease as a “**Mortgagee**”), provided that, so long as this Lease is in full force and effect, Tenant is entitled to possession of the Premises, and there is no Event of Default, this Lease will not be extinguished or terminated by a proceeding to foreclose or otherwise enforce any Mortgage or by a conveyance in lieu of foreclosure, but rather, this Lease will continue in full force and effect as a direct lease between Tenant and the new owner of the Premises following a foreclosure sale or conveyance in lieu of foreclosure (“**New Owner**”) except that, notwithstanding anything else in this Lease to the contrary, Mortgagee and New Owner: (i) will not be bound by any amendment, supplement, termination, or other modification of this Lease that Mortgagee did not consent to in writing; (ii) will not be bound by any prepayment of Rent that Tenant has made in excess of the Rent then due for the next succeeding month; (iii) will not be liable for the return of any cash security deposit or other security for Tenant’s obligations except to the extent Mortgagee or New Owner actually received the cash security deposit or other security; (iv) will not be liable for any act, omission, or breach whatsoever by any landlord under this Lease that occurs before New Owner acquires title to and possession of the Premises; (v) will not be subject to any claim, right of set-off or defense that Tenant may have against any prior landlord, provided that New Owner will be obligated to cure any continuing default (other than a default that consists of a failure to pay to Tenant any money) that exists on such date, to the extent such default continues on and after such date; and (vi) will not be personally liable under this Lease, and New Owner’s liability will be limited to New Owner’s interest in the Project (including sale proceeds, insurance proceeds, and rents). Notwithstanding the foregoing, any Mortgagee may elect, at any time, unilaterally, to make this Lease superior to its Mortgage by so notifying Tenant in writing. Tenant will, within 15 days after request, sign and deliver to Landlord a Subordination, Non-Disturbance, and Attornment Agreement in favor of any Mortgagee on any commercially reasonable form the Mortgagee requests. In addition, Landlord agrees to make reasonable efforts to obtain a Subordination, Non-Disturbance, and Attornment Agreement with any future Mortgagee within 30 days after Tenant’s written request. No Mortgagee will have any liability or responsibility under or pursuant to the terms of this Lease or otherwise after it ceases to own an interest in the Premises, except that such Mortgagee shall remain liable for any defaults of “Landlord” that occurred while such Mortgagee was the Landlord under this Lease. No Mortgagee will have any liability or obligation whatsoever to Tenant with respect to environmental matters or releases of hazardous materials that occurred at any time when the Mortgagee was not in possession of, operating, and making hazardous materials decisions with respect to the Project. No Mortgagee has any obligation to regulate Landlord’s use of the proceeds of any loan, and no amendment or other modification of any of the documents evidencing and securing any loan will affect Tenant’s obligations under this Lease. Any sale or other transfer by New Owner of its interest in the Premises will automatically release and discharge New Owner from all liability accruing under this Lease after the date of the transfer, except that such New Owner will remain liable for any defaults of “Landlord” that occurred while such New Owner was the Landlord under this Lease.

(b) **Attornment.** Tenant agrees to attorn to any person who succeeds to Landlord’s interest in the Premises as the result of a foreclosure, deed in lieu of foreclosure, power of sale, or other exercise of any remedies such person has with respect to Landlord or the Premises, and Tenant agrees to sign any confirmation of the attornment that such person reasonably requests.

(c) **Notice to Mortgagees.** Tenant agrees not to seek to enforce any remedy for any default by Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Mortgagee whose address has been given to Tenant, and affording such Mortgagee 30 days to perform Landlord’s obligations under this Lease. If Landlord’s default cannot be cured within such 30-day period, the time within which Mortgagee is entitled to cure will be extended as long as is reasonably necessary to complete the cure so long as Mortgagee proceeds promptly to effect a cure (including any time necessary to acquire possession of the

Project from Landlord, if possession is necessary to effect such cure) and thereafter pursues curing the default with diligence. Any Mortgagee's cure of any default by Landlord will not constitute such Mortgagee's assumption of any of Landlord's obligations under this Lease.

