ALTIGEN COMMUNICATIONS, INC.

State of Incorporation: Delaware

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

SIC Code: 7373

ANNUAL REPORT
For Fiscal Year Ended September 30, 2023
(the "Reporting Period")

The number of shares outstanding of our common stock, par value $0.001 per share ("common stock"), was 24,918,656 shares as of September 30, 2023.

The number of shares outstanding of our common stock was 24,222,809 shares as of September 30, 2022.

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

Yes: ☐ No: ☒

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

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

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

Disclosure Regarding Forward-Looking Statements

Any reference to “Altigen” (which also may be referred to as the “Company”, “we”, “us” or “our”) means Altigen Communications, Inc. You should read the following discussion of our financial condition and results of operations together with the audited consolidated financial statements and notes to the audited consolidated financial statements for the fiscal year ended September 30, 2023, included elsewhere in this annual report (this “Annual Report”).

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

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

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PART A - GENERAL COMPANY INFORMATION

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

Exact name of the issuer: Altigen Communications, Inc.

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

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

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

Check box if principal executive office and principal place of business are the same address: ☒

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

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

PART B – SHARE STRUCTURE

Item 4. The Exact Title and Class of Securities Outstanding

Altigen has only one class of outstanding securities:

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

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

Common Stock

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

Preferred Stock

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

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

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

Authorized but Unissued Capital Stock

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

Classified Board of Directors

The Certificate of Incorporation and the Company's Second Amended and Restated Bylaws (the "Bylaws") include provisions classifying the Board of Directors into three classes with staggered three-year terms. Accordingly, only one third of the Board of Directors of directors will be elected at each annual meeting of stockholders.

Cumulative Voting

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

Advance Notice

The Bylaws require advance notice relating to certain stockholder business and Board of Director nominees to be considered at stockholder meetings. Under the Bylaws, stockholders are not permitted to call special meetings of stockholders unless they own a majority of the capital stock of the Company.

Shareholder Action by Written Consent

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

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

The following tables sets forth certain information for each class of securities authorized as of the dates set forth below:

Common Stock			
	September 30, 2023	**September 30, 2022**	**September 30, 2021**
Number of Shares Authorized	50,000,000	50,000,000	50,000,000
Number of Shares Outstanding	24,918,656	24,222,809	23,748,432
Freely Tradable Shares (Public Float) (1)	17,711,712	17,568,438	17,553,911
Number of Beneficial Shareholders Owning at Least 100 Shares (2)	1,496	1,972	1,766
Total Number of Stockholders of Record	56	57	71

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

Preferred Stock			
	September 30, 2023	**September 30, 2022**	**September 30, 2021**
Number of Shares Authorized	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	—	—	—
Freely Tradable Shares (Public Float)	—	—	—
Number of Beneficial Shareholders Owning at Least 100 Shares	—	—	—
Total Number of Stockholders of Record	—	—	—

Item 7. The Name and Address of the Transfer Agent

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

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

PART C – BUSINESS INFORMATION

Item 8. The Nature of the Issuer's Business

Altigen is a leading Microsoft Independent Software Vendor (ISV) and Cloud Solutions Provider (CSP) of cloud-based IP-PBX, Departmental Call Center and Corporate Contact Center solutions. As one of the first companies to offer Voice over Internet Protocol (VoIP) solutions, Altigen has been designing, developing, marketing, and supporting integrated communications solutions since 1996. As the Unified Communications market has evolved Altigen has continued to innovate. Our unique and feature rich Cloud PBX and Omni-Channel Contact Center solutions have been designed to natively integrate with Microsoft Teams to provide our customers with a complete, integrated enterprise communications solution.

Our solutions include Hosted PBX, Contact Center, Call Recording, Customer Self Service, Call Activity Reporting, and Mobility.

Altigen was formed in 1994 as a California corporation and was reincorporated in the State of Delaware in 1999. Our primary facility housing research and development, sales and marketing, and administrative functions is located in Milpitas, California. We also have a Representative Office in Taipei, Taiwan and Kathmandu, Nepal which serve as our international office for research and development activities. Our common stock trades on the OTCQB U.S. tier under the symbol

"ATGN." Trading of our common stock commenced on March 16, 2010, and Pink OTC Markets, Inc. provides quotes and other information at www.otcmarkets.com. The Company has never been in bankruptcy, receivership, or any similar proceeding.

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

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

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

Altigen's fiscal year ended on September 30, 2023.

BUSINESS COMBINATIONS AND ASSET ACQUISITION

The Company evaluates acquisitions of assets and other similar transactions to assess whether or not the transaction should be accounted for as a business combination or asset acquisition by first applying a screen to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the screen is met, the transaction is accounted for as an asset acquisition. If the screen is not met, further determination is required as to whether or not the Company has acquired inputs, process, and output, which would meet the requirements of a business. If determined to be a business combination, the Company accounts for the transaction under the acquisition method of accounting as indicated in Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2017-01, "Business Combinations", which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including any contingent assets and liabilities, and any non-controlling interest in the acquiree based on the fair value estimates as of the date of acquisition. In accordance with Accounting Standards Codification ("ASC") 805 - Business Combinations, the Company recognizes and measures goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

The consideration for the Company's business acquisitions may include future payments that are contingent upon the occurrence of a particular event or events. The obligations for such contingent consideration payments are recorded at fair value on the acquisition date. The contingent consideration obligations are then evaluated each reporting period. Changes in the fair value of contingent consideration, other than changes due to payments, would be recognized as a gain or loss and recorded in the consolidated statement of operations.

If determined to be an asset acquisition, the Company accounts for the transaction under ASC 805-50 Business Combinations – Related Issues, which requires the acquiring entity in an asset acquisition to recognize assets acquired and liabilities assumed based on the cost to the acquiring entity on a relative fair value basis, which includes transaction costs in addition to consideration given. No gain or loss is recognized as of the date of acquisition unless the fair value of non-cash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's financial statements. Consideration transferred that is non-cash will be measured based on either the cost (which shall be measured based on the fair value of the consideration given) or the fair value of the assets acquired, and liabilities assumed, whichever is more reliably measurable. Goodwill is not recognized in an asset acquisition and any excess consideration transferred over the fair value of the net assets acquired is allocated to the identifiable assets based on relative fair values.

RESEARCH AND DEVELOPMENT

Innovation is a vital part of our business, and we continue to expand and diversify our product offerings by leveraging our research and development capabilities. 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 use of our core technology. We regularly seek to introduce new products, features, applications, and services to address the requirements of our customers. Our research and development personnel are skilled with expertise in the diverse areas of telecommunications, IP networking, unified communications, and Contact Center solutions software.

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. For internal-use software developed as a service, we capitalize certain costs as incurred. Costs that qualify for capitalization include external services and fully burdened salaries during the application development stage of software coding and testing. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Capitalized costs are amortized using the straight-line method over the estimated economic life of the product. The Company evaluates the realizability of the assets and the related periods of amortization on a regular basis. The amortization of these costs is included in cost of revenue over the estimated life of the products.

Research and development expenses totaled approximately $5.1 million and $4.7 million for fiscal 2023 and 2022, respectively. We capitalized approximately $471,000 and $594,000 of internally developed software during fiscal 2023 and 2022, respectively.

Most 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. Our global research and development workforce is predominantly located in the United Stated, Taiwan, and Nepal. We intend to extend the functionality of our technology and develop new products by continuing to invest in research and development.

EMPLOYEES

As of September 30, 2023, the Company had 69 full-time equivalent employees, 42 in the U.S. and 27 internationally. Of the total full-time equivalent employees, 39 were in research and development, 5 in customer support, 7 in sales and marketing, 11 in operations, and 7 in general and administration. The Company's future success will depend in part on its ability to continue to attract, retain and motivate highly qualified personnel. We believe that we have been successful in recruiting qualified employees, but there is no assurance that we will continue to be successful in the future.

COMPETITION

The market for business communication solutions is quickly evolving, highly competitive and subject to rapid technological change. We offer a wide range of applications and services and as a result have a broad range of competitors. We currently compete with hosted PBX and Contact Center service providers like 8X8, Ring Central, Inc. and Five9. Several of these existing competitors have, and many of our future competitors may have, greater financial, sales and marketing, research and development and other resources, well-established brands or reputations and broader customer bases than we do and, as a result, these competitors may be better positioned to respond more rapidly to new or emerging technologies, market opportunities and changes in customer requirements or to devote greater resources to the development, promotion, and sale of their products. Some of these competitors also have more established distribution channels and stronger relationships with local, long-distance and Internet service providers. Many of our competitors have customer bases that are more geographically balanced than ours and, therefore, may be less affected by an economic downturn in a particular region. Competitors with greater resources also may be able to offer lower prices, additional products or services or other incentives that we cannot match or do not offer.

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

- Fully managed hosted Unified Communications as a Service (UCaaS);
- Extensive knowledge of Microsoft Teams Phone System;
- Complete, integrated solutions and services for Teams Phone System, including Direct Routing, Teams Call Reporting and Contact Center;
- Rapid service delivery; and
- End-to-end deployment, management and support.

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, 2023, 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. We own various patents and trademarks registered in the United States. The duration of each patent is 20 years from the date of its patent application filing. Our current patents will expire at various times between 2024 and 2025. We expect to continue to file patent applications to protect our technology and products. We cannot be sure that our patent applications will result in the issuance of patents, or that any issued patents will provide commercially significant protection for our technology. We maintain a policy requiring our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and to control access to software, documentation, and other proprietary information. Notwithstanding the steps we have taken to protect our intellectual property rights, third parties may infringe or misappropriate our proprietary rights. Competitors may also independently develop technologies that are substantially equivalent or superior to the technologies we employ in our products and services.

LEGAL PROCEEDINGS

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy, and disruptive to normal business operations. An unfavorable outcome in any legal matter, if material, could have a material adverse effect on our operations, financial position, liquidity, and results of operations. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Additionally, we record insurance recoveries related to legal matters when recovery is realizable. The Company is not a party to any material legal proceedings nor is the Company aware of any pending or threatened litigation that, in its opinion, would have a material adverse effect on its business or its financial position, results of operations or cash flows should such litigation be resolved unfavorably.

Intellitalk v. Altigen

In February 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. (“Intellitalk”), a former reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside in January 2019. The complaint alleges interference with prospective economic advantage and unfair competition. The Company filed a motion to dismiss all claims in the complaint. On March 10, 2023, the court dismissed the Company with prejudice.

Item 9. The Nature of Products or Services Offered

The information in Item 8 is incorporated herein by reference.

