ALTIGEN COMMUNICATIONS, INC.

Quarterly Report
For Second Quarter Ended March 31, 2016

ALTIGEN COMMUNICATIONS, INC.
QUARTERLY REPORT
FOR SECOND QUARTER ENDED MARCH 31, 2016

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FORWARD-LOOKING STATEMENTS

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

The following information provides updates to the Annual Report for fiscal year ended September 30, 2015. Accordingly, this report does not contain all the information required of an issuer for its initial disclosure obligations, and should therefore be reviewed in conjunction with the Annual Report for fiscal year ended September 30, 2015 and any interim reports or updates provided since the fiscal year-end report.

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 our opinion all adjustments necessary for a fair statement of the results for the interim periods have been included.

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

Exact name of issuer:	AltiGen Communications, Inc.
Principal Executive Offices:	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 2. Shares Outstanding.

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 March 31, 2016					
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	1,589	91
Preferred Stock	5,000,000	—	—	—	—
As of September 30, 2015					
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	1,566	89
Preferred Stock	5,000,000	—	—	—	—
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	—	—	—	—

(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. There are greater than 100 beneficial shareholders owning at least 100 shares of the Company's common stock.

Item 3. Interim Financial Statements.

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	March 31, 2016 (Unaudited)	September 30, 2015 (1)
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash	$ 4,902	$ 4,560
Accounts receivable, less allowance for doubtful accounts of $1 for both March 31, 2016 and September 30, 2015	329	403
Inventories	193	341
Prepaid expenses and other current assets	158	54
Total current assets	5,582	5,358
Property, plant and equipment, net	113	126
Long-term deposit	31	31
Total assets	$ 5,726	$ 5,515
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 123	$ 147
Accrued expenses	709	627
Deferred revenue, short-term	1,562	1,710
Revolving line of credit	1,169	1,319
Total current liabilities	3,563	3,803
Other long-term liabilities	390	200
Total liabilities	3,953	4,003
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized—5,000,000 shares; Outstanding—none at March 31, 2016 and September 30, 2015	—	—
Common stock, $0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—22,798,683 shares at March 31, 2016 and September 30, 2015	25	25
Treasury stock at cost—1,918,830 shares at March 31, 2016 and September 30, 2015	(1,565)	(1,565)
Additional paid-in capital	71,736	71,539
Accumulated deficit	(68,423)	(68,487)
Total stockholders' equity	1,773	1,512
Total liabilities and stockholders' equity	$ 5,726	$ 5,515

(1) The information in this column was derived from the Company's audited consolidated financial statements as of and for the year ended September 30, 2015.

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	**2015 (1)**	**2016**	**2015 (1)**
Net revenue:				
Hardware	$ 309	$ 652	$ 612	$ 1,309
Software	480	669	1,016	1,511
Hosted and service support	1,372	1,218	2,753	2,367
Total net revenue	2,161	2,539	4,381	5,187
Cost of revenue:				
Hardware	284	443	609	904
Software	5	6	8	20
Hosted and service support	111	56	210	116
Total cost of revenue	400	505	827	1,040
Gross profit	1,761	2,034	3,554	4,147
Operating expenses:				
Research and development	678	784	1,359	1,491
Sales and marketing	580	592	1,132	1,097
General and administrative	466	549	994	1,027
Total operating expenses	1,724	1,925	3,485	3,615
Income from operations	37	109	69	532
Interest and other (expense) income, net				
Interest income and other, net	1	1	2	2
Interest expense	(3)	(4)	(6)	(7)
Total interest and other expense, net	(2)	(3)	(4)	(5)
Income before income taxes	35	106	65	527
Provision for income taxes	—	—	(1)	(1)
Net income	$ 35	$ 106	$ 64	$ 526
Net income per share:				
Basic	$ 0.00	$ 0.00	$ 0.00	$ 0.02
Diluted	$ 0.00	$ 0.00	$ 0.00	$ 0.02
Shares used to compute net income per share:				
Basic	22,799	22,799	22,799	22,799
Diluted	23,829	23,167	23,789	24,699

(1) Prior year results have been reclassified to reflect the addition of hosted and service support streams.

