



ALTIGEN COMMUNICATIONS, INC.

State of Incorporation: Delaware

**39899 Balentine Drive, Suite 112
Newark, CA 94560
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www.altigen.com**

SIC Code: 7373

QUARTERLY REPORT For the quarterly period ended June 30, 2024 (the “Reporting Period”)

The number of shares outstanding of our common stock, par value \$0.001 per share (“common stock”), is 24,918,656 shares as of June 30, 2024.

The number of shares outstanding of our common stock was 24,918,656 shares as of September 30, 2023.

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

Yes: No:

Indicate by check mark whether the company’s shell status has changed since the previous reporting period:

Yes: No:

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: No:

For more information:

www.OTCQB.com Ticker: ATGN

or

www.altigen.com

ALTIGEN COMMUNICATIONS, INC.
QUARTERLY REPORT
FOR THIRD QUARTER ENDED JUNE 30, 2024

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FORWARD-LOOKING STATEMENTS

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

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

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

Exact name of issuer:	Altigen Communications, Inc.
Principal Executive Offices:	39899 Balentine Drive, Suite 112 Newark, CA 94560 Telephone: (408) 597-9000 Facsimile: (408) 597-2020 Website: www.altigen.com
Investor Relations Officer:	Carolyn David, Vice President of Finance 39899 Balentine Drive, Suite 112 Newark, CA 94560 Telephone: (408) 597-9000 Email Address: ir@altigen.com

Item 2. Shares Outstanding.

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

Common Stock			
	June 30, 2024	September 30, 2023	September 30, 2022
Number of Shares Authorized	50,000,000	50,000,000	50,000,000
Number of Shares Outstanding	24,918,656	24,918,656	24,222,809
Freely Tradable Shares (Public Float) ⁽¹⁾	17,711,712	17,711,712	17,568,438
Number of Beneficial Shareholders Owning at Least 100 Shares ⁽²⁾	1,609	1,496	1,972
Total Number of Stockholders of Record	51	56	57

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

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

Preferred Stock			
	June 30, 2024	September 30, 2023	September 30, 2022
Number of Shares Authorized	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	—	—	—
Freely Tradable Shares (Public Float)	—	—	—
Number of Beneficial Shareholders Owning at Least 100 Shares	—	—	—
Total Number of Stockholders of Record	—	—	—

Item 3. Interim Financial Statements.

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

	June 30, 2024	September 30, 2023
	(unaudited)	(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,002	\$ 2,641
Accounts receivables, net	1,686	1,386
Unbilled accounts receivables	86	109
Prepaid expenses and other current assets	287	236
Total current assets	4,061	4,372
Property and equipment, net	—	3
Operating lease, right-of-use assets	43	301
Goodwill	2,725	2,725
Intangible assets, net	1,431	1,568
Capitalized software development costs, net	1,281	1,215
Deferred tax assets	3,737	3,737
Total assets	\$ 13,278	\$ 13,921
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 101	\$ 58
Accrued compensation and benefits	346	417
Accrued expenses	477	455
Deferred consideration - current	525	510
Operating lease liabilities - current	46	324
Deferred revenue - current	551	477
Total current liabilities	2,046	2,241
Deferred consideration - long-term	216	208
Deferred revenue - long-term	155	134
Total liabilities	2,417	2,583
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value; Authorized—5,000,000 shares; Issued and outstanding—none at June 30, 2024 and September 30, 2023, respectively	—	—
Common stock, \$0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—24,918,656 shares at June 30, 2024 and September 30, 2023, respectively	24	24
Treasury stock at cost—1,918,830 shares at June 30, 2024 and September 30, 2023, respectively	(1,565)	(1,565)
Additional paid-in capital	73,175	73,133
Accumulated deficit	(60,773)	(60,254)
Total stockholders' equity	10,861	11,338
Total liabilities and stockholders' equity	\$ 13,278	\$ 13,921

(1) The information in this column was derived from the Company's audited consolidated financial statements as of and for the year ended September 30, 2023.