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

Hosted Unified Communications Solutions and Services

Altigen’s Hosted Unified Communications Solutions and Services include: CoreInteract, Hosted Skype for Business, MaxACD Cloud Contact Center, FrontStage Cloud Contact Center, MaxCS Cloud PBX, and MaxCloud UC. We also offer Session Initiation Protocol (SIP) Trunking Service for Hosted Skype for Business, MaxACD Cloud, FrontStage Cloud Contact Center, MaxCS Cloud PBX, MaxCloud UC and Microsoft Teams Phone System Direct Routing.

CoreInteract

CoreInteract replaces Teams Call Queues with a more powerful and easy-to-use solution for call routing and queuing. It further adds SMS and Web Chat routing and queuing functionality to deliver a complete Digital Customer Engagement Platform for Microsoft Teams. Optional applications include CoreEngage, a desktop productivity application and Workgroup Insights, a real-time performance monitoring solution. Built on the Microsoft Bot Framework and deployed in Azure, CoreInteract manages all customer communications channels natively within Teams.

Hosted Skype for Business

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

MaxACD Cloud Contact Center

MaxACD Cloud Contact Center offers business-critical voice routing and queuing apps including agent/supervisor desktop clients, real-time/historical reporting, automated call recording, CRM integration, auto attendant, and advanced skills-based routing for Skype for Business. Hosted in Altigen's Cloud, MaxACD provides a comprehensive, cost-effective, and easy-to-manage solution that is ideal for Internal departmental service/help desks or external customer facing service/technical support contact centers.

FrontStage Cloud Contact Center

FrontStage Cloud Contact Center is a next generation Contact Center as a Service (CCaaS) solution designed to support both Microsoft Teams and Altigen MaxCloud. FrontStage is a complete omni-channel contact center solution providing routing and queuing for voice, SMS and web chat. Integrated applications include agent and supervisor clients, real-time and historical reporting, automated call recording, CRM integration, auto attendant, advanced skills-based routing, and quality management. This innovative solution is typically deployed in Microsoft Azure and is fully managed and supported by Altigen and its certified partners.

MaxCS Cloud PBX

MaxCS Cloud PBX is Altigen's fully integrated hosted PBX and contact center solution. Built on Microsoft Windows and delivered as a fully managed service, MaxCS Cloud PBX provides our customers with a cost-effective, easy to manage cloud-based business phone system. Primarily sold and supported through Altigen's network of authorized reseller partners, MaxCS Cloud PBX supports customers with as few as ten employees to hundreds of employees.

MaxCloud UC

MaxCloud UC is a comprehensive, next generation Unified Communications as a Service (UCaaS) solution. Delivered as a fully managed service, MaxCloud UC offers traditional PBX capabilities plus integrated Unified Communications functionality, including Instant Messaging, Presence, Desktop Sharing and Video Conferencing. MaxCloud UC is a highly scalable, geo-redundant UCaaS platform that supports small offices to mid-size enterprise organizations and is sold and supported through Altigen's reseller partners.

Session Initiation Protocol (SIP) Trunking

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

Benefits of Altigen's Hosted Unified Communications Solutions and Services

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

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

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

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

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

Premise-Based Business Communications Solutions

MaxCS Cloud PBX

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

MaxACD Voice Over Internet Protocol (VoIP) Contact Center

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

MaxACD Contact Center for Microsoft Skype for Business

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

Benefits of Altigen's Premise-Based Business Communications Solutions

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

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

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

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

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

PRODUCTS

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

Product	Description
CoreInteract	CoreInteract is an enterprise Digital Customer Engagement solution designed as a native Teams application. In addition to routing and queuing voice conversations, CoreInteract also provides SMS, Web Chat and Email routing and queuing functionality natively within Teams. Optional applications include CoreEngage, a desktop productivity application, Workgroup Insights, a real-time performance monitoring solution, and CoreAttendant, a native Teams operator console. Built on the Microsoft Bot Framework and deployed in Azure, CoreInteract manages all customer communications channels natively within Teams.
MaxCS IP-PBX	MaxCS server software consists of a comprehensive suite of software applications to provide a high value, all-in-one solution. The systems include software and licensing necessary to support analog and VoIP telephones, operator software, and desktop call control software for each extension on the system. By providing a bundled approach, we maintain quality and reliability while providing for easy deployment. The platforms are scalable and are packaged according to the size of the customer. MaxCS IP-PBX seamlessly integrates with industry standard VoIP devices like Polycom IP phones.
MaxCloud UC	MaxCloud UC is a comprehensive, next generation Unified Communications as a Service (UCaaS) solution. Delivered as a fully managed service, MaxCloud UC offers traditional PBX capabilities plus integrated Unified Communications functionality, including Instant Messaging, Presence, Desktop Sharing and Video Conferencing. MaxCloud UC is a highly scalable, geo-redundant UCaaS platform that supports small offices to mid-size enterprise organizations.
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.
FrontStage Cloud Contact Center	FrontStage Cloud Contact Center is a next generation Contact Center as a Service (CCaaS) solution designed to support both Microsoft Teams and MaxCloud. FrontStage is a complete omni-channel contact center solution providing routing and queuing for voice, SMS, web chat and email. Integrated applications include agent and supervisor clients, real-time and historical reporting, automated call recording, CRM integration, auto attendant, advanced skills-based routing, and quality management. This innovative solution is typically deployed in Microsoft Azure and is fully managed and supported by Altigen and its certified partners.

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

Customers

Our customers primarily consist of end-users, reseller partners, and distributors. They represent a diverse range of small and medium-sized organizations across various industries, including financial services, healthcare, technology, and government sectors.

We have historically relied on a limited number of customers and reseller partners for a significant portion of our total revenue. During fiscal years 2023 and 2022, one reseller partner accounted for more than 10% of our total revenue, representing 31% and 33%, respectively. Our top five customers and reseller partners collectively accounted for 57% and 48% of our total revenue for fiscal years 2023 and 2022, respectively. We expect to continue to experience significant customer concentration in future periods. The loss of, or significant decrease in demand from any of our largest customers or reseller partners could have a material adverse effect on our business, results of operations, cash flows and overall financial condition.

MARKETING, SALES AND CUSTOMER SERVICE AND SUPPORT

Marketing

Our marketing efforts currently focus on increasing demand for our solutions utilizing targeted email campaigns, telemarketing and advertising. In addition, we generate awareness by participating in industry tradeshows, issuing press releases, and articulating our messaging through our website. We conduct our marketing activities both domestically and internationally to promote our products independently and in cooperation with our distributors, reseller partners and strategic partners. Our product information is available on our website, which contains overview presentations and technical information.

Sales

We market and distribute our products through Altigen 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 reseller partners.

We maintain sales and support teams in various regions across the United States. Our inside sales team answers incoming calls from end-users and directs new leads to qualified dealers in proximity to each end user's location. Additionally, the inside sales team manages accounts for our smaller reseller partners. Our outside sales force, primarily based in the United States, comprises enterprise account executives and technology solutions managers who collaborate with direct enterprise accounts and larger reseller partners.

Customer Service and Support

We believe that consistent, high-quality service and support are key factors in attracting and retaining customers. We maintain a contact center that provides customer service and technical support to our customers. Customers and reseller partners can access our services directly through our website or receive customer service and technical support through telephone communication, e-mail support and online chat services. We offer a comprehensive collection of support services designed to rapidly respond to inquiries. As of September 30, 2023, we had 5 employees engaged in technical support, maintenance, and cloud services located in California, New Jersey, South Carolina, Texas, and Utah. We provide standard customer service and support during regular business hours as well as after-hours support through an on-call engineer. Our support personnel also assist our reseller partners in resolving installation and support issues that arise from their sales to end users.

RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties. You should consider carefully the risks and uncertainties described below, together with all of the other information in this report. If any of the following risks, other risks and uncertainties actually occur, our business, financial condition, results of operations, and future prospects could be materially harmed, and the price of our common stock could decline. Our business could also be materially and adversely affected by risks and uncertainties that are not presently known to us or that we currently believe are not material. Material risks that may affect our business, operating results and financial condition include, but are not necessarily limited to, those relating to:

Risks Related to Our Business

Our operating results are likely to fluctuate from quarter to quarter, which could adversely affect the trading price of our common stock.

Our results of operations, including our revenue, cost of revenue, gross margin, operating expenses, cash flow and deferred revenue, have fluctuated from quarter-to-quarter in the past and may continue to vary significantly in the future due to a variety of factors, many of which are outside of our control and may be difficult to predict. Factors that may cause these quarterly fluctuations include, without limitation, those listed below:

- market acceptance of our solution, including new features that are added to our solution;
- our ability to develop new offerings and grow our business in response to changing technologies, customer demand, and competitive pressures;
- our ability to attract new customers and maintain, expand, and further penetrate our existing customer base;
- customer attrition rates;
- our ability to successfully expand our business;
- our ability to gain new and retain existing reseller partners;
- the effects of increased competition in our markets and our ability to compete effectively;
- our ability to successfully integrate acquired businesses and technology and achieve a positive return on our investment;
- inaccessibility or failure of our hosted software due to failures in the products or services provided by third parties;
- concentration of revenue with a select number of customers and reseller partners;
- fluctuations in the mix of our revenue, which may impact our gross margins and operating income;

- increases or decreases in the number of elements of our subscriptions or pricing changes upon any renewals of customer agreements;
- changes in our pricing policies or those of our competitors;
- network outages or security incidents, which may result in additional expenses or losses, legal or regulatory actions, the loss of customers and harm to our reputation;
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our offerings;
- actual or perceived breaches of, or failures relating to, privacy, data protection or information security;
- additions or departures of key personnel;
- general economic, political. industry and market conditions;
- our ability to collect timely on invoices or receivables;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- the cost and potential outcomes of future litigation or other disputes;
- future accounting pronouncements or changes in our accounting policies;
- our overall effective tax rate;
- the amount and timing of costs and expenses related to our research and development efforts or in the acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies;
- the impact of catastrophic events, man-made problems such as terrorism, natural disasters and public health epidemics and pandemics; and
- other risk factors described in this Annual Report.

The impact of one or more of the foregoing or other factors may cause our operating results to vary significantly. As a consequence, operating results for a particular future period are difficult to predict, and, therefore, prior results are not necessarily indicative of results to be expected in future periods. Any of the foregoing factors, or any other factors discussed elsewhere herein, could have a material adverse effect on our business, results of operations, and financial condition that could adversely affect our stock price. Such fluctuations could cause us to fail to meet the expectations of investors or securities analysts, which could cause the trading price of our common stock to fall substantially, and we could face costly lawsuits, including securities class action suits.

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

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

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

Any damage to, or failure of our systems could result in interruptions in our service. Interruptions in our service may cause customers to terminate their subscriptions and adversely affect our attrition rates and our ability to attract new customers, all of which would reduce our revenue and profits, and our future revenue and profits will be harmed if our customers believe that our system is unreliable.

