ALTIGEN COMMUNICATIONS, INC.

Quarterly Report
For Second Quarter Ended March 31, 2015

ALTIGEN COMMUNICATIONS, INC.
QUARTERLY REPORT
FOR SECOND QUARTER ENDED MARCH 31, 2015

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS

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

The following information provides updates to the Annual Report for fiscal year ended September 30, 2014. Accordingly, this report does not contain all the information required of an issuer for its initial disclosure obligations, and should therefore be reviewed in conjunction with the Annual Report for fiscal year ended September 30, 2014 and any interim reports or updates provided since the fiscal year-end report.

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

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

Exact name of issuer:	AltiGen Communications, Inc.
Principal Executive Offices:	679 River Oaks Parkway San Jose, CA 95134 Telephone: (408) 597-9000 Facsimile: (408) 597-2020 Website: www.altigen.com
Investor Relations Officer:	Philip M. McDermott, Chief Financial Officer and Director 679 River Oaks Parkway San Jose, CA 95134 Telephone: (408) 597-9000 Email Address: ir@altigen.com

Item 2. Shares Outstanding.

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

As of March 31, 2015					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,798,683	15,819,781	1,773	97
Preferred Stock	5,000,000	-	-	-	-

As of September 30, 2014					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	22,798,683	15,819,781	1,717	96
Preferred Stock	5,000,000	-	-	-	-

As of September 30, 2013					
Class	Number of Shares Authorized	Number of Shares Outstanding	Freely Tradable Shares (Public Float) (1)	Total Number of Beneficial Stockholders (2)	Total Number of Stockholders of Record
Common Stock	50,000,000	16,732,016	10,656,617	1860	76
Preferred Stock	5,000,000	-	-	-	-

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

(2) Estimate based on beneficial share range analysis, received from Broadridge Financial Solutions, Inc. as of March 31, 2015, September 30, 2014 and September 30, 2013.

Item 3. Interim Financial Statements.

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

	March 31, 2015 (Unaudited)	September 30, 2014 (1)
ASSETS		
Current assets:		
Cash, cash equivalents and restricted cash	$ 4,384	$ 3,814
Accounts receivable, less allowance for doubtful accounts of $1 for March 31, 2015 and $4 for September 30, 2014, respectively	343	472
Inventories	352	476
Prepaid expenses and other current assets	124	68
Total current assets	5,203	4,830
Property, plant and equipment, net	150	145
Long-term deposit	36	36
Total assets	$ 5,389	$ 5,011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 338	$ 359
Accrued expenses	654	618
Deferred revenue, short-term	1,717	2,052
Revolving line of credit	1,469	1,544
Total current liabilities	4,178	4,573
Other long-term liabilities	164	188
Commitments and contingencies (Note 1)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value; Authorized—5,000,000 shares; Outstanding—none at March 31, 2015 and September 30, 2014	—	—
Common stock, $0.001 par value; Authorized—50,000,000 shares; Issued and outstanding—22,798,683 shares at March 31, 2015 and September 30, 2014	25	25
Treasury stock at cost—1,918,830 shares at March 31, 2015 and September 30, 2014	(1,565)	(1,565)
Additional paid-in capital	71,192	70,921
Accumulated deficit	(68,605)	(69,131)
Total stockholders' equity	1,047	250
Total liabilities and stockholders' equity	$ 5,389	$ 5,011

(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, 2014.

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	**2014 (3)**	**2015**	**2014 (3)**
Net revenue:				
Hardware	$ 835	$ 799	$ 1,652	$ 1,791
Software	669	654	1,511	1,168
Service support	1,035	963	2,024	1,897
Total net revenue (1)	2,539	2,416	5,187	4,856
Cost of revenue:				
Hardware	499	628	1,020	1,311
Software	6	28	20	34
Service support (2)	—	—	—	—
Total cost of revenue	505	656	1,040	1,345
Gross profit	2,034	1,760	4,147	3,511
Operating expenses:				
Research and development	784	745	1,491	1,488
Sales and marketing	592	548	1,097	1,144
General and administrative	549	547	1,027	1,133
Total operating expenses	1,925	1,840	3,615	3,765
Income (loss) from continuing operations	109	(80)	532	(254)
Interest and other income, net	(3)	(3)	(5)	(6)
Income (loss) from continuing operations before income taxes	106	(83)	527	(260)
Income taxes	—	—	(1)	(1)
Income (loss) from continuing operations after income taxes	$ 106	$ (83)	$ 526	$ (261)
Discontinued operations:				
Loss from discontinued operations	—	(174)	—	(361)
Write-down of investment from discontinued operations	—	(259)	—	(259)
Total loss from discontinued operations	$ —	$ (433)	$ —	$ (620)
Net income (loss)	$ 106	$ (516)	$ 526	$ (881)
Basic and diluted net loss per share	$ 0.00	$ (0.00)	$ 0.02	$ (0.01)
Weighted average shares used in computing basic net loss per share	23,167	23,399	24,699	23,399