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

ALTIGEN COMMUNICATIONS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except per share amounts)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
BALANCE, SEPTEMBER 30, 2015	22,798,683	$ 25	$ (1,565)	$ 71,539	$ (68,487)	$ 1,512
Net income	—	—	—	—	64	64
Stock-based compensation	—	—	—	197	—	197
BALANCE, March 31, 2016	22,798,683	$ 25	$ (1,565)	$ 71,736	$ (68,423)	$ 1,773

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

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March 31, 2016	Six Months Ended March 31, 2015
	(Unaudited, in thousands)	
Cash flows from operating activities:		
Net income	$ 64	$ 526
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	99	33
Stock-based compensation	197	271
Changes in operating assets and liabilities:		
Accounts receivable	74	129
Inventories	148	124
Prepaid expenses and other current assets	(104)	(56)
Accounts payable	(24)	(21)
Accrued expenses	(68)	(39)
Deferred revenue	48	(357)
Other long-term liabilities	(6)	(2)
Net cash provided by operating activities	428	608
Cash flows from investing activities:		
Purchases of property and equipment	(86)	(38)
Net cash used in investing activities	(86)	(38)
Cash flows from financing activities:		
Net cash provided by financing activities	—	—
Net change in cash and cash equivalents during year	342	570
Cash and cash equivalents, beginning of year	4,560	3,814
Cash and cash equivalents, end of year	$ 4,902	$ 4,384

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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") for interim financial reporting. In our opinion, these unaudited 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.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended September 30, 2015, included in the Company's 2015 Annual Report filed through the OTC Disclosure and News Services on December 31, 2015. The Company's results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

CASH, 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 and is restricted as to withdrawal or use. At March 31, 2016, cash, cash equivalents and restricted cash totaled approximately $4.9 million, as compared to $4.6 million at September 30, 2015. Restricted cash was approximately $1.4 million and is recorded as part of our cash and cash equivalents in our consolidated balance sheets.

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. The components of inventories include (in thousands):

	March 31, 2016	September 30, 2015
Raw materials	$ 15	$ 89
Work-in-progress	—	3
Finished goods	278	249
Total	$ 193	$ 341

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 a five year straight-line method. We depreciate leasehold improvements over the shorter of the lease term or the improvement's estimated useful life.

We periodically review our portfolio of equipment for impairment and determined that there was no impairments recorded for the periods referenced in the table below. Property, plant and equipment, net, consist of (in thousands):

	March 31, 2015	September 30, 2015
Machinery and equipment	$ 7	$ 7
Furniture and equipment	587	580
Tooling	69	181
Computer software	739	733
Leasehold improvements	206	206
Total	1,608	1,707
Accumulated depreciation and amortization	(1,495)	(1,581)
Property and equipment, net	$ 113	$ 126

SOFTWARE DEVELOPMENT COST

For software to be marketed and sold, 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. For internal use software used for hosted software sales, the amounts of costs eligible for capitalization relating to such software for internal use for hosting were not material. Accordingly, all software development costs have been charged to research and development expense in the accompanying Consolidated Statements of Operations.

REVENUE RECOGNITION

We derive our revenue from the sales of hardware, software licenses, hosted services and service support, known as software assurance programs. Revenue from the sales of our hardware and software licenses consist of direct sales to end-users, resellers and distributors, while revenue from the sales of our hosted services and service support consist of direct sales to end-users and resellers. Revenue from sales to end-users and resellers is recognized upon shipment or delivery of services, 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. If the Company determines that any one of the four criteria is not met, recognition of revenue is deferred until all the criteria are met. We provide for estimated sales returns and allowances and warranty costs related to such sales at the time of shipment. Such estimates are based on historical experience. 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, as evidenced by monthly "sales-out" reports that the distributors provide to us.

HOSTED SERVICES

Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, SIP Trunk service, call center solutions, voice and video calling, conference calling, and a variety of long distance services. Our solutions are used by businesses and organizations in industries such financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers typically enter into 12 month service agreements whereby they are billed for such services on a monthly basis. Revenue from our hosted services is recognized on a monthly basis as services are delivered.

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

SERVICE SUPPORT PROGRAMS

Our service support programs, also referred to as "software assurance" are post-contract customer support ("PCS") services and provide our customers with the latest software updates, patches, new releases, and technical support for the applications they are licensed to use. Such software assurance sales are sold separately from any software licenses. 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 included in "other long-term liabilities" in the accompanying consolidated balance sheets.

The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing the services, including upgrades and enhancements, are spread over the life of the software assurance contract term.