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Net revenue:				
Hosted services	\$ 1,710	\$ 1,957	\$ 5,417	\$ 5,673
Professional services and other	1,249	999	3,428	3,201
Software assurance	296	384	978	1,198
Software license	28	26	60	127
Total net revenue	3,283	3,366	9,883	10,199
Cost of revenue:				
Hosted services	668	800	2,211	2,294
Professional services and other	614	420	1,633	1,375
Software license	7	17	30	53
Total cost of revenue	1,289	1,237	3,874	3,722
Gross profit	1,994	2,129	6,009	6,477
Operating expenses:				
Research and development	945	1,330	3,383	3,879
Sales and marketing	325	417	1,061	1,281
General and administrative	655	529	2,080	1,782
Total operating expenses	1,925	2,276	6,524	6,942
Income (loss) from operations	69	(147)	(515)	(465)
Interest expense	(5)	(36)	(23)	(36)
Interest and other income	16	—	37	—
Income (loss) before income taxes	80	(183)	(501)	(501)
Provision for income taxes	(18)	—	(18)	(9)
Net income (loss)	\$ 62	\$ (183)	\$ (519)	\$ (510)
Net loss per share:				
Basic	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.02)
Diluted	\$ 0.00	\$ (0.01)	\$ (0.02)	\$ (0.02)
Shares used in computing net income (loss) per share:				
Basic	24,919	24,690	24,919	24,426
Diluted	26,026	24,690	24,919	24,426

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

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

	<u>Common Stock</u>		<u>Treasury Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance at September 30, 2023	24,918,656	24	(1,565)	73,133	(60,254)	11,338
Net loss	—	—	—	—	(519)	(519)
Stock-based compensation	—	—	—	42	—	42
Balance at June 30, 2024	24,918,656	\$ 24	\$ (1,565)	\$ 73,175	\$ (60,773)	\$ 10,861

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

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

	Nine Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	\$ (519)	\$ (510)
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3	3
Amortization of intangible assets	137	137
Amortization of capitalized software	311	450
Stock-based compensation	42	90
Changes in operating assets and liabilities:		
Accounts receivable and unbilled accounts receivable	(277)	36
Prepaid expenses and other current assets	(51)	(83)
Other long-term assets	—	12
Accounts payable	43	(20)
Accrued expenses	(47)	325
Deferred revenue	96	(142)
Net cash (used in) provided by operating activities	(262)	298
Cash flows from investing activities:		
Acquisitions of business	—	(225)
Capitalized software development costs	(377)	(380)
Net cash used in investing activities	(377)	(605)
Cash flows from financing activities:		
Proceeds from issuances of common stock	—	36
Net cash provided by financing activities	—	36
Net decrease in cash and cash equivalents	(639)	(271)
Cash and cash equivalents, beginning of period	2,641	3,232
Cash and cash equivalents, end of period	\$ 2,002	\$ 2,961

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

ALTIGEN COMMUNICATIONS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND BASIS OF PRESENTATION

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

The Company established a Representative Office in Taipei, Taiwan in fiscal year 2017, which serves as our international offices for research and development activities. In May 2024, we transitioned our Taiwan workforce to remote environment and subsequently terminated our operating lease.

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, cash flow and related disclosure of contingent assets and liabilities during the reported periods. Significant estimates include the fair value of assets acquired and liabilities assumed in a business combination, certain accruals for doubtful accounts reserve, 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.

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended September 30, 2023, included in the Company’s 2023 Annual Report filed through the OTC Disclosure and News Services on January 25, 2024. The Company’s results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

The Company’s fiscal year end is September 30, and our fiscal quarters end on December 31, March 31, June 30, and September 30. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company’s fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

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.

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 primarily held in time deposits and money market funds. As of June 30, 2024, the Company's cash and cash equivalents totaled approximately \$2.0 million, down from \$2.6 million as of September 30, 2023.

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 account 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 \$37,000 as of June 30, 2024, compared to \$40,000 at September 30, 2023.

Accounts receivable, net and unbilled accounts receivable as of June 30, 2024 and September 30, 2023 consisted of the following (in thousands):

	June 30, 2024	September 30, 2023
Amount billed	\$ 1,686	\$ 1,386
Unbilled accounts receivable ⁽¹⁾	86	109
Accounts receivable, net and unbilled accounts receivable	<u>\$ 1,772</u>	<u>\$ 1,495</u>

- (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.

The following table summarizes customers and reseller partners comprising 10% or more of total revenue for the period indicated:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Reseller A	28%	31%	29%	31%
Customer A	30%	14%	25%	13%
Customer B	*	*	*	10%

* Less than 10% of total revenue.

Our top five customers and reseller partners accounted for 68% and 65% of our total revenue for the three and nine months ended June 30, 2024, respectively, compared to 61% and 62% for the three and nine months ended June 30, 2023, 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.