28. Estoppel Certificates. Within 10 business days after each request, Tenant will sign and deliver an estoppel certificate addressed to Landlord and any Mortgagee, assignee of any Mortgagee, prospective purchaser, and other person Landlord specifies. Each estoppel certificate will contain the following information: (i) whether Tenant is in possession of the Premises and continuously conducting its business in the Premises for the Permitted Use and as otherwise required by this Lease; (ii) whether this Lease is unmodified and in full force and effect and, if there has been a modification of this Lease, the certificate will state that this Lease is in full force and effect as modified and will set forth the modification; (iii) whether, to the best of Tenant's knowledge, there is then any default under this Lease by either Tenant or Landlord; (iv) whether Tenant then claims any existing set-offs or defenses against Landlord's enforcement of any right or remedy (and if so, specifying its set-offs or defenses); (v) the dates, if any, to which any Rent has been paid in advance; and (vi) such other reasonable matters Landlord requests. Landlord, Mortgagee, and any prospective purchaser or mortgagee of the Premises may conclusively rely upon any such estoppel certificate delivered by Tenant. If Tenant does not deliver such estoppel certificate within 10 business days after request, Landlord, Mortgagee, and any prospective purchaser or mortgagee of the Premises are entitled to rely upon the statements in the proposed estoppel certificate with the same effect as if Tenant had signed and delivered the estoppel certificate. Notwithstanding that Landlord and such other parties are entitled to rely on an estoppel certificate that Tenant does not return, Tenant's failure to timely deliver an estoppel certificate is a default under this Lease and Tenant will indemnify Landlord against all loss, cost, damage, and expense, incidental, consequential, or otherwise, that directly or indirectly results.

29. Surrender. At or before the end of the Term or the earlier termination of Tenant's right to possession, Tenant will vacate and surrender possession of the Premises to Landlord in the condition this Lease requires. Tenant will, before the end of the Term or Tenant's right to possession: (i) remove and properly dispose of all removable equipment, inventory, furniture, furnishings, and any other personal property, garbage, or waste from the Premises and leave the Premises broom clean; (ii) remove all telecommunications equipment, including satellite dishes and wiring and cabling, that any Tenant Party has installed in or about the Premises, in accordance with Law; (iii) remove any part of the Tenant Improvements or other Alterations that Landlord requires Tenant to remove in accordance with this Lease; and (iv) except to the extent Landlord gives Tenant express written notice that relieves Tenant of the obligation to do so, Tenant will put the Premises, including the HVAC and other building systems, in good working order, subject only to reasonable wear and tear and casualty or condemnation damage. For the purposes of the preceding sentence, "reasonable wear and tear" does not include any damage or deterioration that Tenant could have prevented by good maintenance and repair practice or that Tenant could otherwise have avoided by fully complying with its obligations under this Lease. At any time during or after the last 9 months of the Term, Tenant will, within 30 days after Landlord's request, deliver to Landlord copies of all of the following materials to the extent in Tenant's possession (provided that Tenant has no obligation to prepare any of the following materials in order to comply with Landlord's request): (1) surveys, plans, drawings and specifications that relate to the Premises, including the Tenant Improvements and any other Alterations; (2) records relating to the generation, transporting, storing, treating, or disposing of any Hazardous Materials from the Premises during the Term; (3) engineering reports, inspection reports, maintenance logs, inspection reports, and other information that relates to the maintenance, repair, and replacement of the HVAC system and other building systems in the Premises; and (4) warranties and guarantees that cover the Tenant Improvements and any other Alterations. In addition, without limiting Landlord's rights under Section 20, Landlord may, in anticipation of the end of the Term or Tenant's right to possession, enter the Premises to inspect and test the HVAC and other building systems in the Premises. To the extent Landlord has the right under Section 17 to require Tenant to remove any of the Alterations, Landlord may, in its sole discretion, either require Tenant to remove any of such improvements and restore the affected areas at Tenant's sole cost, or to pay Landlord, on the last day of the Term or the day Tenant's right to possession ends, the reasonable cost actually incurred by Landlord in removing such improvements and restoring the affected areas. If Landlord reasonably determines that any repairs or replacements are required to bring any part of the Premises, including the HVAC and other building systems, into the condition this Lease requires of Tenant at the end of the Term, Landlord may, by written notice to Tenant, either require Tenant to perform the repairs and replacements before the end of the Term or Tenant's right to possession, or to pay Landlord, when the Term or Tenant's right to possession ends, the reasonable cost of performing those repairs, as reasonably determined by Landlord, whether or not Landlord actually performs the required repairs. Tenant will repair any damage that results from removing any Alterations, trade fixtures, and personal property and restore the affected areas to the condition this Section requires. Tenant will perform all such removals and repairs in a good and workmanlike manner. If the Premises are not in the condition this Lease requires when Tenant surrenders possession, Tenant will, within 10 days after demand, pay Landlord the reasonable cost of all work required to put the Premises in the condition this Lease requires, regardless of whether Landlord actually performs any or all of such work, plus any other damages Landlord suffers as a result of Tenant's default.