CONCENTRATIONS

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

In North America, we also have a reseller agreement with Fiserv Solutions, Inc. ("Fiserv"). 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:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	**2015**	**2016**	**2015**
Synnex	11%	22%	12%	22%
Fiserv (1)	—	10%	—	15%
Total	11%	32%	12%	37%

(1) During fiscal year 2016, revenue generated from Fiserv was less than 10% of our total revenue.

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:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
North America	99%	95%	98%	97%
Rest of World	1%	5%	2%	3%
Total	100%	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 reserves for our warranty liability for the three and six months ended March 31, 2016 and 2015, respectively, are as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Accrued warranty, beginning of year	$ 22	$ 40	$ 25	$ 41
Provision for warranty liability	8	2	1	5
Warranty cost including labor, components and scrap	(4)	(16)	—	(20)
Accrued warranty, end of year	$ 26	$ 26	$ 26	$ 26

STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION EXPENSE

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 following table summarizes the Company's stock option plan as of October 1, 2015 and changes during the six months ended March 31, 2016:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at October 1, 2015	4,262,504	$ 0.30		
Granted	57,500	0.29		
Exercised	—	—		
Forfeitures and cancellations	(126,314)	0.23		
Outstanding at March 31, 2016	4,193,690	$ 0.30	7.96	$ 316,567
Exercisable at March 31, 2016	3,491,653	$ 0.31	7.81	$ 262,271

The fair value of each option grant is calculated on the date of grant using the Black-Scholes options pricing model.

The following table summarizes stock-based compensation expense related to employee and director stock options for the periods indicated (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
Research and development	$ 21	$ 48	$ 52	$ 51
Sales and marketing	18	62	44	63
General and administrative	41	146	101	157
Total	$ 80	$ 256	$ 197	$ 271

Option Exchange Program

In December 2014, our Board of Directors approved a voluntary stock option exchange program (the "Option Exchange Program"). The Option Exchange Program permitted eligible employees to exchange two outstanding options for one new option. Pursuant to the terms of the exchange offer, options held by eligible employees with an exercise price equal to or greater than $0.16 per share were eligible for tender. The Option Exchange commenced on January 21, 2015 and expired on February 19, 2015. A total of 2.8 million options were tendered in the exchange program. In exchange for the eligible options that were accepted for exchange and cancellation, the Company issued new options to purchase an aggregate of 1.4 million shares of its common stock. The remaining 1.4 million options that were tendered were cancelled.

The new options were granted on February 19, 2015 and have an exercise price of $0.35 per share. The exercise price was determined using the greater of (i) the closing price of our common stock as reported on the OTCQX on February 19, 2015 (the "Grant Date") or (ii) the average of the closing prices for the 30 trading days immediately preceding the grant date. The new options will vest quarterly over an eighteen month period. The new options were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 179%, risk-free interest rates of 0.99% and expected lives of 2.5 years. Additionally, using the Black-Scholes repricing model, we determined that the fair value of the surrendered options was not material as of the date of the exchange, resulting in insignificant incremental stock-based compensation expense.

Issuance of Common Stock

On December 19, 2014, in connection with the option exchange program, our Board of Directors approved the grant of an aggregate of 2.3 million restricted stock options to certain directors, officers and employees in accordance with the Company's 2009 Stock Plan. The options were granted on December 19, 2014 and have an exercise price of $0.16 per share. The exercise price was determined using the greater of (i) the closing price of our common stock as reported on the OTCQX on December 19, 2014 (the "Grant Date") or (ii) the average of the closing prices for the 30 trading days immediately preceding the grant date. The options will vest quarterly over an eighteen month period and were valued on the grant date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 179%, risk-free interest rates of 0.99% and expected lives of 2.5 years.

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 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. As of March 31, 2016, there were a total of 6.7 million warrants outstanding. All such warrants have an exercise price of $0.30 per common share and expire on November 19, 2016.

COMMITMENTS AND CONTINGENCIES

Commitments

On December 31, 2013, the Company entered into an operating lease for its corporate headquarters, located in San Jose, California. The lease term commenced on May 15, 2014 and terminates in May 2019, with an option to renew for an additional five years. 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, which was recorded as part of deferred rent liability to be amortized over the term of the lease.