If we fail to continue to enhance our platform and adapt to rapid technological change, our ability to remain competitive could be impaired.

The industry in which we compete is characterized by rapid technological change, frequent introductions of new products and/or services, and evolving industry standards, all of which impact the way our services are marketed and delivered. Our ability to attract new customers and increase revenue from existing customers will depend in significant part on our ability to anticipate industry standards and trends and continue to enhance our product offerings, introduce new functionality, update our infrastructure on a timely basis to broaden the appeal of our platform to potential new customers, provide an intuitive and user-friendly interface, increase the opportunities for further expanding the use of our platform by existing customers, and keep pace with technological developments. The success of any enhancement, new functionality, or infrastructure development depends on several factors, including timely completion and market acceptance. Any new enhancement, functionality, or infrastructure development might not be introduced in a timely or cost-effective manner and might not achieve the broad market acceptance necessary to generate significant revenue. If any of our competitors implements new technologies before we are able to implement them, those competitors may be able to provide more effective products than ours at lower prices.

Our platform must also integrate with a variety of third-party technologies, and we need to continuously modify and enhance our platform to adapt to changes in cloud-enabled hardware, software, networking, browser, and database technologies. Any failure of our platform to operate effectively with existing or future technologies could reduce the demand for our platform, resulting in customer dissatisfaction and harm to our business. Further, the emergence of new industry standards related to strategic planning and operational execution products and services may adversely affect the demand for our platform. In addition, because our platform is cloud-based, we need to continually enhance and improve our platform to keep pace with changes in Internet-related hardware, software, communications, and database technologies and standards. Any failure of our platform to operate effectively with future hardware or software technologies, or to comply with new industry standards, could reduce the demand for our platform and harm our business, results of operations, and financial condition.

We may not be able to successfully integrate acquisitions in the future, and we may not be able to realize anticipated cost savings, revenue enhancements, or other synergies from such acquisition.

On May 6, 2022, we acquired substantially all of the assets of Intermountain Technology Group, doing business as ZAACT Consulting (“ZAACT”). Our ability to successfully implement our business plan and achieve targeted financial results and other benefits including, among other things, greater market presence and development and enhancements to our product portfolio and customer base is dependent on our ability to successfully identify, consummate and integrate acquisitions, including ZAACT, as well as other businesses we may acquire in the future. We may not realize the intended benefits of the ZAACT acquisition or the acquisition of other businesses in the future as rapidly as, or to the extent, anticipated by our management. There can be no assurance that we will be able to successfully integrate the ZAACT business, or any other acquired businesses, products or technologies without substantial expenses, delays or other operational or financial problems. Acquisitions, including our acquisition of ZAACT, involve a number of risks, some or all of which could have a material adverse effect on our business. Furthermore, there can be no assurance that the ZAACT acquisition or any other acquired product, or technology will be profitable or achieve anticipated revenues and income. Our failure to manage our acquisition and integration strategy successfully could have a material adverse effect on our business, results of operations, and financial condition.

Further, any acquisition may affect our ability to adequately maintain our internal control over financial reporting. If our internal control over financial reporting is not effective, it may adversely affect investor confidence in the Company.

Our business could be harmed if we fail to effectively manage critical strategic third-party business relationships.

As our offerings expand and our customer base grows, our relationships with strategic partners become increasingly valuable. If our contractual relationships with these third parties were to terminate, or if we were unable to renew on favorable terms, our business could be harmed. This is especially the case when the third party’s offerings are integrated with our products and services, or where the third party’s offerings are difficult to substitute or replace. Alternative arrangements for such products and services may not be available to us, or on commercially reasonable terms, and we may experience business interruptions upon a transition to an alternative partner. The failure of third parties to provide acceptable products and services or to update their technology may result in a disruption to our business operations and those of our customers, which may reduce our revenue and profits, cause us to lose customers and damage our reputation.

We have historically had a high concentration of revenue from a limited number of customers and reseller partners. We expect to continue to be dependent on a limited number of customers and reseller partners.

Our current revenue is derived from a limited number of key customers and reseller partners. For the fiscal year ended September 30, 2023, our top five customers and reseller partners collectively accounted for 57% of our total revenue, with on reseller partner alone accounting for 31% of our total revenue. For the fiscal year ended September 30, 2022, our top five customers and reseller partners collectively accounted for 48% of our total revenue, with one reseller partner alone accounting for 33% of our total revenue. We could experience fluctuations in our customer base or the mix of revenue by customer as markets and strategies evolve. The demand for our products may fluctuate due to factors beyond our control. Our inability to meet our customer/ reseller partners requirements or to qualify our products with them could adversely impact our revenue. We expect a limited number of customers and reseller partners to continue to account for a significant portion of our revenue in the foreseeable future. This customer concentration increases the risk of quarterly fluctuations in our revenue and operating results. The loss or reduction of business from one or a combination of our significant customers and reseller partners could have a material adverse effect on our business, results of operations, cash flow and financial condition.

Our churn rate may increase in future periods due to customer cancellations or other factors, which may adversely impact our revenue and our business.

Our customers may discontinue their subscriptions for our services after the expiration of their initial subscription period, which is typically twelve months. Additionally, our customers may renew for lower subscription amounts. Our cancellation rates may increase or fluctuate due to a number of factors, including but not limited to customer satisfaction with our service, customer usage, pricing change, increased competition from other providers, deteriorating general economic conditions, as well as the financial conditions of our customers or the state of credit market. We may not accurately predict cancellation rates for our customers. If our customers do not renew their subscriptions for our service or decrease the amount they spend with us, our revenue will decline, and our business will suffer. Furthermore, a sustained and significant growth in the churn rate could have a material adverse effect on our business.

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

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

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

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

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

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

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

retaining small and medium-sized businesses can be more difficult than selling to and retaining large enterprises because small and medium-sized business customers:

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

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

Sales to small and medium-sized businesses face risks as they may have fewer financial resources to weather an economic downturn.

We market our products and services to small and medium-sized businesses. Customers in this market may be adversely affected by economic downturns to a greater extent, and may have more limited financial resources, than larger or more established businesses. A substantial majority of our customers pay for our services with credit and debit cards. Weakness in certain segments of the credit markets and in the U.S. and global economies may result in increased numbers of rejected credit and debit card payments, which could negatively affect our business. If small and medium-sized businesses experience financial hardship as a result of a weak economy, the overall demand for our services could be materially and adversely affected.

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

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

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

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

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

A portion of our revenue is generated by sales through our reseller partners. We rely on our reseller partners to market, sell and support our products and service offerings. We provide our reseller partners with training and programs to assist them in selling our products and services, but there can be no assurance that these steps will be effective. These reseller partners may also market, sell, and support products and services that are competitive with ours and may devote more resources to the marketing, sales and support of such competitive products. Additionally, these reseller partners may have incentives to promote our competitors' products and/or service offerings to the detriment of our own or may cease selling our products/services altogether. Our agreements with our reseller partners may generally be terminated for any reason by either party with advance notice prior to each annual renewal date. We may not retain these reseller partners and may not be able to secure additional or replacement reseller partners. The loss of one or more of our significant reseller partners could harm our results of operations. In addition, any new reseller partners require training and may take several months or more to achieve productivity.

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

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

If we are unable to maintain a high level of customer support, customer satisfaction and demand for our services could suffer.

If we are unable to provide customers with quality customer support in a variety of areas, we could face customer dissatisfaction, decreased overall demand for our services, and loss of revenue. In addition, our inability to meet customer service expectations may damage our reputation and could consequently limit our ability to retain existing customers and attract new customers, which would adversely affect our ability to generate revenue and negatively impact our operating results.

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

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

If we fail to hire and retain qualified employees and management personnel, our growth strategy and our operating results could be harmed.

Our growth strategy depends on our ability to identify, hire, and retain executives, technical engineers, software developers, operations employees, and sales and senior management personnel who maintain relationships with our customers and who can provide the technical, strategic, and marketing skills required for our company to grow. Hiring and retaining qualified personnel is critical to our business, and competition for experienced employees in our industry can be intense. There is no assurance that we will be able to recruit or retain qualified personnel, and this failure could impact our ability to develop and deliver new products and services, which could cause our operations and financial results to be negatively impacted.

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

From time to time, we may be involved in a variety of claims or litigations. Any legal proceedings or claims against us could be costly and time-consuming to defend and could harm our reputation regardless of the outcome. Such a proceeding may initially be viewed as immaterial but could prove to be material. Litigations are inherently unpredictable, and excessive verdicts do occur. Given the inherent uncertainties in litigation, even when we are able to reasonably estimate the amount of possible loss or range of loss and therefore record an aggregate litigation accrual for probable and reasonably estimable loss contingencies, the accrual may change in the future due to new developments or changes in approach. In addition, such claims or litigations could involve significant expense and diversion of management's attention and resources from other matters.

Natural disasters and other events beyond our control could materially adversely affect us.

Natural disasters or other catastrophic events may cause damage or disruption to our operations and the global economy. Our business is subject to interruption by natural disasters, fire, power shortages, pandemics (including the ongoing Coronavirus epidemic) and other events beyond our control. Such events could make it difficult or impossible for us to deliver our services to our customers and could decrease demand for our services.

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

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

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

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

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

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

We 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, 2023, we had an accumulated deficit of $60.2 million as compared to $56.9 million as of September 30, 2022. 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 cannot predict every event and circumstance that may impact our business and, therefore, the risks discussed above may not be the only ones you should consider.

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

Risks Related to Our Common Stock

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

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

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

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

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

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

Pursuant to our recent business acquisition, the Company acquired ZAACT's office lease totaling approximately 3,566 rentable square feet located in Sandy, Utah. The lease term expires on September 30, 2024.

We also lease 2,284 square feet of office space in Taipei, Taiwan, which lease expires in January 2024. The facility serves as our international office for research and development activities.

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

PART D - MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11. Company Insiders (Officers, Directors, and Control Persons)

Chief Executive Officer

Name	Age	Position
Jeremiah J. Fleming	66	President, Chief Executive Officer, and Chairman of the Board

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

Summary Compensation Table

The table below summarizes the total compensation paid during fiscal years 2023 and 2022 to our named executive officer and directors.