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

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

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

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
BALANCE, SEPTEMBER 30, 2014	22,798,683	$ 25	$ (1,565)	$ 70,921	$ (69,131)	$ 250
Net income	—	—	—	—	526	526
Stock-based compensation	—	—	—	271	—	271
BALANCE, March 31, 2015	22,798,683	$ 25	$ (1565)	$ 71,192	$ (68,605)	$ 1,047

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

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

	Six Months Ended March 31, 2015	Six Months Ended March 31, 2014 (1)
	(Unaudited, in thousands)	
Cash flows from operating activities:		
Net income (loss) from continuing operations	$ 526	$ (261)
Net loss from discontinued operations	—	(620)
Net income (loss)	526	(881)
Adjustments to reconcile net income (loss) to net cash flows from operating activities of continuing operations:		
Depreciation and amortization	33	84
Stock-based compensation	271	77
Changes in operating assets and liabilities:		
Accounts receivable	129	(150)
Inventories	124	83
Prepaid expenses and other current assets	(56)	(57)
Accounts payable	(21)	26
Accrued expenses	(39)	121
Deferred revenue	(357)	47
Other long-term liabilities	(2)	—
Net changes in assets and liabilities of discontinued operations	—	397
Net cash provided by (used in) operating activities	608	(253)
Cash flows from investing activities:		
Changes in long-term deposits	—	(31)
Purchases of property and equipment	(38)	(7)
Net cash used in investing activities	(38)	(38)
Cash flows from financing activities:		
Proceeds from sale of common stock	—	1,000
Net cash provided by financing activities	—	1,000
Net change in cash and cash equivalents during year	570	709
Cash and cash equivalents, beginning of year	3,814	2,942
Cash and cash equivalents, end of year	$ 4,384	$ 3,651

(1) Prior year results have been retrospectively revised to reflect the discontinued China operations for comparison purposes.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

These consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the fiscal year ended September 30, 2014, included in the Company's 2014 Annual Report filed through the OTC Disclosure and News Services on December 29, 2014. 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.

DISCONTINUED OPERATIONS

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

CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents consist of cash on hand and highly liquid investments, such as time deposits. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash represents cash that serves as collateral for our revolving line of credit. The cash is restricted as to withdrawal or use and provides financial assurance that the Company will fulfill certain contractual obligations. At March 31, 2015, cash, cash equivalents and restricted cash totaled approximately $4.4 million, as compared to $3.8 million at September 30, 2014. Restricted cash represents approximately $2.0 million and is recorded as part of our cash and cash equivalents in our consolidated balance sheets.

INVENTORIES

Inventories (which include costs associated with components assembled by third-party assembly manufacturers, as well as internal labor and allocable overhead) are stated at the lower of standard cost (which approximates actual cost on a first-in, first-out basis) or market value. Provisions, when required, are made to reduce excess and obsolete inventories to their estimated net realizable values. We regularly monitor inventory quantities on hand and record a provision for excess and obsolete inventories based primarily on our estimated forecast of product demand and production requirements for the next six months. We record a write-down for product and component inventories that have become obsolete or are in excess of anticipated demand or net realizable value. Raw materials inventory is considered obsolete and is fully reserved if it has not been used in 365 days. The components of inventories include (in thousands):

	March 31, 2015	September 30, 2014
Raw materials	$ 143	$ 134
Work-in-progress	—	—
Finished goods	209	342
Total	$ 352	$ 476

PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant, and equipment are stated at cost, which includes purchase cost, applicable taxes and freight costs. We compute depreciation and amortization using the straight-line method over the estimated useful lives of the assets, which is three years except for tooling and leasehold improvements. Our tooling is depreciated using the greater of the value using a five year straight-line method or the number of phones shipped in the period. We depreciate leasehold improvements over the shorter of the lease term or the improvement's estimated useful life.