30. Holding Over. If Tenant remains in possession of all or any part of the Premises after the Term or Tenant's

right to possession ends, Landlord has the option, in its sole discretion, to evict Tenant or treat Tenant as a hold over tenant. If Landlord elects to evict Tenant, Tenant will pay, as liquidated damages for Landlord's loss of use of the Premises, with respect to each full or partial month in which Tenant retains possession after its right to possession ends, 150% of the monthly Net Rent and 150% of the Additional Rent that was due for the last full calendar month before Tenant's right to possession ended, plus any additional damages Landlord incurs because it is unable to deliver all or any part of the Premises to a replacement occupant, plus all other damages and remedies to which Landlord is entitled. If Landlord elects to treat Tenant as a hold over tenant, Tenant will be a tenant of the Premises under a new month-to-month tenancy (and not under an extension or renewal of the term of this Lease) on all terms of this Lease except those that do not apply to or are inconsistent with a month-to-month hold over tenancy, and except that Tenant will pay, in addition to all other Rent, monthly Net Rent and Additional Rent in the amount of 150% of the monthly Net Rent and 150% of the Additional Rent that was due for the last full month before Tenant's right to possession ended. This Section does not limit or waive any other rights or remedies Landlord has under this Lease, at law, or in equity.

31. Notices. All notices and demands this Lease requires or permits will be in writing and will be sent by either: (i) certified or registered mail, postage prepaid, return receipt requested; or (ii) personal delivery, with an affidavit of delivery from the messenger; or (iii) by an international next-business day delivery courier service, to the addresses below:

Notices to Landlord must be addressed to:

Montague Ridge LLC
c/o Eagle Ridge Partners
3601 Minnesota Drive
Suite 510
Bloomington, MN 55435

with required copies addressed to:

Montague Ridge LLC
c/o Colliers Parrish Asset Management, Inc.
1850 Mt. Diablo Boulevard, Suite 200
Walnut Creek, California 94596

and to:

Steven C. Cox
Fabyanske, Westra, Hart & Thomson, P.A.
Before March 31, 2014, at:
Suite 1900
800 LaSalle Avenue
Minneapolis, MN 55402

After March 31, 2014, at:
Suite 2600
333 South Seventh Street
Minneapolis, MN 55402

Notices to Tenant must be addressed to:

AltiGen Communications, Inc.

Before the Delivery Date, at:
410 East Plumeria Drive
San Jose, CA 95134
Attn: CFO

After the Delivery Date, at:
679 River Oaks Parkway
San Jose, CA 95134
Attn: CFO

All notices so sent will be deemed to have been received by the recipient upon the earliest of actual receipt, refusal of delivery, or failure of delivery because the notice address is no longer the address of the recipient. Each of Landlord and Tenant may change its address for notices by notice of the new address given in accordance with this Section.

32. Additional Provisions.

(a) **Captions and Headings.** The captions and headings in this Lease are for convenience only and do not in any way limit and should not be deemed to construe or interpret the terms and provisions of this Lease.

(b) **Time of the Essence.** Time is of the essence of this Lease, except with respect to the delivery of possession of the Premises at the commencement of the Term.

(c) **Joint and Several Liability.** If Tenant is comprised of more than one person, all of such persons are jointly and severally liable.

(d) **Nondisclosure of Lease Terms.** The terms of this Lease are proprietary information of Landlord's that Tenant agrees to keep confidential. Tenant's disclosure of the terms of this Lease could impair Landlord's ability to negotiate other leases or relationship with other tenants. Accordingly, Tenant agrees not to directly or indirectly disclose the terms of this Lease to any other tenant or prospective tenant of the Project or to any other person or entity other than Tenant's employees and agents who have a legitimate need to know such information and who will also keep the information in confidence.