Name and Principal Position	Fiscal Year	Salary	Bonus	Option Awards	All Other Compensation (1)	Total
Jeremiah J. Fleming	2022	$ 275,000	$ 66,834	$ —	$ 4,000	$ 345,834
President, Chief Executive Officer, Chairman of the Board	2022	$ 275,000	$ 42,929	$ —	$ 4,000	$ 321,929
Simon S. Chouldjian	2023	$ —	$ —	$ —	$ 16,000	$ 16,000
Director	2022	$ —	$ —	$ —	$ 16,000	$ 16,000
Ken Epps	2023	$ —	$ —	$ —	$ 16,000	$ 16,000
Director	2022	$ —	$ —	$ —	$ 16,000	$ 16,000
Philip M. McDermott	2023	$ —	$ —	$ —	$ 16,000	$ 16,000
Director	2022	$ —	$ —	$ —	$ 16,000	$ 16,000
Keith A. Midkiff	2023	$ —	$ —	$ —	$ 16,000	$ 16,000
Director	2022	$ —	$ —	$ —	$ 16,000	$ 16,000

(1) Represents cash fees earned for service on the Board of Directors.

Board of Directors and Control Persons

Our Board of Directors is divided into three classes. We currently have five directors divided among the three classes. None of our directors or executive officers has any family relationship to any other director or executive officer. As of the date of this Annual Report, the Company is not aware of any related party transactions. None of our directors have been involved in any legal proceedings during the last five years.

The following table set forth certain information as of September 30, 2023, with respect to the beneficial ownership of our common stock by: (1) each person or entity known by the Company to beneficially own 5% or more of the Company’s common stock; (2) each of the Company’s directors; and (3) each of the Company’s executive officers. For the purposes of computing a person’s beneficial ownership, shares of common stock issuable upon the exercise of securities exercisable or convertible into common stock on September 30, 2023, are deemed outstanding for the purposes of computing the share ownership and percentage ownership of the person holding such securities. For each individual included in the below table, percentage ownership is calculated by dividing the number of shares beneficially owned by such person by the sum of the 24,918,656 shares of common stock outstanding as of September 30, 2023, plus the number of shares of common stock that such person had the right to acquire on September 30, 2023.

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

Name	Age	Affiliation with Company	Number of Shares Held	Options	Total Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned
Class I:						
Simon S. Chouldjian	71	Director	889,574	30,000	919,574	3.7%
Ken Epps	67	Director	5,000	30,000	35,000	*
Class II:						
Jeremiah J. Fleming	66	President, Chief Executive Office and Chairman of the Board	3,493,682	1,100,003	4,593,685	17.7%
Philip M. McDermott	77	Director	374,273	10,000	384,273	1.5%
Class III:						
Keith A. Midkiff	61	Director	51,888	30,000	81,888	*

(*) Represents less than 1% of the Company's outstanding common stock.

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

Class I Directors

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

Ken Epps. Mr. Epps has served as an independent director of the Company since 2017. He is Senior Executive, Entrepreneur, and Board Member with more than 25 years of success leading emerging and Fortune 100 organizations across the healthcare and communications industries. Mr. Epps is currently founder and CEO of ThreeNineTeen LLC, a Strategic Advisory firm, where he advises high-tech firms on Digital Transformation strategies. Prior to ThreeNineteen, Mr. Epps was CEO of Agnity HealthCare, Inc., and CSO of Agnity Global Inc. (acquired by TNS), where he pioneered cloud-based SaaS solutions for the healthcare industry that revolutionized telemedicine and remote patient care. Prior to Agnity Mr. Epps was CEO and Board Member at BayPackets (acquired by GENBAND), where he transformed the company into a global technological leader of multimedia communications solutions to global communications solutions providers worldwide. Mr. Epps was the SVP Strategic Marketing at The Williams Company, where he was instrumental in the successful IPO of Williams Communications on the New York Stock Exchange. Prior to the Williams Company, Mr. Epps was a Division Manager at AT&T where he resurrected a $6 billion legacy voice services business through the introduction of next generation internet and digital technology solutions. Mr. Epps currently serves on the Boards of Nulia Inc., and EHN Inc. Mr. Epps also serves as Chairman of the Board of GlobalMindED, on the Advisory Board at South Carolina State University, and as Professor of the Practice – Strategy, at Wake Forest University MBA Program. He holds a Master of Business Administration degree from Stanford University, a Master of Science degree in Engineering from the University of Tennessee, and a Bachelor of Science degree in Mechanical Engineering Technology from South Carolina State University.

Class II Directors

Jeremiah J. Fleming. Mr. Fleming was appointed our President in 2007, and Chief Executive Officer and Chairman of the Board of Directors in 2014. He has served as a member of our Board of Directors since July 2007. Mr. Fleming has over 25 years of experience in the software and communications industries, primarily with smaller fast-growing companies, and has a strong background in sales, marketing and business development. Prior to joining Altigen, Mr. Fleming was at Interactive Intelligence, Inc. where he served in an executive management capacity for 10 years, including international responsibilities, culminating in his role as president of the Vonexus subsidiary launched in 2004. Prior to that, Mr. Fleming spent five years at Software Artistry in various management positions, including Vice President, Domestic Sales, and five years at Computer Associates in various sales and sales management capacities. Mr. Fleming holds both B.A and M.B.A. degrees from the University of Missouri.

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

Class III Director

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

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

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

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

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

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

The Company's audited consolidated financial statements for the two preceding fiscal years are included in the Company's Annual Report for the fiscal years ended September 30, 2022 and 2021, which are separately posted on the OTCQB website and can be accessed at www.otcmarkets.com, are incorporated by reference in this Annual Report. The audited consolidated financial statements include the following reports: (i) consolidated balance sheets; (ii) consolidated statements of operations; (iii) consolidated statements of cash flows; (iv) consolidated statements of stockholders' equity; (v) notes to consolidated financial statements; and (vii) audit opinion.

Item 14. The Name, Address, Telephone Number, and Email Address of Each of the Following Outside Providers that Advise the Issuer on Matters Relating to Operations, Business Development and Disclosure:

Securities Counsel:	Perkins Coie LLP 1900 Sixteenth Street, Suite 1400 Denver, CO 80202-5255 Telephone: (303) 291-23474 Email: nprusse@perkinscoie.com
Auditor:	Moss Adams LLP 635 Campbell Technology Parkway Campbell, CA 95008 Telephone: (408) 558-7602 Email: tai.huynh@mossadams.com
Tax Accountant:	Moss Adams LLP 2882 Prospect Drive, Suite 300 Rancho Cordova, CA 95670 Telephone: (916) 503-8152 Email: mark.harrison@mossadams.com

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

Item 15. Management's Discussion and Analysis or Plan of Operation

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"), which provided a five-step model for recognizing revenue from contracts with customers as follows:

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

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

Hosted Services Revenue

We generate recurring revenue through our cloud-based products referred to as hosted services. Hosted services revenue is derived from the sale of subscriptions to our software applications as well as other services such as minutes usage from domestic and foreign calling plans. Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, CoreInteract, Skype for Business, SIP Trunk service, call center solutions, voice and video calling, conference calling, and a variety of long-distance services. Our solutions are used by businesses and organizations in industries such as financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers will typically enter into a one-year service agreement whereby they are billed for such services on a monthly basis. Hosted services revenue includes recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits and other recurring fees related to our subscriptions. Under ASC 606, we recognized hosted services revenue in the period when the services are performed.

Professional Services and Other Revenue

The Company also derives revenue from professional services which primarily include custom software development to extend system capabilities and enable Unified Communications integration with other enterprise applications, product configuration, customization and reporting. Our professional services are sold separately from software services and have standalone value. Revenue from professional services is recognized when contractual milestones are achieved, services are delivered and accepted by the customer for fixed price contracts. Other revenue consists of service and support revenue, including revenue from our cloud-based services for post-contract customer support, cloud deployments, installation and training services. Revenue from our service and support offerings are generally recognized ratably over the term of the arrangement. Revenue from deployment, installation and training is recognized as the services are performed.

Software Assurance Revenue

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

Software License Revenue

Software license revenue consists of perpetual license revenue that is recognized upon delivery which transfers control of the software to the customer, usually a download from the Company's website with a specified one-time download key/password that the Company provides to each customer upon sale. The software is sold on a standalone basis with no other services or products bundled in. Software license revenue consists of direct sales to end-users, reseller partners and distributors.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Our available cash and cash equivalents are held in time deposits and money market funds. The Company's cash and cash equivalents totaled approximately $2.6 million at September 30, 2023, compared to $3.2 million at September 30, 2022.

Concentrations of Significant Customers and Reseller Partners

We have historically relied on a limited number of customers and reseller partners for a significant portion of our total revenue. The potential loss of some or all these key customers and reseller partners could have a substantial negative impact on our future financial performance. During fiscal years 2023 and 2022, one reseller partner accounted for more than 10% of our total revenue, representing 31% and 33%, respectively. Our top five customers and reseller partners collectively accounted for 57% and 48% of our total revenue for fiscal years 2023 and 2022, respectively. We expect to continue to experience significant customer concentration in future periods. The loss of, or significant decrease in demand from any of our largest customers or reseller partners could have a material adverse effect on our business, results of operations, cash flows and financial condition.

Results of Operations—Fiscal year ended September 30, 2023 Compared with Fiscal year ended September 30, 2022

Net Revenue

Total revenue for fiscal 2023 increased 15% to $13.7 million, compared to the prior year revenue of $11.9 million. The increase was primarily attributable to an increase of 117%, or $2.3 million in professional services revenue, resulting primarily from the acquisition of ZAACT, offset by a decrease of approximately 24%, or $548,000 in software assurance and software license revenue.

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,		
	2023	**2022**	**2021**
Cloud services	56%	64%	69%
Software assurance	11%	16%	21%
Professional services and other	32%	17%	5%
Software license	1%	3%	5%
Total	100%	100%	100%

Cost of Revenue

Cost of Hosted Services

Cost of hosted services primarily consists of hosting infrastructure costs, personnel costs associated with customer care, costs associated with data center capacity purchased from third-party providers and certain fees paid to various third parties for the use of their technology, services, and data. Cost of hosted services also includes amortization of capitalized software development costs, amortization of intangible assets, allocated overhead expenses, and to a lesser extent commission fees paid to reseller partners. We sell our hosted services through our reseller relationships allowing us to transact with the customer directly, which requires us to pay applicable commissions to our reseller partners.

For fiscal 2023, cost of hosted services was $3.1 million, or 23% of net revenue, compared to $3.0 million, or 25% of net revenue for fiscal 2022.

Cost of Professional Services and Other

Cost of professional services and other revenue is comprised primarily of personnel-related costs directly associated with deployment services, implementation fees, customer onboarding, as well as other professional services contracted through third-party vendors. For fiscal 2023, cost of professional services and other revenue increased to $1.8 million, or 13% of net revenue, compared to $699,000, or 6% of net revenue in fiscal 2022, resulting from increased revenue primarily attributable to the acquisition of ZAACT.

Cost of Software Assurance

Cost of software assurance consists principally of upgrades, enhancements and technical support. The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing such services are deferred and recognized as cost of revenue over the life of the software assurance contract term. For fiscal 2023 and 2022, the related cost of software assurance was immaterial.