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. For the first half of fiscal year 2024, depreciation and amortization expense was approximately \$3,000. Repair and maintenance costs for the periods presented were immaterial and were expensed as incurred.

We periodically review our portfolio of equipment for impairment. Based on our impairment assessment, we retired and disposed of fully depreciated equipment of \$0 and \$244,000, respectively, for the periods referenced in the table below. The disposal of such assets had no impact on our consolidated financial statements.

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

	June 30, 2024	September 30, 2023
Furniture and equipment	\$ 172	\$ 172
Computer software	98	98
Leasehold improvements	53	53
Property and equipment	323	323
Less: accumulated depreciation and amortization	(323)	(320)
Property and equipment, net	\$ —	\$ 3

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.

The following table summarizes capitalized software development costs and accumulated amortization during the nine months ended June 30, 2024 (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Balance at September 30, 2023	\$ 3,917	\$ (2,421)	\$ (281)	\$ 1,215
Additions	377	(311)	—	66
Balance at June 30, 2024	<u>\$ 4,294</u>	<u>\$ (2,732)</u>	<u>\$ (281)</u>	<u>\$ 1,281</u>

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):

	<u>June 30,</u> <u>2024</u>	<u>September 31,</u> <u>2023</u>
Contract liabilities, beginning of year	\$ 611	\$ 772
Additions	955	1,066
Revenue recognized	(860)	(1,227)
Contract liabilities, end of period	<u>\$ 706</u>	<u>\$ 611</u>

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

	<u>June 30,</u> <u>2024</u>	<u>September 31,</u> <u>2023</u>
Accounts receivable, net	\$ 1,686	\$ 1,386
Contract liabilities:		
Contract liabilities, current (included in deferred revenue - current)	\$ 551	\$ 477
Contract liabilities, non-current (included in deferred revenue - long-term)	155	134
Total contract liabilities	<u>\$ 706</u>	<u>\$ 611</u>

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, 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 monthly. 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.

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 costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has concluded that none of the costs it has incurred to obtain and fulfill its revenue contracts met the capitalization criteria, and as such, there are no costs deferred as of June 30, 2024.

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.

2. LEASES

The Company leases its office space and facilities under cancelable and non-cancelable operating leases, which expire at various dates through 2027. 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):

	June 30, 2024	June 30, 2023
Operating lease expense	\$ 103	\$ 94
Variable lease expense ⁽¹⁾	41	38
Total	\$ 144	\$ 132

(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 during the period presented were as follows (in thousands):

Lease-Related Assets and Liabilities	June 30, 2024	June 30, 2023
Assets:		
Operating lease right-of-use assets	\$ 43	\$ 302
Liabilities:		
Operating lease liabilities – current portion	46	309
Operating lease liabilities – long-term portion	—	23
Total lease liabilities	\$ 46	\$ 332

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

	June 30, 2024	June 30, 2023
Weighted Average Remaining Lease Term	1.5 years	1.0 years
Weighted Average Discount Rate	4.7%	4.8%

Maturities of lease liabilities under our non-cancelable operating leases as of June 30, 2024 are as follows (in thousands):

	Operating Leases
2024	\$ 25
2025	114
2026	28
2027	26
Total future minimum lease obligations	193
Less imputed interest	(4)
Present value of net future minimum lease obligations	46
Less current portion	(46)
Long term portion	\$ —

3. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy, and disruptive to normal business operations. 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.

Intermountain Technology Group, LLC and Ryan Day v. Altigen

In June 2024, Intermountain Technology Group, LLC, a Utah limited liability company, and Ryan Day, a former employee of the Company, filed a complaint against the Company in the Third Judicial District Court in Salt Lake County, Utah. The complaint alleges that the Company breached its obligations under an Asset Purchase Agreement (APA) dated March 4, 2022, related to the acquisition of certain assets of Intermountain Technology Group. The plaintiffs claim that the Company failed to make required payments of cash and stock due in May 2024, instead issuing an indemnification claim, which is alleged to have been made in bad faith. The plaintiffs seek compensatory damages of no less than \$750,000 for breach of contract.

In August 2024, the Company filed counterclaims in response to the lawsuit. The Company's counterclaims allege that the plaintiffs breached their representations and warranties under the APA, specifically by failing to disclose material changes in customer relationships, which caused significant declines in revenue. The Company seeks \$1.5 million in damages for breach of contract and a declaratory judgment that its indemnification claim is valid. The Company also requests that any damages be offset against amounts owed to Intermountain and Mr. Day under the APA.