(e) **Entire Agreement.** This Lease sets forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Premises, and it supersedes all prior agreements, representations, negotiations, and correspondence between the parties. No subsequent alteration, amendment, change, or addition to this Lease binds Landlord or Tenant unless it is in writing and both parties sign and deliver it.

(f) **Construction.** Landlord and Tenant acknowledge that competent counsel represented them in negotiating, drafting, executing, and delivering this Lease and waive the benefit of any principle that it should be construed against the party that drafted it.

(g) **No Partnership.** Landlord is not, in any manner or for any purpose, a partner of Tenant in the conduct of its business, or otherwise, or a joint adventurer or a member of a joint enterprise with Tenant. Neither party is a fiduciary of the other, and each party waives any claim that the other party owes it a fiduciary duty under or in connection with this Lease.

(h) **Force Majeure.** If either party to this Lease is delayed or hindered in or prevented from performing any act this Lease requires by natural disasters, strikes, lock-outs, labor troubles, inability to procure materials, power blackouts, government restrictions, riots, war or other similar reasons that are not the fault of that party, then the obligation to perform that act will be postponed for the period of the delay. This Section does not excuse Tenant from its obligation to pay any Rent when due.

(i) **Severability.** If any term, covenant or condition of this Lease or its application to any person or circumstance is, to any extent, invalid or unenforceable, the remainder of this Lease, or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, will not be affected by such invalidity or unenforceability, and each term, covenant or condition of this Lease will be valid and enforced to the fullest extent permitted by Law.

(j) **Assignment by Landlord.** Landlord's obligations and liabilities under this Lease are limited to its actual period of ownership of the Project. Therefore, if Landlord sells or otherwise transfers its interest in the Project, Landlord will, without the need for any additional written agreement, be automatically released from all obligations and liabilities that arise under this Lease with respect to any period after the sale or other transfer; provided that Landlord will remain liable for the performance of all obligations that first arose before such transfer, except to the extent the transferee assumes in a writing enforceable by Tenant the pre-transfer liabilities of the Landlord.

(k) **Successors and Assigns.** Subject to Section 34.j, all of the terms, covenants, and conditions of this Lease bind and inure to the benefit of the heirs, executors, personal representatives, administrators, successors and assigns of the parties to this Lease, provided that this Section 32.k does not permit any assignment, subletting, occupancy or use that any other provision of this Lease prohibits.

(l) **No Waiver.** Landlord's waiver of any breach of any term, covenant, or condition in this Lease is not

a continuing waiver of such term, covenant, or condition, and does not waive any subsequent breach of the same or any other term, covenant of condition in this Lease. Landlord's acceptance of Rent under this Lease does not waive any preceding breach by Tenant of any term, covenant, or condition of this Lease, other than Tenant's failure to pay the particular Rent so accepted, regardless of Landlord's knowledge of such preceding breach at the time Landlord accepts such Rent.

(m) **No Merger.** Tenant's voluntary or other surrender of this Lease, or the parties' cancellation of this Lease, will not work a merger, but will, at Landlord's option, terminate all or any existing subleases or subtenancies, or operate as an assignment to Landlord of any or all such subleases or subtenancies. Notwithstanding the foregoing, Tenant acknowledges that it does not have the right voluntarily to surrender the Premises.

(n) **Survival.** Except to the extent this Lease states to the contrary, all of Tenant's and Landlord's rights, liabilities, and obligations under this Lease will survive the expiration of the Term or the earlier cancellation or termination of this Lease.

(o) **Memorandum of Lease.** Tenant will not record this Lease or any memorandum, short form, or notice of this Lease in the real estate records.