Cost of Software License

Cost of software license reflects costs related to the sale of our perpetual software licenses including third-party software costs, commission fees paid to reseller partners and amortization of capitalized software development costs. From time to time, we resell third-party software in conjunction with the license of our software solutions, which results in a fee. The cost of software license fees is generally higher, as a percentage of revenue, when we sell products from third-party vendors. We also sell our software solutions through our reseller relationships allowing us to transact with the customer directly, which requires us to pay applicable commissions to our reseller partners. Software license costs decreased to $72,000 in fiscal 2023 from $128,000 in fiscal 2022, primarily due to reduced revenue.

Research and Development (“R&D”) Expenses

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

R&D expenses totaled $5.1 million, or 37% of net revenue for fiscal 2023, compared with $4.7 million, or 39% of net revenue for fiscal 2022. The increase in R&D expenses was attributed to the expansion of engineering personnel, resulting in an increase of approximately $190,000.in consulting and headcount-related expenses. Furthermore, our service and subscription fees increased by approximately $281,000, while the amount of capitalized software decreased by approximately $67,000.

During fiscal 2023 and 2022, costs related to product development that qualify for capitalization were $471,000 and $594,000, respectively, which were excluded from R&D expenses.

The market for our products experiences rapid changes, characterized by evolving industry standards, swift changes in customer requirements, and frequent introductions of new products and enhancements. We believe that robust product development capabilities are crucial for us to maintain our technological leadership. This includes enhancing our current technology, providing excellent quality, performance, and functionality, as well as developing additional applications and services, and sustaining the competitiveness of our on-premises and hosted offerings. Over the long term, we anticipate that our R&D expenses will increase both in absolute dollars and as a percentage of revenue as we continue to invest in the development of new solutions and expand our service offerings.

Our core R&D activities are conducted in the United States with additional design and development engineering teams located in Taiwan, Nepal, and China. As of September 30, 2023, our research and development department comprised 39 full-time equivalent employees, with 18 based in the U.S. and 21 internationally.

Sales and Marketing Expenses

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

Sales and marketing expenses totaled $1.7 million, or 12% of net revenue for fiscal 2023, compared to $1.5 million, or 13% of net revenue for fiscal 2022. The increase was attributable to $112,000 in headcount-related costs and $46,000 increase in consulting services.

General and Administrative Expenses

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

General and administrative expenses decreased to $2.3 million, or 17% of net revenue in fiscal 2023 from $2.5 million, or 21% of net revenue in fiscal 2022. The reduction in general and administrative expenses was primarily attributed to the $587,000 in acquisition-related costs incurred during fiscal 2022 in connection to the ZAACT acquisition, as detailed in Note 5, “Business Acquisition,” of the Consolidated Financial Statements of this Annual Report. This decrease was partially offset by an increase of $463,000 in headcount-related expenses, primarily due to the additional personnel acquired as part of the ZAACT acquisition.

Interest Income and Expense

Interest expense primarily relates to changes in the fair value of contingent consideration associated with the ZAACT acquisition. For fiscal 2023, imputed interest expense associated with contingent consideration was approximately $74,000.

Interest and Other Income

Interest income for both fiscal years 2023 and 2022 was immaterial.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity securities and cash flows from operations allowing us to invest in activities that support the long-term growth of our operations. As of September 30, 2023, total cash and cash equivalents represent approximately 60% of total current assets. We have historically expanded our business in part by investing in strategic growth initiatives, including acquisitions of technologies and businesses. We may finance such acquisitions using cash, debt, stock, or a combination of the foregoing.

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

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

	Fiscal Year Ended September 30,		
	2023	2022	2021
	(amounts in thousands)		
Cash and cash equivalents, beginning of year	$ 3,232	$ 6,799	$ 6,659
Cash provided by (used in) operating activities	62	(18)	589
Cash used in investing activities	(471)	(3,584)	(614)
Cash (used in) provided by financing activities	(182)	35	165
Cash and cash equivalents, end of year	$ 2,641	$ 3,232	$ 6,799

Operating Activities

In fiscal 2023, cash provided by operating activities was $62,000, driven by a net loss of $3.3 million, net cash outflows of $394,000 due to changes in operating assets and liabilities, and adjusted for non-cash charges totaling $3.8 million. These non-cash charges primarily included deferred income tax expenses, capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment. The fluctuations in operating assets and liabilities included an increase in accounts receivable of $275,000, a decrease of $7,000 in prepaid expenses and other long-term assets, an increase of $35,000 in accounts payable and accrued expenses, and a decrease of $161,000 in deferred revenue.

In fiscal 2022, cash used in operating activities was $18,000, driven by a net loss of $698,000, net cash outflows of $690,000 due to changes in operating assets and liabilities, and adjusted for non-cash charges totaling $1.4 million. These non-cash charges primarily included deferred income tax expenses, capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment. The fluctuations in operating assets and liabilities included an increase in accounts receivable of $624,000, a decrease of $13,000 in prepaid expenses and other long-term assets, an increase of $11,000 in accounts payable and accrued expenses, and a decrease of $90,000 in deferred revenue.

Investing Activities

Cash flows from investing activities primarily relate to capitalized software costs associated with the development and enhancements of new and existing products and services, cash paid for acquisitions, as well as, purchase of intangible assets, capital expenditures related to technological equipment, software licenses and to a lesser degree, office equipment.

In fiscal 2023, cash used in investing activities comprised of capitalized software totaling $471,000.

In fiscal 2022, cash used in investing activities of $3.6 million comprised of $3.0 million in acquisition related costs related to the ZAACT acquisition, as detailed in Note 5, "Business Acquisition," in the Consolidated financial Statements of this Annual Report, and capitalized software totaling $594,000.

Financing Activities

In fiscal 2023, cash used in financing activities of $182,000 comprised of a payment of $225,000 for deferred consideration related to the business combination associated with the ZAACT acquisition, and $43,000 in proceeds from the exercise of stock options.

In fiscal 2022, cash provided by financing activities of $35,000 primarily comprised of proceeds from exercise of stock options.

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

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

Off-Balance Sheet Arrangements

As of September 30, 2023, we did not have any off-balance sheet arrangements.

PART E - ISSUANCE HISTORY

Item 16. 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 Company common stock issued in the past two fiscal years:

Month of Issuance	Security Type	Issuance Class	Shares Issued	Price at Issuance	Issuance Type	Legend Yes/No
2023 (1) (2)						
December	Stock Option	Employees	252,500	$0.76	Restricted	Yes
2022 (3)	—	—	—	—	—	—

(1) All grants are of Class A Common Stock.
(2) The issuances were exempt from registration pursuant to Rule 701 under the Securities Act of 1933, as amended (the “Securities Act”). The certificates evidencing the shares contain a legend (a) stating that the shares have not been registered under the Securities Act, and (b) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.
(3) The Company did not grant any stock options during fiscal year 2022.

PART F - EXHIBITS

Item 17. Material Contracts

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

- Executive Employment Agreement by and between Carolyn David and the Company, dated as of March 23, 2023.
- Executive Employment Agreement by and between Michael Plumer and the Company, dated as of March 23, 2023.
- Executive Employment Agreement by and between Chris Weidemann and the Company, dated as of May 6, 2022.
- Executive Employment Agreement by and between Darin Rohead and the Company, dated as of May 6, 2022.
- Executive Employment Agreement by and between Trent Rowley and the Company, dated as of May 6, 2022.
- Asset Purchase Agreement between Intermountain Technology Group, LLC (dba ZAACT Consulting) and the Company, dated as of March 4, 2022.
- Lease Agreement for 670 N McCarthy Blvd, Milpitas, California, dated as of April 16, 2019, between McCarthy Center Holding LLC and the Company.
- Amended and Restated Certificate of Incorporation of the Company.
- Reseller Agreement between Fiserv Solutions, Inc. and the Company, dated as of August 28, 2009.
- Executive Employment Agreement by and between Jeremiah J. Fleming and the Company, dated as of December 18, 2007.
- Second Amended and Restated Bylaws of the Company.
- Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of the Company.
- Distribution Agreement between Synnex Information Technologies, Inc. and the Company, dated as of December 22, 1999.

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

Item 18. Articles of Incorporation and Bylaws

The information required by this Item 18 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 19. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no purchases of equity securities by the Company or Affiliated Purchasers as defined in Item 19 of the OTC Disclosure Guidelines during fiscal year 2023.

Item 20. Issuer's Certifications

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

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

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

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

Date: January 24, 2024

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

CERTIFICATION OF VICE PRESIDENT OF FINANCE

I, Carolyn David, certify that:

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

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

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

Date: January 24, 2024

/s/ Carolyn David
Carolyn David
Vice President of Finance

ALTIGEN COMMUNICATIONS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Altigen Communications, Inc., which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity and cash flows for the years ended September 30, 2023, 2022, and 2021, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Altigen Communications, Inc. as of September 30, 2023 and 2022, and the results of their operations and their cash flows for the years ended September 30, 2023, 2022 and 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Altigen Communications, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Altigen Communications, Inc. 's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audits 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 Altigen Communications, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Altigen Communications, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control–related matters that we identified during the audits.