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.

4. 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
Prepays 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.

ZAACT services are reported as part of our professional services and other revenue in the accompanying consolidated statement of operations. For the three and nine months ended June 30, 2024, ZAACT services accounted for \$1.2 million and \$3.2 million in revenue, respectively, compared to \$827,000 and \$2.7 million for the same period of fiscal year 2023.

5. ACQUIRED INTANGIBLE ASSETS

Intangible assets consist primarily of intellectual property and customer relationships, resulting from the Company’s acquisitions. Intangible assets are recorded at fair value on the date of acquisition. We currently amortize our intangible assets with definitive lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used or, if that pattern cannot be reliably determined, using a straight-line amortization method. Intangible assets are reviewed periodically for

impairment whenever events and circumstances indicate the carrying value of such assets may not be recoverable and exceed their fair value. If an impairment loss exists, the carrying amount of the intangible asset is adjusted to a new cost basis. The new cost basis is amortized over the remaining useful life of the asset. During fiscal year 2023, the Company determined that no contingent consideration would be paid for the acquisition of Blue Panda's CoreInteract technology 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):

	Nine Months Ended June 30, 2024			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Customer relationships	\$ 2,111	\$ (844)	\$ —	\$ 1,267
Trade names	70	(48)	—	22
Intellectual property	273	—	(131)	142
Total	<u>\$ 2,454</u>	<u>\$ (892)</u>	<u>\$ (131)</u>	<u>\$ 1,431</u>

6. STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION EXPENSE

Equity Stock Incentive Plans

The Company's 2009 Stock Plan (the "2009 Stock Plan") expired in June 2019 and no additional awards were granted under the plan. The 2009 Plan will, however, continue to govern the securities previously granted under the plan. In July 2019, our Board of Directors approved the 2019 Equity Incentive Plan ("2019 Equity Incentive Plan"), which was approved by the Company's stockholders in October 2019 and replaced the 2009 Plan and the shares available for future grants under the plan. Shares reserved under the 2019 Stock Plan include (i) 1,000,000 new shares, plus (ii) 2,277,873 shares which have been reserved but not issued pursuant to any awards under the 2009 Plan, plus (ii) the number of shares subject to outstanding awards under the 2009 Plan that expire or otherwise terminate without having been exercised in full, or are forfeited to or repurchased by the Company, up to a maximum of 3,774,635 shares. The 2019 Stock Plan provides for the granting of incentive stock options, 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 activity under our plans during the nine months ended June 30, 2024:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at October 1, 2023	2,059,852	\$ 0.43		
Options granted	150,000	0.67		
Less:				
Options exercised	—	—		
Options forfeited/expired	276,000	0.89		
Options outstanding at June 30, 2024	<u>1,933,852</u>	<u>\$ 0.40</u>	<u>1.93</u>	<u>\$ 669</u>
Exercisable at June 30, 2024	<u>1,747,665</u>	<u>\$ 0.36</u>	<u>1.74</u>	<u>\$ 667</u>

Stock-Based Compensation

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

For the three and nine months ended June 30, 2024, stock-based compensation expense related to employee and director stock options was \$14,000 and \$42,000, respectively.

7. SUBSEQUENT EVENTS

In June 2024, Intermountain Technology Group, LLC, a Utah limited liability company, and Ryan Day, a former employee of the Company, filed a complaint against the Company in the Third Judicial District Court in Salt Lake County, Utah. The complaint alleges that the Company breached its obligations under an Asset Purchase Agreement (APA) dated March 4, 2022, related to the acquisition of certain assets of Intermountain Technology Group. For additional information, refer to Item 5, “Legal Proceedings,” and Note 3, “Commitments and Contingencies.”

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

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause industry trends or our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. These unaudited interim consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report for the fiscal year ended September 30, 2023, filed through the OTC Disclosure and News Services on January 25, 2024. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

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

Altigen was formed in 1994 as a California corporation and was reincorporated in the State of Delaware in 1999. Our primary facility, which houses administrative functions, is located in Newark, California. We also have a Representative Office in Taipei, Taiwan, which serves 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.