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

	March 31, 2015	September 30, 2014
Machinery and equipment	$ 66	$ 66
Furniture and equipment	1,253	1,247
Tooling	960	960
Computer software	984	952
Leasehold improvements	206	206
Total	3,469	3,431
Accumulated depreciation and amortization	(3,319)	(3,286)
Property and equipment, net	$ 150	$ 145

REVENUE RECOGNITION

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

Software components are generally not sold separately from our hardware components. Software revenue consists of license revenue that is recognized upon delivery of the application products or features. We provide software assurance consisting primarily of the latest software updates, patches, new releases and technical support. Revenue earned on software arrangements involving multiple elements is allocated to each element based upon the relative fair value of the elements. The revenue allocated to software support program is recognized with the initial licensing fee on delivery of the software. This software assurance revenue is in addition to the initial license fee and is recognized over a period of one to three years. The estimated cost of providing software assurance during the arrangement is insignificant and the upgrades and enhancements offered at no cost during software assurance arrangements have historically been, and are expected to continue to be, minimal and infrequent. All estimated costs of providing the services, including upgrades and enhancements, are spread over the life of the software assurance contract term.

SERVICE SUPPORT PROGRAMS

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

CONCENTRATIONS

Our customers are primarily end-users, resellers and distributors. We have distribution agreements with Altisys Communications, Inc. (“Altisys”) and Synnex Corporation (“Synnex”) in the North America segment. Our agreements with Altisys and Synnex have initial terms of one year. Each of these agreements are renewed automatically for additional one year terms, provided that each party has the right to terminate the agreement for convenience upon ninety (90) days’ written notice prior to the end of the initial term or any subsequent term of the agreement. In addition, our agreements with Altisys and Synnex also provide for termination, with or without cause and without penalty, by either party upon thirty (30) days’ written notice to the other party or upon insolvency or bankruptcy. For a period of sixty (60) days following termination of the agreement, Altisys and Synnex may distribute any products in their possession at the time of termination or, at their option, return any products to us that are in their inventories. Upon termination of the distribution agreement, all outstanding invoices for the products will become due and payable within thirty (30) days of the termination.

We also have a reseller agreement with Fiserv Solutions, Inc. (“Fiserv”) in the North America segment. Our agreement with Fiserv has an initial term of ten years ending on August 28, 2019, and shall be renewed automatically for additional five year terms unless either party provides the other party with ninety (90) days’ written notice of termination prior to the end of the initial term or any subsequent term of the agreement. The agreement can also be terminated for, among other things, material breach or insolvency of either party. Upon termination, AltiGen would continue to have support obligations for products that Fiserv distributed subject to Fiserv’s obligation to remain current on maintenance fees.

The foregoing statements are subject to, and are qualified in their entirety by reference to, the agreements with Fiserv, Synnex and Altisys described above, which have been filed with the Securities and Exchange Commission (SEC) as exhibits to the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2009, Annual Report on Form 10-K for the fiscal year ended September 30, 2003, and Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, respectively.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	**2014**	**2015**	**2014**
Synnex	22%	21%	22%	23%
Fiserv	10%	13%	15%	14%
Total	32%	34%	37%	37%

SEGMENT REPORTING

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

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
North America	95%	98%	97%	99%
Rest of World	5%	2%	3%	1%
Total	100%	100%	100%	100%

WARRANTY

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

Changes in the reserves for our warranty liability for the three and six months ended March 31, 2015 and 2014, respectively, are as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Beginning balance	$ 40	$ 74	$ 41	$ 91
Provision for warranty liability	2	13	5	29
Warranty cost including labor, components and scrap	(16)	(33)	(20)	(66)
Ending balance	$ 26	$ 54	$ 26	$ 54

STOCKHOLDERS' EQUITY AND STOCK-BASED COMPENSATION

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

Option Exchange Program

On December 19, 2014, the Board of Directors approved a voluntary stock option exchange program (the "Option Exchange Program"). The Option Exchange Program permitted eligible employees to exchange two outstanding options for one new option. A total of 2.8 million options were tendered in the exchange program. In exchange for the eligible options that were accepted for exchange and cancellation, the Company issued new options to purchase an aggregate of 1.4 million shares of its common stock. The new options were granted on February 19, 2015 and have an exercise price of $0.35 per share. These options will vest quarterly over an eighteen month period. The remaining 1.4 million options were cancelled.