/s/ Moss Adams LLP

Campbell, California
January 24, 2024

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

	September 30, 2023	September 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,641	$ 3,232
Accounts receivables, net	1,386	1,115
Unbilled accounts receivables	109	105
Prepaid expenses and other current assets	236	206
Total current assets	4,372	4,658
Property and equipment, net	3	7
Operating lease, right-of-use assets	301	572
Goodwill	2,725	2,725
Intangible assets, net	1,568	1,882
Capitalized software development costs, net	1,215	1,331
Deferred tax assets	3,737	6,493
Long-term deposit	—	37
Total assets	$ 13,921	$ 17,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 58	$ 53
Accrued compensation and benefits	417	364
Accrued expenses	455	530
Deferred consideration - current	510	500
Operating lease liabilities - current	324	383
Deferred revenue - current	477	566
Total current liabilities	2,241	2,396
Deferred consideration - long-term	208	670
Operating lease liabilities - long-term	—	233
Deferred revenue - long-term	134	206
Total liabilities	2,583	3,505
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized—5,000,000 shares; Issued and outstanding—none at September 30, 2023 and 2022	—	—
Common stock, $0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—24,918,656 shares at September 30, 2023 and 24,222,809 shares at September 30, 2022	24	24
Treasury stock at cost—1,918,830 shares at September 30, 2023 and 2022	(1,565)	(1,565)
Additional paid-in capital	73,133	72,671
Accumulated deficit	(60,254)	(56,930)
Total stockholders' equity	11,338	14,200
Total liabilities and stockholders' equity	$ 13,921	$ 17,705

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

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

	Fiscal Year Ended September 30, 2023	2022	2021
Net revenue:			
Hosted services	$ 7,656	$ 7,639	$ 7,630
Professional services and other	4,301	1,979	501
Software assurance	1,551	1,867	2,283
Software license	173	406	576
Total net revenue	13,681	11,891	10,990
Cost of revenue:			
Hosted services	3,119	2,971	2,941
Professional services and other	1,842	699	—
Software license	72	128	133
Total cost of revenue	5,033	3,798	3,074
Gross profit	8,648	8,093	7,916
Operating expenses:			
Research and development	5,066	4,651	3,848
Sales and marketing	1,664	1,507	2,074
General and administrative	2,354	2,515	1,701
Litigation (Note 4)	—	—	313
Total operating expenses	9,084	8,673	7,936
Loss from operations	(436)	(580)	(20)
Gain on extinguishment of debt – PPP loan forgiveness (Note 7)	—	—	804
Interest and other income	2	1	—
Interest expense	(74)	—	—
Loss before income taxes	(508)	(579)	784
Provision for income taxes	(2,816)	(119)	(1,275)
Net loss	$ (3,324)	$ (698)	$ (491)
Basic net income per share	$ (0.14)	$ (0.03)	$ (0.02)
Diluted net income per share	$ (0.14)	$ (0.03)	$ (0.02)
Shares used in computing basic net income per share	24,550	24,016	23,279
Shares used in computing diluted net income per share	24,550	24,016	23,279

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

ALTIGEN COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED SEPTEMBER 30, 2023, 2022 AND 2021
(Amounts in thousands, except share data)

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at September 30, 2020	23,019,456	$ 23	$ (1,565)	$ 71,935	$ (55,741)	$ 14,652
Net loss	—	—	—	—	(491)	(491)
Common stock issued under stock plans	728,976	1	—	165	—	166
Stock-based compensation	—	—	—	143	—	143
Balance at September 30, 2021	23,748,432	24	(1,565)	72,243	(56,232)	14,470
Net loss	—	—	—	—	(698)	(698)
Common stock issued under stock plans	223,750	—	—	35	—	35
Issuance of shares in connection with business combination	250,627	—	—	300	—	300
Stock-based compensation	—	—	—	93	—	93
Balance at September 30, 2022	24,222,809	24	(1,565)	72,671	(56,930)	14,200
Net loss	—	—	—	—	(3,324)	(3,324)
Common stock issued under stock plans	181,250	—	—	43	—	43
Issuance of shares in connection with business combination	514,597	—	—	300	—	300
Stock-based compensation	—	—	—	119	—	119
Balance at September 30, 2023	24,918,656	$ 24	$ (1,565)	$ 73,133	$ (60,254)	$ 11,338

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

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

	Fiscal Year Ended September 30,		
	2023	**2022**	**2021**
Cash flows from operating activities:			
Net loss	$ (3,324)	$ (698)	$ (491)
Adjustments to reconcile net loss to net cash from operating activities:			
Impairment of capitalized software	—	189	92
Impairment of intangible assets	131	—	—
Loss on disposal of property, equipment and other assets	—	5	—
Depreciation and amortization	4	15	28
Deferred income tax expense	2,756	104	1,308
Amortization of intangible assets	183	221	174
Amortization of capitalized software	587	743	646
Stock-based compensation	119	93	143
Gain from extinguishment of debt - PPP loan	—	—	(804)
Changes in operating assets and liabilities, net of acquisition of business:			
Accounts receivable and unbilled accounts receivable	(275)	(624)	(183)
Prepaid expenses and other current assets	(30)	5	13
Other long-term assets	37	8	(15)
Accounts payable	5	(33)	(11)
Accrued expenses	30	44	(135)
Deferred revenue	(161)	(90)	(176)
Net cash provided by (used in) operating activities	62	(18)	589
Cash flows from investing activities:			
Purchases of property and equipment	—	—	(11)
Acquisition of business	—	(2,990)	—
Capitalized software development costs	(471)	(594)	(603)
Net cash used in investing activities	(471)	(3,584)	(614)
Cash flows from financing activities:			
Payment of deferred consideration in business combination	(225)	—	—
Proceeds from issuances of common stock	43	35	165
Net cash (used in) provided by financing activities	(182)	35	165
(Decrease) increase in cash and cash equivalents	(591)	(3,567)	140
Cash and cash equivalents, beginning of year	3,232	6,799	6,659
Cash and cash equivalents, end of year	$ 2,641	$ 3,232	$ 6,799
Supplemental disclosure of non-cash investing and financing activities:			
Deferred consideration recognized in acquisition of business combination measured at fair value	$ —	$ 1,170	$ —
Issuance of common stock in connection with business combination	$ 300	$ 300	$ —

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

ALTIGEN COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Altigen Communications, Inc. ("Altigen," the "Company," "we," "us" or "our") was incorporated in the State of California in May 1994 and reincorporated in the State of Delaware in June 1999. We are a Microsoft Independent Software Vendor (ISV) and Cloud Solutions Provider (CSP) of cloud-based IP-PBX, Departmental Call Center and Corporate Contact Center solutions. As one of the first companies to offer Voice over Internet Protocol (VoIP) solutions, we design, develop, market, and support integrated communications solutions since 1996. Our unique and feature rich Cloud PBX and Omni-Channel Contact Center solutions have been designed to natively integrate with Microsoft Teams to provide our customers with a complete, integrated enterprise communications solution.

The Company established a Representative Office in Taipei, Taiwan in fiscal year 2017 and Kathmandu, Nepal in fiscal year 2020. Both locations serve as our international offices for research and development activities.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fiscal Year

Our fiscal year end is September 30, and our fiscal quarters end on December 31, March 31, June 30, and September 30. Unless otherwise noted, all references to fiscal 2023, 2022, and 2021 represent the fiscal years ended September 30, 2023, September 30, 2022, and September 30, 2021, respectively.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Our available cash and cash equivalents are held in time deposits and money market funds. The Company's cash and cash equivalents totaled approximately $2.6 million at September 30, 2023, compared to $3.2 million at September 30, 2022.

Accounts Receivable, Net and Unbilled Accounts Receivable

Accounts receivable are carried at the original invoiced amount less an allowance for doubtful accounts based on the probability of future collection. The Company extends credit to its customers and generally does not require collateral. Accounts receivable are due under normal trade terms generally requiring payment within 30 days from the invoice date. Management reviews accounts receivable on a periodic basis to determine if any receivables will potentially be uncollectible. The Company reserves for receivables that are determined to be uncollectible, if any, in its allowance for doubtful accounts. After the Company has exhausted all collection efforts, the outstanding receivable is written off against the allowance. In cases where our customers pay for services in arrears, we accrue revenue in advance of billings as long as the criteria for revenue recognition are met. A portion of our accounts receivable balance is therefore unbilled at each balance sheet date and is reflected as such on the consolidated balance sheets.

The allowance for doubtful accounts reflects management's analysis of receivables and the probability of collecting those accounts. Trade accounts receivable is charged against the allowance when the Company determines that payments will not be received. Any subsequent receipts are credited to the allowance. The Company's allowance for doubtful accounts was $40,000 and $75,000 for fiscal 2023 and 2022, respectively.

Accounts receivable, net and unbilled accounts receivable as of September 30, 2023 and 2022 consisted of the following (in thousands):

	Fiscal Year Ended September 30,	
	2023	**2022**
Amount billed	$ 1,386	$ 1,115
Unbilled accounts receivable [(1)]	109	105
Accounts receivable, net and unbilled accounts receivable	$ 1,495	$ 1,220

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

Concentration Risks

We have historically relied on a limited number of customers and reseller partners for a significant portion of our total revenue. The potential loss of some or all these key customers and reseller partners could have a substantial negative impact on our future financial performance. During fiscal years 2023 and 2022, one reseller partner accounted for more than 10% of our total revenue, representing 31% and 33%, respectively. Our top five customers and reseller partners collectively accounted for 57% and 48% of our total revenue for fiscal years 2023 and 2022, respectively. We expect to continue to experience significant customer concentration in future periods. The loss of, or significant decrease in demand from any of our largest customers or reseller partners could have a material adverse effect on our business, results of operations, cash flows and financial condition.

For the fiscal year ended September 30, 2023, two customers accounted for 26% and 64% of the total accounts receivable balance compared to 29% and 49% for fiscal 2022.

Concentration of Other Risks

We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products with new capabilities, general economic conditions worldwide, the ability to safeguard patents and other intellectual property in a rapidly evolving market and reliance on third party technology and infrastructure in order to host or operate certain key products could materially impact future operating results, financial position, and cash flows.

Property and Equipment, Net

Property and equipment are stated at cost, which includes purchase cost, applicable taxes and freight costs, less accumulated depreciation and amortization. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which is three years except for leasehold improvements. We depreciate leasehold improvements over the shorter of the lease term or the improvement's estimated useful life. Depreciation and amortization expenses for fiscal 2023, 2022 and 2021, were approximately $4,000, $15,000, and $28,000, respectively. Repair and maintenance costs for all periods presented were immaterial and were expensed as incurred.

We periodically review our portfolio of equipment for impairment. Based on our impairment assessment, during fiscal 2023, 2022 and 2021, we retired and disposed of fully depreciated equipment of $244,000, $373,000, and $0, respectively. The disposal of such assets had no impact on our consolidated financial statements.

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

	Fiscal Year Ended September 30, 2023	2022
Furniture and equipment	$ 172	$ 409
Computer software	98	105
Leasehold improvements	53	53
Property and equipment	323	567
Less: accumulated depreciation and amortization	(320)	(560)
Property and equipment, net	$ 3	$ 7

Software Development Cost

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

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

We make ongoing evaluations of the recoverability of our capitalized software projects by comparing the amount capitalized for each product to the estimated net realizable value of the product. If such evaluations indicate that the unamortized software development costs exceed the net realizable value, we write off the amount by which the unamortized software development costs exceed net realizable value. During fiscal year 2023 and 2022, the Company recognized impairment charges on capitalized software determined to have no realizable value in the amount of $0 and $189,000, respectively. The impairment charges are included in "impairment of capitalized software" in the consolidated financial statements.

