EZENIA! INC.

Consolidated Financial Statements

December 31, 2015

With Independent Auditors' Report

Ezenia! Inc.
Table of Contents
December 31, 2015

withum
AUDIT TAX ADVISORY

Independent Auditors' Report

Board of Directors and Stockholders
Ezenia! Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Ezenia! Inc., which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ezenia! Inc. as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

October 13, 2016

WithumSmith+Brown, PC 155 Seaport Boulevard, Boston, Massachusetts 02210-2698 T (617) 227 3333 F (617) 227 5430 withum.com

MEMBER OF HLB INTERNATIONAL. A WORLD-WIDE NETWORK OF INDEPENDENT PROFESSIONAL ACCOUNTING FIRMS AND BUSINESS ADVISORS.

Ezenia! Inc.
Consolidated Balance Sheet
December 31, 2015

Assets	
Current assets	
Cash and cash equivalents	$ 48,455
Accounts receivable, net	5,658
Prepaid software licenses	39,253
Prepaid expenses and other current assets	41,844
Total current assets	**135,210**
Prepaid software licenses	116,114
Total assets	**$ 251,324**
Liabilities and stockholders' deficit	
Current liabilities	
Accounts payable	$ 224,698
Accrued expenses	52,224
Deferred revenue	20,393
Warrant liability	222,592
Total current liabilities	**519,907**
Note Payable, net	991,465
Total liabilities	**1,511,372**
Stockholders' deficit	
Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued and outstanding	-
Common stock, $.01 par value, 40,000,000 shares authorized; 16,361,100 issued and 15,601,601 outstanding at December 31, 2015, and December 31, 2014;	156,016
Capital in excess of par value	67,144,023
Accumulated deficit	(65,615,141)
Treasury stock at cost, 759,537 shares at December 31, 2015 and December 31, 2014	(2,944,946)
Total stockholders' deficit	(1,260,048)
Total liabilities and stockholders' deficit	**$ 251,324**

The notes to the consolidated financial statements are an integral part of this statement.

Ezenia! Inc.
Consolidated Statement of Operations
Year Ending December 31, 2015

Revenues	$	555,641
Total cost of goods sold		52,082
Total gross profit		503,559
Operating expenses		
Research and development		37,777
Sales and marketing		81,301
General and administrative		616,434
Occupancy		45,162
Depreciation		417
Total operating expenses		781,091
Loss from operations		(277,532)
Other income (expense)		
Interest expense, net		(208,365)
Other income		2,076
Reorganization gains, net		528,519
Total other income/expense		322,230
Income (loss) before income taxes		44,698
Income tax benefit(expense)		-
Net income	$	44,698

The notes to the consolidated financial statements are an integral part of this statement.

Ezenia! Inc.
Consoldiated Statement of Changes in Stockholders' Deficit
Year Ending December 31, 2015

	Common Stock		Capital In Excess	Accumulated		
	Shares	**Amount**	**of Par Value**	**Deficit**	**Treasury**	**Total**
Balance at December 31. 2014	15,601,601	$156,016	$67,143,219	($65,659,839)	($2,944,946)	($1,305,550)
Net income	-	-	-	44,698	-	44,698
Stock options expense	-	-	804	-	-	804
Balance at December 31, 2015	15,601,601	$156,016	$67,144,023	($65,615,141)	($2,944,946)	($1,260,048)

The notes to the consolidated financial statements are an integral part of this statement.

Ezenia! Inc.
Consolidated Statement of Cash Flows
Year Ending December 31, 2015

Adjustments to reconcile net income to net cash	
Net income	$ 44,698
Adjustments to reconcile net income to net cash	
provided by operating activities:	
Depreciation	417
Non-cash interest	117,737
Reorganization gain	(575,897)
Stock-based compensation expense	804
Changes in net assets and liabilities:	
Long term assets	
Accounts receivable	322,702
Prepaid software licenses, net	39,106
Prepaid expenses and other current assets	(21,482)
Accounts payable and accrued expenses	(1,168,573)
Deferred revenue	(467,191)
Net cash used in operating activities	(1,707,679)
Financing activities:	
Proceeds from long term note payable	1,764,657
Payments on long term note payable	(368,046)
Proceeds from common stock warrants	222,592
Debt issuance costs	(447,883)
Net cash provided by financing activities	1,171,320
Decrease in cash and cash equivalents	(536,359)
Cash and cash equivalents at beginning of period	584,814
Cash and cash equivalents at end of period	$ 48,455

The notes to the consolidated financial statements are an integral part of this statement.

1. NATURE OF BUSINESS

Historically, Ezenia! Inc. (“Ezenia”, “we”, “our” or the “Company”) has operated in one business segment, which was the design, development, production, marketing and sale of real-time group collaboration and communication solutions for corporate and governmental networks and eBusiness. Founded in 1991, we developed and marketed products that have enabled organizations to provide high-quality group communication and collaboration capabilities to commercial, governmental, consumer and institutional users. Our products allowed individuals and groups, regardless of proximity constraints, to interact and share information in a natural, spontaneous way -- voice-to-voice, face-to-face, mouse-to-mouse, or keyboard-to-keyboard, flexibly, securely and in real time. Using our products, individuals were able to interact through a natural meeting experience, allowing groups to work together effectively and disseminate vital information quickly in a secure environment.

The Company emerged from bankruptcy in July 2015 (see note 2). Since emergence, the Company determined that it was no longer economically feasible to continue our future business based on the existing software platform. Therefore, we are currently exploring opportunities to acquire other business or product lines to provide a basis for future product offerings and business direction, as well as to support the potential relaunching of development efforts.