Issuance of Common Stock

On December 19, 2014, the Board of Directors approved the grant of an aggregate of 2.3 million restricted stock options to certain directors, officers and employees in accordance with the Company's 2009 Stock Plan. The newly issued stock options were granted on December 19, 2014 and have an exercise price of $0.16 per share. These options will vest quarterly over an eighteen month period.

Equity Offering

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

The following table summarizes information with respect to outstanding warrants to purchase common stock of the Company, all of which were exercisable, at March 1, 2015:

	Exercise Price	Number Outstanding	Expiration Date
Warrants to purchase common stock	$ 0.30	6,666,667	November 19, 2016

The following table summarizes the Company's stock option plan as of October 1, 2014 and changes during the six months ended March 31, 2015:

	Number of Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding at October 1, 2014	3,557,684	$ 0.86	
Granted	3,763,201	0.23	
Exercised	—	—	
Forfeitures and cancellations	(3,062,325)	0.87	
Outstanding at March 31, 2015	4,258,560	$ 0.30	8.89
Vested and expected to vest at March 31, 2015	3,792,032	$ 0.31	8.79
Exercisable at March 31, 2015	1,099,049	$ 0.50	6.40

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

The following table presents stock-based compensation expense included in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Research and development	$ 48	$ 9	$ 51	$ 17
Sales and marketing	62	3	63	6
General and administrative	146	27	157	54
Total	$ 256	$ 39	$ 271	$ 77

COMMITMENTS AND CONTINGENCIES

Commitments

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

Future non-cancellable minimum lease payments under all operating leases as of March 31, 2015 are shown in the following table (in thousands):

Fiscal Year	Future Lease Payments
2015	$ 136
2016	278
2017	286
2018	294
2019	175
Thereafter	—
Total	$ 1,169

Contingencies

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit– China segment. In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable, therefore, we did not record any liabilities related to this matter in fiscal year 2014. We review all legal contingencies each reporting period and make revisions based on changes in facts and circumstances. If a potential loss is justified, probable, able to be quantified, and material, we will provide for the exposure. As of March 31, 2015, we did not record any accrued litigation liabilities.

From time to time, we become involved in litigation claims and disputes in the ordinary course of business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit or proceeding could have a material adverse effect on our results of operations, financial condition or cash flows. We currently are not aware of any legal proceedings or claims that we believe will have, individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

REVOLVING LINE OF CREDIT

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

The Line of Credit is available to finance working capital and for general corporate purposes and requires monthly interest payments based on the prevailing 30-day LIBOR rate plus 0.75% (0.926% at March 31, 2015), and the interest rate is reset monthly. Interest expense associated with the line of credit for the three and six months ended March 31, 2015 was approximately $4,000 and $7,000, respectively, as compared to $4,000 and $8,000, respectively, for the same period in fiscal year 2014.

As of March 31, 2015, the availability under the revolving line of credit was approximately $0.5 million and we had outstanding borrowings of $1.5 million, which was included in current liabilities in the accompanying Consolidated Balance Sheet. The unpaid balance of this Note shall increase and decrease with each new advance or payment hereunder, as the case may be. Any outstanding borrowings and accrued interest shall be due and payable in full on September 1, 2015.

SUBSEQUENT EVENTS

We evaluated subsequent events through May 19, 2015, the date on which these financial statements were disclosed on the OTCQX. There were no events or transactions occurring during this subsequent event reporting period that require recognition or disclosure in the financial statements.

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

These statements are based on current expectations and assumptions regarding future events and business performance and involve known and unknown risks, uncertainties and other factors that may cause industry trends or our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these statements. You should carefully review the cautionary statements contained in our Annual Report for the fiscal year ended September 30, 2014, filed through the OTC Disclosure and News Services on December 29, 2014. 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," "we" or the "Company") is a leading provider of premise and cloud-based IP-PBX and Contact Center solutions. We design, deliver and support VoIP phone systems and call center solutions that combine high reliability with integrated IP communications applications. As one of the first companies to offer VoIP solutions, AltiGen has been deploying systems since 1996.