The following table summarizes capitalized software development costs and accumulated amortization during the twelve months ended September 30, 2023 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Balance at October 1, 2022	$ 3,446	$ (1,834)	$ (281)	$ 1,331
Additions	471	(587)	—	(116)
Balance at September 30, 2023	$ 3,917	$ (2,421)	$ (281)	$ 1,215

Revenue Recognition and Cost of Revenue

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"), which provided a five-step model for recognizing revenue from contracts with customers as follows:

- identification of the contract, or contracts, with a customer;
- identification of the performance obligations in the contract;

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

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

Contract Balances

The timing of revenue recognition, billings and cash collections can result in billed accounts receivable, unbilled receivables, and deferred revenue. Billings scheduled to occur after the performance obligation has been satisfied and revenue recognition has occurred result in unbilled receivables, which are expected to be billed in the succeeding reporting period and are recorded in unbilled receivables in our consolidated balance sheets. Contract liability results when we receive prepayments or deposits from customers in advance for implementation, maintenance, and other services, as well as subscription fees. Customer prepayments are generally applied against invoices issued to customers when services are performed and billed. We recognize contract liabilities as revenue upon satisfaction of the underlying performance obligations. Contract liabilities that are expected to be recognized as revenue during the succeeding twelve-month period are recorded in "deferred revenue, current" and the remaining portion is recorded in "deferred revenue, long-term" on the accompanying consolidated balance sheets at the end of each reporting period.

Deferred revenue primarily consists of amounts that have been billed to or received from customers in advance of revenue recognition and prepayments received from customers in advance for maintenance and other services. We recognize deferred revenue as revenue when the services are performed, and the corresponding revenue recognition criteria are met. Our payment terms vary by the products or services offered. The term between invoicing and when payment is due is not significant. For certain products or services and customer types, we require payment before the products or services are delivered to the customer.

The following table presents significant changes in contract liabilities during the period (in thousands):

	Fiscal Year Ended September 30, 2023	Fiscal Year Ended September 30, 2022
Contract liabilities, beginning of period	$ 772	$ 862
Additions	1,066	1,292
Revenue recognized	(1,227)	(1,382)
Contract liabilities, end of period	$ 611	$ 772

The following table presents accounts receivable, net and contract liabilities by category (in thousands):

	Fiscal Year Ended September 30,	
	2023	2022
Accounts receivable, net	$ 1,386	$ 1,115
Contract liabilities:		
Contract liabilities, current (included in deferred revenue - current)	$ 477	$ 566
Contract liabilities, non-current (included in deferred revenue - long-term)	134	206
Total contract liabilities	$ 611	$ 772

Hosted Services Revenue

We generate recurring revenue through our cloud-based products referred to as hosted services. Hosted services revenue is derived from the sale of subscriptions to our software applications as well as other services such as minutes usage from domestic and foreign calling plans. Hosted services consist primarily of our proprietary hosted VoIP Unified Communications system. The cloud-based model focuses on serving the needs of enterprise business that require the highest quality voice and integrated business productivity applications. The hosted offering includes hosted IP PBX service, CoreInteract, Skype for Business, SIP Trunk service, call center solutions, voice and video calling, conference calling, and a variety of long-distance services. Our solutions are used by businesses and organizations in industries such as financial services, healthcare, retail and business services. Our hosted services are sold through reseller partners and direct arrangements with end-user customers. Our customers will typically enter into a one-year service agreement whereby they are billed for such services on a monthly basis. Hosted services revenue includes recurring fixed plan subscription fees, variable usage-based fees for usage in excess of plan limits and other recurring fees related to our subscriptions. Under ASC 606, we recognized hosted services revenue in the period when the services are performed.

Cost of hosted services primarily consists of hosting infrastructure costs, personnel costs associated with customer care, costs associated with data center capacity purchased from third-party providers and certain fees paid to various third parties for the use of their technology, services, and data. Hosted services costs also include amortization of capitalized software development costs, amortization of intangible assets, allocated overhead expenses, and to a lesser extent commission fees paid to reseller partners. We also sell our hosted services through our reseller relationships allowing us to transact with the customer directly, which requires us to pay applicable commissions to our reseller partners. Hosted services costs are expensed as incurred and are included in cost of revenue.

Professional Services and Other Revenue

The Company also derives revenue from professional services which primarily include custom software development to extend system capabilities and enable Unified Communications integration with other enterprise applications, product configuration, customization, and reporting. Our professional services are sold separately from software services and have standalone value. Revenue from professional services is recognized when contractual milestones are achieved, services are delivered and accepted by the customer for fixed price contracts. Other revenue consists of service and support revenue, including revenue from our cloud-based services for post-contract customer support, cloud deployments, installation, and training services. Revenue from our service and support offerings are generally recognized ratably over the term of the arrangement. Revenue from deployment, installation and training is recognized as the services are performed.

Cost of professional services and other revenue is comprised primarily of personnel-related costs directly associated with deployment services, implementation fees, customer onboarding, as well as other professional services contracted through third-party vendors. For fiscal 2023, cost of professional services and other revenue increased to $1.8 million from $699,000 in fiscal 2022, resulting from increased revenue primarily attributable to the acquisition of ZAACT.

Software Assurance Revenue

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

Cost of software assurance consists principally of upgrades, enhancements and technical support. The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing such services are deferred and recognized to cost of revenue over the life of the software assurance contract term.

Software License Revenue

Software license revenue consists of perpetual license revenue that is recognized upon delivery which transfers control of the software to the customer, usually a download from the Company’s website with a specified one-time download key/password that the Company provides to each customer upon sale. The software is sold on a standalone basis with no other services or products bundled in. Software license revenue consists of direct sales to end-users, reseller partners and distributors.

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

Assets Recognized from Costs to Obtain a Contract with a Customer

The Company recognizes an asset for the incremental cost of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has concluded that none of the costs it has incurred to obtain and fulfil its revenue contracts meet the capitalization criteria, and as such, there are no costs deferred as of September 30, 2023 and 2022.

Practical Expedients and Exemptions.

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

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

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 the United States and international.

Net Income Per Share

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

The following table shows the computation of basic and diluted net income per share for the twelve months ended September 30, 2023, 2022 and 2021:

	Fiscal Year Ended September 30,		
	2023	2022	2021
	(amounts in thousands, except per share amounts)		
Numerator:			
Net loss	$ (3,324)	$ (698)	$ (491)
Denominator:			
Weighted-average shares outstanding	24,550	24,016	23,279
Effect of dilutive securities	—	—	—
Weighted average diluted share	24,550	24,016	23,279
Basic net income per share	$ (0.14)	$ (0.03)	$ (0.02)
Diluted net income per share	$ (0.14)	$ (0.03)	$ (0.02)

3. LEASES

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

Our lease terms may include options, at our sole discretion, to extend or terminate the lease. The extension period is not included in our ROU asset or lease liabilities. Our office lease agreements include both lease and non-lease components, which are accounted for separately. Variable lease expense that is not dependent on an index or rate is not included in the operating lease liabilities or ROU asset and is recognized in the period in which the obligation for those payments is incurred.

The components of the Company's lease expense during the period presented were as follows (in thousands):

	Fiscal Year Ended September 30,	
	2023	2022
Operating lease expense	$ 376	$ 344
Variable lease expense [1]	152	126
Total	$ 528	$ 470

(1) Variable lease expense includes payment that are not fixed or determinable at lease commencement date. These payments primarily consist of maintenance, insurance, and property taxes.

The balance sheet presentation of our operating leases is as follows (in thousands):

Lease-Related Assets and Liabilities		September 30, 2023		September 30, 2022
Assets:				
Operating lease right-of-use assets	$	301	$	572
Liabilities:				
Operating lease liabilities – current portion		324		383
Operating lease liabilities – long-term portion		—		233
Total lease liabilities	$	324	$	616

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

	Fiscal Year Ended September 30,	
	2023	2022
Weighted Average Remaining Lease Term	0.86 years	1.7 years
Weighted Average Discount Rate	3.0%	4.8%

Maturities of lease liabilities under our non-cancelable operating leases as of September 30, 2023 are as follows (in thousands):

		Operating Leases
2024	$	329
2025		—
Total future minimum lease obligations		329
Less imputed interest		(5)
Present value of net future minimum lease obligations		324
Less current portion		(324)
Long term portion	$	—

4. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy, and disruptive to normal business operations. An unfavorable outcome in any legal matter, if material, could have a material adverse effect on our operations, financial position, liquidity, and results of operations. We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Additionally, we record insurance recoveries related to legal matters when recovery is realizable. The Company is not a party to any material legal proceedings nor is the Company aware of any pending or threatened litigation that, in its opinion, would have a material adverse effect on its business or its financial position, results of operations or cash flows should such litigation be resolved unfavorably.

Intellitalk v. Altigen

In February 2019, the Company was served with a cross-complaint filed by Intellitalk, Inc. ("Intellitalk"), a former reseller of the Company. The cross-complaint was filed in the Superior Court of the State of California, County of Riverside in January 2019. The complaint alleges interference with prospective economic advantage and unfair competition. The Company filed a motion to dismiss all claims in the complaint. On March 10, 2023, the court dismissed the Company with prejudice.

5. BUSINESS ACQUISITION

On May 6, 2022, the Company acquired substantially all the assets, excluding cash and accounts receivable, of Intermountain Technology Group, doing business as ZAACT Consulting (“ZAACT”), a Microsoft Gold Partner based in Sandy, Utah. Under the terms of the Asset Purchase Agreement the Company also acquired ZAACT’s management team and employees. ZAACT was acquired to provide the Company with valuable technical resources and an enterprise customer base to grow revenue by delivering custom applications and services that enhance the Company’s natively integrated Microsoft Teams solutions.

The aggregate purchase price was $4.5 million, consisting of $3.6 million in cash and $900,000 in the Company’s common stock. The cash consideration is comprised of $2.9 million paid at closing, net working capital adjustment of $65,000 paid ninety days post-closing, and deferred cash payments to be made on the first three anniversaries of the closing date in 2023, 2024 and 2025 totaling $675,000. The stock component of the purchase price is payable in three annual installments, each equal to $300,000 in the Company’s common stock.

In connection with the ZAACT acquisition, the Company issued the seller cash consideration of $225,000 and $3.0 million in fiscal years 2023 and 2022, respectively. The Company also issued 514,597 shares and 250,627 shares of its common stock as stock consideration in fiscal years 2023 and 2022, respectively, each with a valuation of $300,000.

The acquisition date fair value of consideration transferred to acquire ZAACT was as follows (in thousands):

Acquisition Consideration		**Amount**
Cash consideration at closing	$	2,925
Common stock issued at closing		300
Deferred cash consideration		612
Deferred stock consideration		558
Net working capital adjustment		65
Total consideration	$	4,460

The fair value of the deferred consideration was determined based on the present value of the payments and stock to be issued, utilizing a discount rate of 4.9%.

The ZAACT acquisition was accounted for using the acquisition method of accounting in accordance with ASC 805, Business Combinations (“ASC 805”). The financial results of ZAACT have been included in our consolidated financial statements since the date of the acquisition. The Company recorded the acquisition based on the fair value of the consideration transferred and then allocated the purchase price to the identifiable assets acquired and liabilities assumed based on their respective fair values as of the acquisition date. The excess of the value of consideration transferred over the aggregate fair value of those net assets was recorded as goodwill and is fully deductible for income tax purposes.