Future non-cancellable minimum lease payments under all operating leases as of March 31, 2016 are shown in the following table (in thousands):

Fiscal Year	**Future Lease Payments**
2016	$ 141
2017	286
2018	294
2019	175
Thereafter	—
Total	$ 896

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 cessation of operations in the China subsidiary, 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, therefore, we did not record a liability as a result of this transaction.

We review all legal contingencies each reporting period and make revisions based on changes in facts and circumstances. If a potential loss is justified, probable, able to be quantified, and material, we will provide for the exposure. As of March 31, 2016, we did not record any accrued litigation liabilities.

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, operating results or cash flows.

REVOLVING LINE OF CREDIT

On September 1, 2015, we amended the credit agreement governing our 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, 2016. The total amount available for the Company to borrow was reduced to $1.4 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 $1.4 million as collateral. The restricted cash is included in our cash, cash equivalents and restricted cash in our consolidated balance sheets as of March 31, 2016. 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% (1.187% at March 31, 2016), and the interest rate is reset monthly. Interest expense associated with the line of credit for the three and six months ended March 31, 2016 was approximately $3,000 and $6,000, respectively, as compared to $4,000 and $7,000, respectively, for the same period in fiscal year 2015.

As of March 31, 2016, the availability under the revolving line of credit was approximately $231,000 and we had outstanding borrowings of $1.2 million, which was included in current liabilities on the accompanying consolidated balance sheet. The unpaid balance of the Line of Credit 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, 2016.

SUBSEQUENT EVENTS

We evaluated subsequent events through May 13, 2016, 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.

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

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause industry trends or our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. You should carefully review the cautionary statements contained in our Annual Report for the fiscal year ended September 30, 2015, filed through the OTC Disclosure and News Services on December 31, 2015. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

AltiGen Communications, Inc. ("AltiGen," the "Company," "we," "us" or "our") 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.

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.

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 be its critical accounting policies.

Revenue Recognition

Revenue from the sales of our hardware and software licenses consist of direct sales to end-users, resellers and distributors, while revenue from the sales of our hosted services and service support, also referred to as "software assurance" consist of direct sales to end-users and resellers. Revenue from sales to end-users and resellers is recognized upon shipment or delivery of services, 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. If the Company determines that any one of the four criteria is not met, recognition of revenue is deferred until all the criteria are met. We provide for estimated sales returns and allowances and warranty costs related to such sales at the time of shipment. Such estimates are based on historical experience. 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, as evidenced by monthly "sales-out" reports that the distributors provide to us.

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 our revenue recognition policy is classified as "deferred revenue" in the accompanying consolidated balance sheets. The related cost of such revenue for hardware is also deferred and reported in the consolidated balance sheets as inventory. The related cost of software revenue is immaterial. As of March 31, 2016 and September 30, 2015, the Company had approximately $1.6 million and $1.7 million, respectively, in short-term deferred revenue, of which $1.5 million and $1.6 million, respectively, were comprised of service support revenue, and less than $100,000 represented deferred channel revenue for both March 31, 2016 and September 30, 2015. Long-term deferred revenue is primarily comprised of revenue generated from our service support programs and is discussed below under the heading "Service Support Programs."

Hosted Services

Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. We generate recurring revenue through our cloud-based business referred to as hosted services. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, SIP Trunk service, call center solutions, voice and video calling, conference calling, and a variety of long distance services. Our solutions are used by businesses and organizations in industries such financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers typically enter into 12 month service agreements whereby they are billed for such services on a monthly basis. Customers are billed the greater of their minimum monthly fee or actual usage, and revenue is recognized monthly as the service is performed.

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

Service Support Program

Our service support programs, also referred to as “software assurance” are post-contract customer support (“PCS”) services and provide our customers with the latest software updates, patches, new releases, and technical support for the applications they are licensed to use. 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 included in “other long-term liabilities” in the accompanying consolidated balance sheets. As described above, short-term service support revenue was approximately $1.6 million and $1.7 million as of March 31, 2016 and September 30, 2015, respectively. Long-term deferred revenue was approximately $338,000 and $142,000 as of March 31, 2016 and September 30, 2015, respectively. Our service plan offering remains a key part of our business as we continue to add new service customers.

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.