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

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

Revenue from sales of our hardware and software products consists of direct sales to end-users, resellers and distributors. Revenue from sales to end-users and resellers is recognized upon shipment, when risk of loss has passed to the customer, collection of the receivable is reasonably assured, persuasive evidence of an arrangement exists, and the sales price is fixed and determinable. We provide for estimated sales returns and allowances and warranty costs related to such sales at the time of shipment. Net revenue consists of product revenue reduced by estimated sales returns and allowances.

Sales to distributors are made under terms allowing certain rights of return and protection against subsequent price declines on our products held by the distributors. Upon termination of such distribution agreements, any unsold products may be returned by the distributor for a full refund. These agreements may be canceled without cause for convenience following a specified notice period. As a result of these provisions, we defer recognition of distributor revenue until such distributors resell our products to their customers. Revenue that is deferred as a result of this policy is classifies as “deferred revenue” in the accompanying consolidated balance sheets. The related cost of revenue is also deferred and reported in the consolidated balance sheets as inventory.

We also record deferred revenue from our service support programs. Revenue from these programs is deferred and recognized ratably over the service coverage periods, generally twelve to thirty six months.

As of March 31, 2015 and September 30, 2014, the Company had approximately $1.7 million and $2.1 million, respectively, in short-term deferred revenue, of which $1.6 million and $2.0 million, respectively, were comprised of service support revenue, and less than $100,000 represented deferred channel revenue for both March 31, 2015 and September 30, 2014. Long-term deferred revenue is primarily comprised of revenue generated from our service support program and is discussed below under the heading “Service Support Program.”

Service Support Program

Our Software Assurance Program provides our customers with the latest updates, new releases, and technical support for the applications they are licensed to use. These programs have an annual subscription and can range from one to three years. Sales from our service support programs are recorded as deferred revenue and recognized as revenue over the terms of their subscriptions. Subscriptions with expiration dates of less than one year are classified as “deferred revenue, short-term” and greater than one year are classified as “other long-term liabilities” in the accompanying consolidated balance sheets. As described above, short-term service support revenue was approximately $1.7 million and $2.1 million as of March 31, 2015 and September 30, 2014, respectively. Long-term deferred revenue was approximately $100,000 and $123,000 as of March 31, 2015 and September 30, 2014, respectively. Our service plan offering remains a key part of our business as we continue to add new service customers.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash on hand and highly liquid investments, such as time deposits. We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash represents cash that serves as collateral for our revolving line of credit. The cash is restricted as to withdrawal or use and provides financial assurance that the Company will fulfill certain contractual obligations. At March 31, 2015, cash, cash equivalents and restricted cash totaled approximately $4.4 million, as compared to $3.8 million at September 30, 2014. Restricted cash represents approximately $2.0 million and is recorded as part of our cash and cash equivalents in our consolidated balance sheets.

Inventories

Inventory is stated at the lower of cost (first-in, first-out method) or market. We perform a detailed review of inventory each fiscal quarter, with consideration given to future customer demand for our products, obsolescence from rapidly changing technology, product development plans, and other factors. If future demand or market conditions for our products are less favorable than those projected by management, or if our estimates prove to be inaccurate due to unforeseen technological or other changes, we may be required to record an additional inventory obsolescence provision which would negatively affect gross margins in the period when the write-downs are recorded. Our inventory balance was $352,000 and $476,000 as of March 31, 2015 and September 30, 2014, respectively.

Warranty Cost

We accrue for warranty costs based on estimated product return rates and the expected material and labor costs to provide warranty services. If actual product return rates, repair cost or replacement costs differ significantly from management’s estimates, adjustments to recognize additional cost of sales may be required in future periods. The reserve for product warranties was $26,000 and $41,000 as of March 31, 2015 and September 30, 2014, respectively.