The Company retained an independent third-party valuation firm to assist management in its valuation of the assets acquired and liabilities assumed in the acquisition. Customer relationships represent the fair values of the underlying relationships and agreements with customers. The fair value of the customer relationship intangible asset was determined based on the excess income approach and the fair value of the trade name was based on the relief from royalty method. The goodwill balance is primarily attributable to the assembled workforce, expected synergies, and expected revenue opportunities.

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Description		Amount
Prepaids and other current assets	$	65
Operating lease right-of-use asset		120
Customer relationships intangible		1,610
Trade name intangible		70
Total assets acquired		1,865
Other liabilities		(120)
Total liabilities assumed		(120)
Net assets acquired		1,745
Goodwill		2,715
Total purchase price	$	4,460

Acquired intangible assets are amortized on a straight-line basis over their respective useful lives to cost of revenue for customer relationships and general and administrative expenses for trade name. Goodwill is not amortized but assessed for impairment on an annual basis or more frequently if impairment indicators exist. Our annual impairment test is performed in the fourth quarter of each fiscal year.

The Company incurred approximately $587,000 in acquisition-related expenses in connection with the ZAACT acquisition, which primarily consisted of legal, accounting, and advisory services which are included in general and administrative expenses in the accompanying consolidated statement of operations for the fiscal year ended September 30, 2022.

ZAACT services are reported as part of our professional services and other revenue in the accompanying consolidated statement of operations. For fiscal years 2023 and 2022, ZAACT services accounted for $3.7 million and $1.4 million, respectively, of total revenue.

6. INTANGIBLE ASSETS

Intangible assets consist primarily of intellectual property and customer relationships, resulting from the Company's acquisitions. Intangible assets are recorded at fair value on the date of acquisition. We currently amortize our intangible assets with definitive lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. Intangible assets are reviewed periodically for impairment whenever events and circumstances indicate the carrying value of such assets may not be recoverable and exceed their fair value. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. During fiscal year 2023, the Company determined that no contingent consideration would be paid for the acquisition of Blue Panda's CoreInteract technology in September 2020 as performance measures were not achieved. Consequently, the Company recognized a non-cash impairment charge of $131,000 for intangible assets related to the CoreInteract intellectual property in the accompanying consolidated balance sheet.

The following table summarizes intangible assets (in thousands):

	Fiscal Year Ended September 30, 2023								Fiscal Year Ended September 30, 2022					
		Gross Carrying Amount		Accumulated Amortization		Impairment		Net Carrying Amount		Gross Carrying Amount		Accumulated Amortization		Net Carrying Amount
Customer relationships	$	2,111	$	(724)	$	—	$	1,387	$	2,111	$	(564)	$	1,547
Trade names		70		(31)		—		39		70		(8)		62
Intellectual property		273		—		(131)		142		273		—		273
Total	$	2,454	$	(755)	$	(131)	$	1,568	$	2,454	$	(572)	$	1,882

For fiscal year 2023 and 2022, amortization expense of acquisition-related intangible assets was approximately $183,000 and $221,000, respectively, of which $160,000 and $213,000, respectively, is included in cost of revenue, while $23,000 and $8,000, respectively, was allocated to general and administrative expenses in the accompanying consolidated statements of operations.

7. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION EXPENSE

Equity Stock Incentive Plans

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

The following table summarizes the Company's stock option activities under our plans during the three fiscal years ended September 30, 2023, 2022 and 2021:

	Options Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at September 30, 2021	2,425,111	$	0.44	4.1
Options granted	—	$	—	
Options exercised	(223,750)	$	0.16	
Options forfeited/expired	(157,259)	$	1.81	
Outstanding at September 30, 2022	2,044,102	$	0.37	2.9
Options granted	252,500	$	0.76	
Options exercised	(181,250)	$	0.24	
Options forfeited/expired	(55,500)	$	0.42	
Outstanding at September 30, 2023	2,059,852	$	0.43	2.8

Total exercisable stock options as of September 30, 2023 were 1,771,426 shares with an aggregate intrinsic value of $666,000, weighted average exercise price of $0.35 and a weighted average remaining contractual term of 1.8 years.

As of September 30, 2023, the Company had unamortized stock-based compensation expense relating to options outstanding of approximately $108,000, which is expected to be amortized to expense over a weighted average period of 1.3 years. The weighted average grant date fair value of options granted during the years ended September 30, 2023, 2022, and 2021 were $0.76, $0, and $1.55, respectively. The Company did not grant any stock options during fiscal year 2022.

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, 2023:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Term (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.16 – $0.16	815,000	1.22	$ 0.16	815,000	$ 0.16
$0.18 – $0.29	155,208	3.38	$ 0.27	155,208	$ 0.27
$0.35 – $0.35	674,144	1.39	$ 0.35	674,144	$ 0.35
$0.38 – $0.38	20,000	1.81	$ 0.38	20,000	$ 0.38
$0.52 – $0.52	5,000	4.82	$ 0.52	5,000	$ 0.52
$0.76 – $0.76	252,500	9.20	$ 0.76	—	$ —
$1.19 – $1.19	25,000	6.56	$ 1.19	21,355	$ 1.19
$2.10 – $2.10	97,000	7.06	$ 2.10	71,844	$ 2.10
$2.22 – $2.22	16,000	7.81	$ 2.22	8,875	$ 2.22
$0.16 – $2.22	2,059,852	2.83	$ 0.43	1,771,426	$ 0.35

Stock-Based Compensation

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

During fiscal 2023, 2022 and 2021, stock-based compensation expense related to employee and director stock options was $119,000, $93,000, and $143,000, respectively.

The underlying weighted-average assumptions used in the Black-Scholes model and the resulting estimates of fair value per share were as follows for options granted during the twelve months ended September 30, 2023, 2022 and 2021:

	Fiscal Year Ended September 30,		
	2023	2022 (1)	2021
Expected life (in years)	7	—	7
Risk-free interest rate	3.8%	—	0.7%
Volatility	161%	—	81%
Expected dividend	0.0%	—	0.0%

(1) The Company did not grant any stock options during fiscal year 2022.

8. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard is intended to simplify the accounting and disclosure requirements for income taxes by eliminating various exceptions in accounting for income taxes as well as clarifying and amending existing guidance to improve consistency in application of ASC 740. The provisions of ASU 2019-12 are effective for fiscal years beginning after December 15, 2021, with early adoption permitted. On October 1, 2022, the Company adopted ASU 2019-12 with no material impact on our consolidated financial statements.

9. INCOME TAXES

The federal and state income tax provision (benefit) for fiscal 2023, 2022 and 2021 is summarized as follows (in thousands):

	Fiscal Years Ended September 30,		
	2023	2022	2021
Current:			
Federal	$ —	$ —	$ —
State	60	15	(33)
Total current	60	15	(33)
Deferred:			
Federal	1,713	49	1,332
State	1,043	55	(24)
Total deferred	2,756	104	1,308
Income tax provision	$ 2,816	$ 119	$ 1,275

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

Significant components of net deferred income tax assets and liabilities were as follows (in thousands):

	Fiscal Year Ended September 30,	
	2023	2022
Deferred income tax assets:		
Net operating loss carryforwards	$ 5,606	$ 6,468
Reserve and other cumulative temporary differences	251	423
Research and development credit carryforward	1,768	1,674
Research and development capitalization	565	—
Intangible asset basis	228	236
Total deferred income tax assets	8,418	8,801
Deferred income tax liabilities:		
Right-of-use asset	(75)	(138)
Total deferred tax liabilities	(75)	(138)
Valuation allowance	(4,606)	(2,170)
Net deferred income tax assets	$ 3,737	$ 6,493

As of September 30, 2023, the Company had net operating loss carryforwards for federal income tax purposes of approximately $20.9 million that expire at various dates through 2037, and federal research and development tax credits of approximately $1.1 million that expire at various dates through 2042. The Company also had net operating loss carryforwards for state income tax purposes of approximately $94.1 million that expire at various dates through 2043, and state research and development tax credits of approximately $1.0 million, of which $5,000 expire at various dates through 2042 while the remaining research and development tax credits 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 established for a portion of the deferred tax asset as a result of uncertainties regarding realization of the asset and uncertainty over future operating profitability and taxable income. During fiscal 2023, 2022 and

2021, valuation allowance increased $2.4 million, decreased $955,000 and decreased $765,000, respectively. As of September 30, 2023, and 2022, the Company did not have significant deferred tax liabilities.

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

	Fiscal Years Ended September 30,					
	2023		2022		2021	
Tax computed at federal statutory rate	21.0	%	21.0	%	21.0	%
Change in valuation allowance	(479.9)		165.1		(97.7)	
State taxes	14.5		8.0		(11.9)	
NOL expiration	(117.7)		(217.3)		296.8	
Stock-based compensation	(3.9)		(2.8)		2.2	
Federal credits	11.0		5.4		(2.2)	
PPP loan disallowed	—		—		(44.7)	
Other items	(0.2)		—		(0.7)	
Provision for income taxes	(555.2)	%	(20.6)	%	162.8	%

The Company adopted the FASB's updated guidance related to income taxes, which establishes a single model to address accounting for uncertain tax positions. The 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 consolidated financial statements. It also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company has reviewed its income tax positions and identified approximately $274,000 of total gross unrecognized tax benefits of which none, if recognized, would impact the effective tax rate as the Company has a valuation allowance on its research credit carryforward attributes.

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

		Total Gross Unrecognized Tax Benefits
Balance at October 1, 2022	$	274
Additions based on tax positions related to the current year		—
Additions based on tax positions of prior years		—
Expiration of statutes		(123)
Balance at September 30, 2023	$	151

Interest and penalties related to unrecognized tax benefits within the provision for taxes on the consolidated statements of operations did not change as a result of implementing the provisions of ASC 740. Management determined that no accrual for interest and penalties was required as of September 30, 2023.

The Company has filed a U.S. income tax return and tax returns in various state and local jurisdictions. In the normal course of business, we are subject to audits and examinations by taxing authorities worldwide, including the United States. There are some exceptions, but generally, the Company is no longer under examination for U.S. federal, state, or foreign income tax matters for fiscal years preceding 2002. 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. Adjustments may be made 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 potential income tax issues not yet resolved with federal, state, local and foreign tax authorities. In the event that actual results differ from these estimates, or we adjust these estimates in future periods, an additional charge to expense would result.

10. SUBSEQUENT EVENTS

We have performed an evaluation of subsequent events through January 24, 2024, the date these consolidated financial statements were available to be issued. None were noted.