Software Revenue

Software revenue consists of license revenue that is recognized upon the delivery, usually a download from the Company’s website with a specified one-time download key/password that the Company provides to each customer upon sale. Our software revenue consists of direct sales to end-users, resellers and distributors. The software license is sold on a standalone basis with no other services or products bundled in. There is no maintenance or post-contract customer support (“PCS”) included with the software sale when it is not purchased with hardware. The Company will only provide such PCS on a rare and limited basis consisting primarily of technical support and bug fixes on installation if the download with the passcode key did not work. The Company does not provide any further PCS after installation in connection with the software license sale.

Hardware Revenue

Our hardware revenue consists of direct sales to end-users, resellers and distributors. 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, as evidenced by monthly “sales-out” reports that the distributors provide to us. 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.

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 and is restricted as to withdrawal or use. At March 31, 2016, cash, cash equivalents and restricted cash totaled approximately $4.9 million, as compared to $4.6 million at September 30, 2015. Restricted cash was approximately $1.4 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 $193,000 and $341,000 as of March 31, 2016 and September 30, 2015, respectively. Provisions for excess and obsolete inventory was not material for the six months ended March 31, 2016 and twelve months ended September 30, 015.

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 is evaluated on an ongoing basis to ensure its adequacy. The reserve for product warranties was $26,000 and $25,000 as of March 31, 2016 and September 30, 2015, respectively. The amount of warranty expensed during the six months ended March 31, 2016 and twelve months ended September 30, 2015 were not significant.

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.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	**2015 (1)**	**2016**	**2015 (1)**
Net revenue:				
Hardware	14.3 %	25.7 %	14.0 %	25.2 %
Software	22.2	26.3	23.2	29.1
Hosted and service support	63.5	48	62.8	45.7
Total net revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Hardware	13.1	17.5	13.9	17.4
Software	0.2	0.2	0.2	0.4
Hosted and service support	5.2	2.2	4.8	2.3
Total cost of revenue	18.5	19.9	18.9	20.1
Gross profit	81.5	80.1	81.1	79.9
Operating expenses:				
Research and development	31.4	30.9	31.0	28.7
Sales and marketing	26.8	23.3	25.8	21.2
General and administrative	21.6	21.6	22.7	19.8
Total operating expenses	79.8	75.8	79.5	69.7
Income from operations	1.7	4.3	1.6	10.2
Interest and other (expense) income, net				
Interest income and other, net	—	—	—	—
Interest expense	(0.1)	(0.1)	(0.1)	(0.1)
Total interest and other expense, net	(0.1)	(0.1)	(0.1)	(0.1)
Income before income taxes	1.6	4.2	1.5	10.1
Provision for income taxes	—	—	—	—
Net income	1.6 %	4.2 %	1.5 %	10.1 %

(1) Prior year results have been reclassified to reflect the addition of hosted and service support streams.

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

Results of Operations — Three and Six Months Ended March 31, 2016 Compared to Three and Six Months Ended March 31, 2015

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 decreased to $2.2 million and $4.4 million for the three and six months ended March 31, 2016, respectively, as compared to $2.5 million and $5.2 million for the same periods in fiscal year 2015.

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.

For the three months ended March 31, 2016, cost of revenue was $400,000, or 19% of net revenue, as compared to $505,000, or 20% of net revenue for the same period of fiscal year 2015. For the six months ended March 31, 2016, cost of revenue was $827,000, or 19% of net revenue, as compared to $1.0 million, or 20% of net revenue for the same period of fiscal year 2015. The decrease in both the three and six months ended March 31, 2016 compared to the same period of fiscal year 2015 was driven by a decline in cost of hardware, primarily due to a 53% decrease in our hardware revenue. Although there will be continuing quarterly fluctuations, we expect an overall decreasing trend in hardware sales due to the change in our product mix towards a cloud-based offering and the positive impact of stronger software and service support sales. Our product mix favors software and service support, and we continue to see improved margins as we experience a favorable revenue shift in these product lines.

Research and Development (“R&D”) Expenses

Research and development expenses consist primarily of salaries and overhead expenses, non-cash stock based compensation expense, 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 and capitalize certain costs of product development when the projects under development reach technological feasibility.

For the second quarter of fiscal year 2016, research and development expenses were $678,000, or 31% of net revenue, compared to $784,000, or 31% of net revenue for the second quarter of fiscal year 2015. For the six months ended March 31, 2016, research and development expenses were $1.4 million, or 31% of net revenue, as compared to $1.5 million, or 29% of net revenue for the same period of fiscal year 2015. The decrease in both the three and six months ended March 31, 2016 compared to the same periods of the prior year was driven by reduced salaries and overhead expenses, reduced consulting expenses and reduced non-cash stock based compensation expenses. The decrease in salaries and overhead expenses was the result of decreased headcount of approximately 5%.