Stock-Based Compensation

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

Results of Operations

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

	Three Months Ended March 31,				Six Months Ended March 31,			
	2015		2014 (1)		2015		2014 (1)	
Net revenue:								
Hardware	32.8	%	35.2	%	31.9	%	38.2	%
Software	26.4		24.9		29.1		22.7	
Service support	40.8		39.9		39.0		39.1	
Total net revenue (1)	100.0		100.0		100.0		100.0	
Cost of revenue:								
Hardware	19.7		26.0		19.7		27.0	
Software	0.2		1.2		0.4		0.7	
Service support (2)	—		—		—		—	
Total cost of revenue	19.9		27.2		20.1		27.7	
Gross profit	80.1		72.8		79.9		72.3	
Operating expenses:								
Research and development	30.9		30.8		28.7		30.6	
Sales and marketing	23.3		22.7		21.2		23.6	
General and administrative	21.6		22.6		19.8		23.3	
Total operating expenses	75.8		76.1		69.7		77.5	
Income (loss) from continuing operations	4.3		(3.3)		10.2		(5.2)	
Interest and other income, net	(0.1)		(0.1)		(0.1)		(0.1)	
Income (loss) from continuing operations before income taxes	4.2		(3.4)		10.1		(5.3)	
Income taxes	—		—		—		—	
Income (loss) from continuing operations after income taxes	4.2		(3.4)		10.1		(5.3)	
Discontinued operations:								
Loss from discontinued operations	—		(7.2)		—		(7.4)	
Write-down of investment from discontinued operations	—		(10.7)		—		(5.3)	
Total loss from discontinued operations	—		(17.9)		—		(12.7)	
Net income (loss)	4.2	%	(21.3)	%	10.1	%	(18.0)	%

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

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

(3) Prior year results have been retrospectively revised to reflect the discontinued China operations for comparison purposes.

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

Results of Operations — Three and Six Months Ended March 31, 2015 Compared to Three and Six Months Ended March 31, 2014

Net Revenue

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

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

Net revenue from continuing operations increased 5% to $2.5 million and 7% to $5.2 million for the three and six months ended March 31, 2015, respectively, as compared to $2.4 million and $4.9 million for the same periods in fiscal year 2014. The quarter over quarter increase was due primarily to an increase of 8% in the service support revenue, while the year to date increase was due in part to a 29% increase in software related revenue primarily driven by an increase in the number of software only transactions in the first half of fiscal 2015.

Cost of Revenue

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

For the three months ended March 31, 2015, cost of revenue was $2.0 million, or 20% of net revenue, as compared to $1.8 million, or 27% of net revenue for the same period of fiscal year 2014.

For the six months ended March 31, 2015, cost of revenue was $4.1 million, or 20% of net revenue, as compared to $3.5 million, or 28% of net revenue for the same period of fiscal year 2014. The decrease in cost of revenue for the six month period was primarily driven by the positive impact of strong software related sales.

Research and Development (“R&D”) Expenses

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

For the second quarter of fiscal year 2015, research and development expenses were $784,000, or 31% of net revenue, compared to $745,000, or 31% of net revenue for the second quarter of fiscal year 2014. For the six months March 31, 2015, research and development expenses were $1.5 million, or 29% of net revenue, as compared to $1.5 million, or 31% of net revenue for the same period of fiscal year 2014.

We continue to develop new products and services and to enhance our existing ones through research and product development. We believe that our ability to develop and meet enterprise customer requirements is essential to our success. Accordingly, we have assembled a team of engineers with expertise in various fields, including voice and IP communications, unified communications network design, data networking and software engineering. Management believes that investment in research and development is required to remain competitive and we expect to continue to invest in research and development activities in future periods.

Sales and Marketing Expenses

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

For the second quarter of fiscal year 2015, sales and marketing expenses were $592,000, or 23% of net revenue, compared to $548,000, or 23% of net revenue for the second quarter of fiscal year 2014. For the six months March 31, 2015, sales and marketing expenses were $1.1 million, or 21% of net revenue, as compared to $1.1 million, or 24% of net revenue for the same period of fiscal year 2014.

We plan to continue investing in our domestic marketing activities to help build brand awareness and create sales leads for our channel partners. To the extent that the Company achieves higher sales levels, we anticipate that sales and marketing expense will increase in the future periods over the long term due to increased staffing levels as well as increased commission expense. We also anticipate that sales and marketing expenses will remain relatively flat in the short term due in part to our continued emphasis on expense control.

General and Administrative Expenses

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

For the second quarter of fiscal year 2015, general and administrative expenses were $549,000, or 22% of net revenue, compared to $547,000, or 23% of net revenue for the second quarter of fiscal year 2014. For the six months March 31, 2015, general and administrative expenses were $1.0 million, or 20% of net revenue, as compared to $1.1 million, or 23% of net revenue for the same period of fiscal year 2013.