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 consolidated financial statements requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, cash flow and related disclosure of contingent assets and liabilities during the reported periods. 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 to 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, 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 monthly. 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 primarily held in time deposits and money market funds. As of March 31, 2024, the Company's cash and cash equivalents totaled approximately \$2.0 million, down from \$2.6 million as of September 30, 2023.

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.

The following table summarizes customers and reseller partners comprising 10% or more of total revenue for the period indicated:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Reseller A	28%	31%	29%	31%
Customer A	30%	14%	25%	13%
Customer B	*	*	*	10%

* Less than 10% of total revenue.

Our top five customers and reseller partners accounted for 68% and 65% of our total revenue for the three and nine months ended June 30, 2024, respectively, compared to 61% and 62% for the three and nine months ended June 30, 2023, 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 — Three and Nine Months Ended June 30, 2024 Compared to Three and Nine Months Ended June 30, 2023

Net Revenue

Total revenue for the three and nine months ended June 30, 2024 was \$3.3 million and \$10.0 million, respectively, compared to \$3.4 million and \$10.2 million for the three and nine months ended June 30, 2023, respectively.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2024	2023	2024	2023
Hosted services	52%	58%	55%	56%
Professional services and other	38%	30%	34%	31%
Software assurance	9%	11%	10%	12%
Software license	1%	1%	1%	1%
Total	100%	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.

Cost of hosted services was approximately \$668,000, or 20% of net revenue and \$2.2 million, or 22% of net revenue for the three and nine months ended June 30, 2024, respectively, compared to \$800,000, or 24% of net revenue and \$2.3 million, or 22% of net revenue for the three and nine months ended June 30, 2023, respectively. The decrease in the cost of hosted services was primarily driven by a decrease in hosted services revenue.

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. Cost of professional services and other revenue increased to \$614,000, or 19% of net revenue and \$1.6 million, or 16% of net revenue for the three and nine months ended June 30, 2024, respectively, compared to \$420,000, or 12% of net revenue and \$1.4 million, or 13% of net revenue for the three and nine months ended June 30, 2023, respectively. The increase in the cost of professional services and other revenue was primarily driven by an increase in professional services revenue.

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 the first nine months of fiscal year 2024 and 2023, 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 \$7,000 and \$30,000 for the three and nine months ended June 30, 2024, respectively, compared to \$17,000 and \$53,000 for the three and nine months ended June 30, 2023, respectively, primarily driven by a decrease in software license 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.

For the third quarter of fiscal year 2024, R&D expenses totaled \$945,000, or 29% of net revenue, compared to \$1.3 million, or 39% of net revenue for the same period a year ago. For the nine months ended June 30, 2024, R&D expenses totaled \$3.4 million, or 34% of net revenue, compared to \$3.9 million, or 38% of net revenue for the same period of fiscal year 2023.

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 and China.

Sales and Marketing Expenses

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

For the third quarter of fiscal year 2024, sales and marketing expenses totaled \$325,000, or 10% of net revenue, compared to \$417,000, or 12% of net revenue for the same period a year ago. For the nine months ended June 30, 2024, sales and marketing

expenses were \$1.1 million, or 11% of net revenue, compared to \$1.3 million, or 13% of net revenue for the same period of fiscal year 2023.

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 totaled \$655,000, or 20% of net revenue for the third quarter of fiscal year 2024, compared with \$529,000, or 16% of net revenue for the same period a year ago. For the nine months ended June 30, 2024, general and administrative expenses were \$2.1 million, or 21% of net revenue, compared to \$1.8 million, or 17% of net revenue for the same period of fiscal year 2023.

Interest Expense

Interest expense primarily relates to changes in the fair value of contingent consideration associated with the ZAACT acquisition. For the three and nine months ended June 30, 2024, imputed interest expense associated with contingent consideration was approximately \$5,000 and \$23,000, respectively, compared to \$36,000 for both the three and nine months ended June 30, 2023.