We have focused our research and development efforts on expanding the functionality and scalability of our products and enhancing their ease of use, as well as creating new product offerings. Over the long term, we expect our research and development expenses to increase in absolute dollars as we continue to invest in the development of new solutions and improve existing products and services; however, we expect those expenses to fluctuate as a percentage of our revenue in future periods based on fluctuations in our revenue and the timing of those expenses. In the near term, we continue to focus on expense control and we anticipate that our level of R&D expenses will be variable quarter-to-quarter as we increase headcount to further strengthen and enhance our software products.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of salaries and overhead expenses, commissions and non-cash stock based compensation expense for our employees engaged in sales, sales support, marketing, business development, and customer support functions, as well as costs related to marketing and promotional activities.

For the second quarter of fiscal year 2016, sales and marketing expenses were $580,000, or 27% of net revenue, compared to $592,000, or 23% of net revenue for the second quarter of fiscal year 2015. For the six months ended March 31, 2016, sales and marketing expenses were $1.1 million, or 26% of net revenue, as compared to $1.1 million, or 21% of net revenue for the same period of fiscal year 2015.

To the extent we achieve higher sales levels, we expect sales and marketing expenses to 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.

General and Administrative Expenses

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

For the second quarter of fiscal year 2016, general and administrative expenses were $466,000, or 22% of net revenue, compared to $549,000, or 22% of net revenue for the second quarter of fiscal year 2015. The decrease was primarily driven by reduced non-cash stock based compensation expense. For the six months ended March 31, 2016, general and administrative expenses were $994,000, or 23% of net revenue, as compared to $1.0 million, or 20% of net revenue for the same period of fiscal year 2015.

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

Interest and Other (Expense) Income, Net

Interest expense consists primarily of interest charged on the outstanding borrowing of our revolving line of credit. Interest income relates to amounts earned on our cash and cash equivalents. The Company recorded $3,000 as interest expense and $1,000 as interest income in the second quarter of fiscal year 2016, compared to $4,000 of interest expense and $1,000 of interest income in the second quarter of fiscal year 2015. For the six months ended March 31, 2016, the company recorded $6,000 as interest expense and $2,000 as interest income, compared to $7,000 of interest expense and $2,000 of interest income during the same periods in fiscal year 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 March 31, 2016, total cash and cash equivalents represents approximately 88% of total current assets.

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

	Six Months Ended March 31,	
	2016	2015
Cash and cash equivalents, beginning of period	$ 4,560	$ 3,814
Cash provided by operating activities	428	608
Cash used in investing activities	(86)	(38)
Cash provided by financing activities	—	—
Cash and equivalents, end of period	$ 4,902	$ 4,384

Cash Provided by Operating Activities

Cash provided by operating activities in the six months ended March 31, 2016 was $428,000 and consisted of net income of $64,000, adjustments for non-cash items of $296,000 and an increase of $68,000 from the net changes in operating assets and liabilities. Non-cash items primarily consist of depreciation and amortization and stock-based compensation expenses.

During the six months ended March 31, 2015, net cash provided by operating activities was $608,000 and was primarily attributable to net income from continuing operations of $526,000.

Cash Used in Investing Activities

Cash flows from investing activities primarily relate to capital expenditures related to technological equipment, software licenses and to a lesser degree, office equipment. During the six months ended March 31, 2016 and 2015, cash used in investing activities was $86,000 and $38,000, respectively.

Cash Provided by Financing Activities

During the six months ended March 31, 2016 and 2015, we did not pursue any financing activities.

Based on our recent performance and current expectations, we believe our existing cash and cash equivalents, as well as cash expected to be generated from operating activities will adequately meet our working capital, capital expenditure needs and other liquidity requirements associated with our existing operations 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 March 31, 2016. We had total outstanding commitments on non-cancelable operating leases of approximately $896,000 as of March 31, 2016. Lease terms on our existing operating leases generally range from three to five years.