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

Interest Expense and Other Income, Net

Interest expense consists primarily of interest charged on the outstanding borrowing of our revolving line of credit. Other income consists primarily of interest income earned on our cash and cash equivalents. The Company recorded $4,000 as interest expense and $1,000 as interest income in the second quarter of fiscal year 2015 and 2014, respectively. For the six months ended March 31, 2015, the company recorded $7,000 as interest expense and $2,000 as interest income, compared to $8,000 of interest expense and $2,000 of interest income during the same periods in fiscal year 2014.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through the sale of equity securities and cash flows from operations. As of March 31, 2015, total cash and cash equivalents represent approximately 84% of total current assets.

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

	Six Months Ended March 31,	
	2015	**2014 (1)**
Cash and equivalents, beginning of period	$ 3,814	$ 2,942
Cash provided by (used in) operating activities	608	(253)
Cash used in investing activities	(38)	(38)
Cash provided by financing activities	—	1,000
Cash and equivalents, end of period	$ 4,384	$ 3,651

(1) Amounts reflect reclassification for discontinued operations.

Cash Provided by Used in Operating Activities

During the six months ended March 31, 2015, net cash provided by operating activities was $608,000, compared to net cash used in operating activates of $253,000 during the same period in fiscal year 2014. This was primarily attributable to net income from continuing operations of $526,000.

During the six months ended March 31, 2014, net cash used in operating activities was $253,000. This was driven by a net loss of $262,000 from continuing operations, an increase of $150,000 in accounts receivable and an increase of $121,000 in accrued liabilities. The cash impact was partially offset by depreciation and amortization expense of $84,000 and stock-based compensation expense of $77,000.

Cash Used in Investing Activities

For both six months ended March 31, 2015 and March 31, 2014, cash used in investing activities was approximately $38,000. During fiscal year 2015, net cash used in investing activities was primarily affected by capital expenditures related to software licenses and to a lesser degree office equipment. During fiscal year 2014, net cash used in investing activities was primarily affected by changes in long-term deposits. Additionally, during the second quarter of fiscal year 2014, we entered into a lease for a new corporate headquarters located in San Jose, California. The lease agreement required a security deposit of approximately $31,000, which is classified as long-term deposit in the Consolidated Balance Sheets. For additional information, refer to Item 4 entitled "Commitments and Contingencies" of this Quarterly Report.

Cash Provided by Financing Activities

Net cash provided by financing activities was zero for the six months ended March 31, 2015, compared to $1.0 million for the same period in fiscal year 2014. Net cash provided by financing activities during fiscal year 2014 primarily consisted of net proceeds of $1.0 million from a private placement offering that closed in December 2013. For additional information regarding private placement offering, refer to the "Equity Offering" discussion section of this Quarterly Report.

We believe our existing cash and cash equivalents, as well as cash expected to be generated from operating activities will adequately meet our working capital, capital expenditure needs and other liquidity requirements associated with our existing operations over the next 12 months.

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

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

We did not have any material commitments for capital expenditures as of March 31, 2015. We had total outstanding commitments on non-cancelable operating leases of $1.2 million as of March 31, 2015. Lease terms on our existing facility operating leases generally range from three to five years.

Effects of Recently Issued Accounting Pronouncements

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

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is in the process of evaluating the provisions of ASU 2014-15.

Item 5. Legal Proceedings

During the second quarter of fiscal year 2014, the Company made a strategic decision to discontinue and write-down its wholly-owned subsidiary business unit– China segment. In connection with the China subsidiary write-down, the Company did not incur material liabilities; however, unanticipated expenses and contingent liabilities could potentially arise. Examples of such contingent liabilities include lease obligations, warranties, contracts and employment matters. We believe that the aforementioned liabilities are not probable and amounts are not estimable, therefore, we did not record any liabilities related to this matter in fiscal year 2014. We review all legal contingencies each reporting period and make revisions based on changes in facts and circumstances. If a potential loss is justified, probable, able to be quantified, and material, we will provide for the exposure. As of March 31, 2015, we did not record any accrued litigation liabilities.

From time to time, we become involved in litigation claims and disputes in the ordinary course of business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit or proceeding could have a material adverse effect on our results of operations, financial condition or cash flows. We currently are not aware of any legal proceedings or claims that we believe will have, individually or in aggregate, a material adverse effect on our business, financial condition, or operating results.

Item 6. Defaults upon Senior Securities.

None.

Item 7. Other Information.

None.

Item 8. Exhibits.

None.

Item 9. Certifications.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeremiah J. Fleming, certify that:

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

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

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

Date: May 19, 2015

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Philip McDermott, certify that:

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

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

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

Date: May 19, 2015

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