(p) **Brokers.** Craig L. Fordyce, Michael L. Rosendin, and Shane Minnis of Colliers International ("**Landlord's Broker**") have represented Landlord and Jay Phillips, Armand Tiano, and Luke Allard of Cornish & Carey Commercial Newmark Knight Frank ("**Tenant's Broker**") have represented Tenant in connection with this Lease. Each of Landlord and Tenant represents to the other that, except for its broker listed in the preceding sentence, it has not employed any broker, agent, or finder in connection with the negotiation or execution of this Lease. Each of Landlord and Tenant will indemnify the other against any claim or claims for brokerage or other commissions arising from or out of any breach of this representation by the indemnifying party or any expenses, including attorney's fees the indemnified party incurs in enforcing this right to indemnification. Landlord is responsible for the commission owed to Landlord's Broker pursuant to a separate written agreement between Landlord and Landlord's Broker, and Landlord's Broker will share its commission with Tenant's Broker pursuant to separate written agreement between Landlord's Broker and Tenant's Broker.

(q) **Governing Law.** The internal laws of the State of California govern the interpretation and enforcement of this Lease, without applying any conflict of laws principles.

(r) **Telecommunications.** Tenant and its telecommunications companies, including but not limited to local exchange telecommunications companies and alternative access vendor services companies have no right of access to or within the Project for the installation and operation of telecommunications systems, including but not limited to voice, video, data, and any other telecommunications services provided over wire, fiber optic, microwave, wireless, and any other transmission systems, for part or all of Tenant's telecommunications within the Premises and from the Premises to any other location without Landlord's prior written consent. Tenant may, at Tenant's cost, install one antenna on the roof of the Building over the Premises for use in Tenant's business only, subject to Landlord's reasonable requirements, in accordance with plans and specifications Landlord approves in writing, and otherwise in accordance with Section 17. Landlord may impose a reasonable height and width limit and may require Tenant to install reasonable screening. Tenant agrees to install and use the antenna in accordance with all Laws. At the end of the Term or the termination of Tenant's right to possession, Tenant must remove its antenna, including all cables, and repair all damage, in accordance with Sections 17 and 29. Except as this Section 33.r permits, Tenant may not install or place, or permit any other person to install or place, any antenna or other communications equipment on the roof or exterior of the building the Premises are in, or anywhere else in the Project outside of the Premises.

(s) **Disclaimer of Warranty.** Landlord disclaims any express or implied warranty that the Premises are suitable for Tenant's intended use, and Tenant agrees that its obligation to pay Rent is not dependent upon the condition of the Premises or Landlord's performance of any of its obligations under this Lease, and, except to the extent this Lease provides to the contrary, Tenant will continue to pay all Rent, without abatement, set off or deduction, notwithstanding any breach by Landlord of its duties or obligations under this Lease, whether express or implied. Landlord disclaims any express or implied warranty that any specific tenant or tenants will be open in any other space in the Project at any time during the Term, or that any particular type or number of tenants will be open in any other spaces in the Project at any time during the Term, and Tenant acknowledges and agrees that it is not entering into this Lease in reliance upon any such representation or warranty by or on behalf of Landlord.

(t) **Financial Statements.** Within 15 days after Landlord's request, Tenant will deliver to Landlord the most recent audited financial statements (including any notes) of Tenant and any guarantor of Tenant's obligations under this Lease, or, if audited statements have not been prepared, reviewed or compiled financial statements (including any notes) prepared by an independent certified public accountant, if no such statements have been prepared, Tenant's and any such guarantor's internally-prepared financial statements. At any time when the shares or other ownership interests in Tenant or any guarantor of Tenant's obligations under this Lease are publicly traded and listed with the Securities and Exchange Commission, Tenant has no obligation to provide financial statements to the extent such financial statements are publicly available on the SEC's EDGAR website or any similar system. Landlord will not disclose any aspect of Tenant's financial statements that Tenant designates to Landlord as confidential except to Landlord's Mortgagee or prospective purchasers or mortgagees of the Project, in litigation between Landlord and Tenant, and to the extent required by law. Landlord will not require Tenant to deliver financial statements more than once in any 12-month period, except that Tenant will deliver such financial statements more frequently at Landlord's request if an Event of Default occurs or if at the request of Landlord's Mortgagee or a prospective buyer or mortgagee of the Project.

(u) **Consents and Approvals.** Except to the extent this Lease provides to the contrary, neither party will unreasonably withhold, condition, or delay any consent or approval this Lease requires the other party to obtain from it.

Signature Pages Follow

Signature Page to Lease Agreement

Montague Ridge LLC

By: /s/
Delaware Limited Liability Company

AltiGen Communications, Inc.

By: /s/
Delaware Corporation