Effects of Recently Issued Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which is a new standard on revenue recognition. The new standard contains principles that an entity will need to apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The standard has a five-step approach which includes identifying the contract or contracts, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing revenue. The standard also significantly expands the quantitative and qualitative disclosure requirements for revenue, which are intended to help users of financial statements understand the nature, amount, timing, and uncertainty of revenue and the related cash flows. In July 2015, the FASB voted to amend ASU 2014-09 by approving a one-year deferral of the effective date as well as allowing early adoption as of the original effective date, but not before the annual periods beginning after December 15, 2016. The Company is currently evaluating this new standard and the impact it will have on its consolidated financial statements, processes, and internal controls.

In June 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-12, Compensation-Stock Compensation (Topic 718), which requires an award to be treated as a performance condition when a performance target exists that affects vesting of an award and that could be achieved after the requisite service period. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. As required, the Company adopted ASU No. 2014-12 in December 2015 with no impact on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Sub Topic 205-40) – Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 clarifies principles and definitions that may be used by an organization's management for disclosures that are currently made available in financial statement footnotes. Presently U.S. GAAP does not provide an organization's management guidance regarding its responsibility to assess whether substantial doubt exists regarding the ability to continue as a going concern or to prepare related footnote disclosures. Instead, auditors are responsible for assessing an entity's ability to continue as a going concern under AUC 570. ASU 2014-15 will move this responsibility to management. ASU 2014-15 will require management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as going concern from one year from the date the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016 to allow the auditing guidance to catch up with this change. ASU 2014-15 affects all companies and non-profits and early application is allowed. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring such costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Recognizing debt issuance costs as a deferred charge is no longer permitted. This update is effective for financial statements issued for fiscal years beginning after December 15, 2015. The adoption of ASU No. 2015-03 did not have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which amended the existing accounting standards for intangible assets. The amendments provide explicit guidance to customers in determining the accounting for fees paid in a cloud computing arrangement, wherein the arrangements that do not convey a software license to the customer are accounted for as service contracts. The standard is effective for annual reporting periods beginning after December 15, 2015. The Company adopted ASU No. 2015-05 in December 2015 with no impact on our consolidated financial statements.

Item 5. 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 cessation of operations in the China subsidiary, 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, therefore, we did not record a liability as a result of this transaction.

We review all legal contingencies each reporting period and make revisions based on changes in facts and circumstances. If a potential loss is justified, probable, able to be quantified, and material, we will provide for the exposure. As of March 31, 2016, we did not record any accrued litigation liabilities.

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, operating results or cash flows.

Item 6. Defaults upon Senior Securities.

None.

Item 7. Other Information.

None.

Item 8. Exhibits.

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

- Amended Line of Credit Agreement, Dated September 1, 2015, between Wells Fargo Bank and AltiGen Communications, Inc.
- Lease Agreement for 679 River Oaks Parkway, San Jose, California, dated as of December 31, 2013, between Montague Ridge LLC and AltiGen Communications, Inc.
- Amended and Restated Certificate of Incorporation.
- Second Amended and Restated Bylaws.
- Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of AltiGen Communications, Inc.
- Preferred Stock Rights Agreement, dated as of April 21, 2009, between AltiGen Communications, Inc. and Computershare Trust Company, N.A., including the Certificate of Designation, the form of Rights Certificate and the Summary of Rights attached thereto as Exhibits A, B and C, respectively.
- Amended and Restated Executive Employment Agreement by and between Philip McDermott and the Company, dated March 6, 2009.
- Executive Employment Agreement by and between Jeremiah J. Fleming and the Company, dated December 18, 2007.
- OEM Agreement between AltiSys Communications and AltiGen Communications, Inc., dated January 18, 1999.
- Distribution Agreement between Synnex Information Technologies, Inc. and AltiGen Communications, Inc. dated December 22, 1999.
- Reseller Agreement between Fiserv Solutions, Inc. and AltiGen Communications, Inc. dated August 28, 2009.

Copies of these agreements will be available for inspection at the office of the Corporation located at 679 River Oaks Parkway, San Jose, California 95134, during ordinary business hours.

Item 9. Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

1. I have reviewed this quarterly disclosure statement of AltiGen Communications, Inc.;

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

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

Date: May 13, 2016

BY: /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 quarterly disclosure statement of AltiGen Communications, Inc.;

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

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

Date: May 13, 2016

BY: /s/ Philip M. McDermott
Philip M. McDermott
Chief Financial Officer and Director