Interest and Other Income

Interest income primarily consisted of interest from our money market funds, which benefited from higher yields in the first nine months of fiscal year 2024 due to increased interest rates. For the three and nine months ended June 30, 2024, interest income was approximately \$16,000 and \$37,000, respectively. For the first nine months of fiscal year 2023, interest income 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 June 30, 2024, total cash and cash equivalents represent approximately 49% 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 (in thousands):

	Nine Months Ended June 30,	
	2024	2023
Cash and cash equivalents, beginning of period	\$ 2,641	\$ 3,232
Cash (used in) provided by operating activities	(262)	298
Cash used in investing activities	(377)	(605)
Cash provided by financing activities	—	36
Cash and cash equivalents, end of period	\$ 2,002	\$ 2,961

Operating Activities

During the nine months ended June 30, 2024, cash used in operating activities was \$262,000, driven by net loss of \$519,000, net cash outflows of \$236,000 due to changes in operating assets and liabilities, and adjusted for non-cash charges totaling \$493,000. Non-cash charges primarily consist of capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment. The changes in operating assets and liabilities included an increase of \$277,000 in accounts receivable, an increase of \$51,000 in prepaid expenses, a net decrease of \$4,000 in accounts payable and accrued expenses, and an increase of \$96,000 in deferred revenue. Adjustments for non-cash items primarily consisted of \$311,000 of amortization of capitalized software, \$137,000 of amortization of intangible assets, \$42,000 of stock-based compensation expense and \$3,000 of depreciation and amortization expense on property and equipment.

During the nine months ended June 30, 2023, cash provided by operating activities was \$298,000, driven by net cash inflows of \$128,000 due to changes in operating assets and liabilities, adjusted for non-cash charges of \$680,000, offset by a net loss of \$510,000. These non-cash charges primarily comprised of capitalized software, amortization of intangible assets, stock-based compensation, and depreciation of property and equipment. The changes in operating assets and liabilities included a decrease of \$36,000 in accounts receivable, an increase of \$83,000 in prepaid expenses, net increase of \$317,000 in accrued expenses and accounts payable, and a decrease of \$142,000 in deferred revenue. Adjustments for non-cash items primarily consisted of \$450,000 of amortization of capitalized software, \$137,000 of amortization of intangible assets, \$90,000 of stock-based compensation expense and \$3,000 of depreciation and amortization expense on property and equipment.

Investing Activities

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

For the nine months ended June 30, 2024, cash used in investing activities totaled \$377,000, primarily driven by costs related to capitalized software.

Cash used in investing activities of \$605,000 for the nine months ended June 30, 2023, was comprised of \$380,000 for capitalized software and \$225,000 in cash consideration for the acquisition of ZAACT.

Financing Activities

For the nine months of fiscal year 2024, we had no financing activities. Cash provided by financing activities was \$36,000 for the nine months ended June 30, 2023, primarily resulting from proceeds from the issuance of common stock under our employee stock purchase plan.

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.

Item 5. Legal Proceedings

From time to time, we may become subject to other legal proceedings, claims and litigation arising in the ordinary course of business. Litigation can be expensive, lengthy, and disruptive to normal business operations. 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.

Intermountain Technology Group, LLC and Ryan Day v. Altigen

In June 2024, Intermountain Technology Group, LLC, a Utah limited liability company, and Ryan Day, a former employee of the Company, filed a complaint against the Company in the Third Judicial District Court in Salt Lake County, Utah. The complaint alleges that the Company breached its obligations under an Asset Purchase Agreement (APA) dated March 4, 2022, related to the acquisition of certain assets of Intermountain Technology Group. The plaintiffs claim that the Company failed to make required payments of cash and stock due in May 2024, instead issuing an indemnification claim, which is alleged to have been made in bad

faith. The plaintiffs seek compensatory damages of no less than \$750,000 for breach of contract.

In August 2024, the Company filed counterclaims in response to the lawsuit. The Company's counterclaims allege that the plaintiffs breached their representations and warranties under the APA, specifically by failing to disclose material changes in customer relationships, which caused significant declines in revenue. The Company seeks \$1.5 million in damages for breach of contract and a declaratory judgment that its indemnification claim is valid. The Company also requests that any damages be offset against amounts owed to Intermountain and Mr. Day under the APA.

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 6. Defaults upon Senior Securities.

None.

Item 7. Other Information.

None.

Item 8. Exhibits.

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

- Lease Agreement for 39899 Balentine Drive, Newark, California, dated as of July 17, 2024, between John Property Management, LLC and the Company.
- 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.
- Asset Purchase Agreement between Intermountain Technology Group, LLC (dba ZAACT Consulting) and the Company, dated as of March 4, 2022.
- 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 39899 Balentine Drive, Suite 112, Newark, California 94560, during ordinary business hours.

Item 9. Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

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

Date: September 30, 2024

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

CERTIFICATION OF VICE PRESIDENT OF FINANCE

I, Carolyn David, certify that:

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

Date: September 30, 2024

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