2. REORGANIZATION

On September 30, 2011 the Company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code with the United States Bankruptcy Court for the District of New Hampshire (the "Court"). On June 2, 2015, the Court issued a confirmation order confirming the Company’s Second Modified Second Amended Plan of Reorganization, and the Company emerged from bankruptcy in July 2015. As part of the plan, the Company entered into an exit facility loan to pay all general unsecured claims in full, consistent with the provisions of the Plan, as well as all other creditors and persons entitled to sums allowed by the Court.

As of December 31, 2015 the Company has disbursed to creditors all entitled sums in accordance with the provisions of the Plan and Confirmation Order totaling approximately $423,000, and to those persons allowed by the Court for compensation for services rendered and reimbursement of costs incurred amounts totaling approximately $1.5 million.

Pursuant to ASC 852, the revenues, expenses, gains and losses that are the result of the reorganization and restructuring of the business are reported as reorganization items in the Company’s consolidated statement of operations. For the year ended December 31, 2015 the Company recorded approximately $529,000 of reorganization gains. These consisted of settlements of legal fees and other debt forgiveness. All gains and costs relate the reorganization have been reflected in reorganization gain, net in the accompanying statement of operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S GAAP”). The consolidated financial statements include the accounts of Ezenia and its wholly owned subsidiary, Talarc Technologies, LLC. All significant inter-company transactions and balances have been eliminated in consolidation.

.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, if any, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Revenue recognition

Product revenue consists of sales of InfoWorkSpace software licenses and maintenance agreements, InfoWorkSpace product related training and consulting. Revenue from sales of InfoWorkSpace software license and maintenance agreements is recognized ratably over the subscription software license contract periods, which are generally one year. Revenue from InfoWorkSpace training, installation, and consulting services is recognized as the services are performed, provided there is vendor specific objective evidence of fair value, which is the price charged when the services are sold separately.

Products and software licenses are sold without any contractual right of return by the customer. Deferred revenue represents amounts received from customers under subscription software licenses, maintenance agreements, or for product sales in advance of revenue recognition. Judgments are required in evaluating the creditworthiness of our customers. In all instances, revenue is not recognized until we have evidence of an arrangement, the fee is fixed and determinable, performance has been rendered and collectability is reasonably assured. Amounts billed to customers related to shipping and handling charges are recorded as revenue upon shipment and the related costs are included in cost of goods sold.

Two clients accounted for approximately 72% of the Company's revenues for the year ended December 31, 2015.

Prepaid software licenses

Our InfoWorkSpace product incorporates third-party technology in the form of software licenses, which we purchase from other software vendors. Software licenses purchased from vendors are reported as prepaid licenses and, when deployed, amortized to cost of revenue over the subscription period, which is generally one year.

Cash and cash equivalents

We consider all highly liquid investments with a maturity of 90 days or less at the date of purchase to be cash equivalents.

Financial instruments and concentrations of credit risk

Our financial instruments consist primarily of cash and cash equivalents, trade receivables, accounts payable, accrued expenses and warrants. The carrying value of these financial instruments approximates fair value due to their short term to maturity. Financial instruments, which potentially subject us to concentrations of credit risk, are cash equivalents and accounts receivable.

.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Major financial institutions maintain all of our cash and cash equivalents. At times, balances may exceed federally insured limits. We have not experienced any losses in such accounts, and believe we are not exposed to any significant credit risk on cash and cash equivalents. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom we make substantial sales. To reduce risk, we routinely assess the financial strength of our customers. We maintain an allowance for doubtful accounts based on accounts past due according to contractual terms and historical collection experience. Actual losses when incurred are charged to the allowance.

Research and development costs

Costs that are incurred internally in researching and developing a computer software product are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software development costs are capitalized until the product is available for general release to customers. Once capitalized, the costs are amortized on a straight-line basis over the estimated economic life of the product.

Judgment is required in determining when technological feasibility of a product is established as well as its economic life. In most cases, we have determined that technological feasibility for our software products/updates is reached shortly before the products are released to manufacturing.

The material portion of research and development cost in 2015 is related to the Next Generation Product Line. Total costs for research and development for the year ending December 31, 2015 were approximately $38,000, all of which were expensed.

Income taxes

Deferred tax assets and liabilities are determined at year-end based on the future tax consequences that can be attributed to net operating loss and credit carryovers as well as the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The deferred tax assets are reduced by a valuation allowance if it is more likely than not that the tax benefits will not be realized. The realization of deferred tax assets is dependent upon the generation of future taxable income. In determining the valuation allowance, we consider past performance, expected future taxable income, and qualitative factors when estimating future taxable income. Our forecast of expected future taxable income is for future periods that cannot be reasonably estimated. Changes in results that differ materially from our current expectations may cause us to change our judgment on future taxable income. These changes, if any, may require us to adjust the existing tax valuation allowance higher or lower than any amount we have previously recorded.

.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Accounting for share-based compensation

We account for stock-based compensation as costs to be recognized for equity or liability instruments based on the fair value on the grant date, with expense recognized during the period over which an employee provides service in exchange for the award. We estimate forfeitures at the grant date. We estimate the fair value of each option award issued under our stock option plan on the date of grant using the Black-Scholes option pricing model. The Black-Scholes option valuation model incorporates assumptions as to stock price volatility, the expected life of options, a risk-free interest rate and dividend yield. Expected volatilities are based on historical volatility of our common stock. We base the expected term of the options on our historical option exercise data with a minimum life expected equal to the vesting period of the option. We base the risk-free interest rate on the U.S. Treasury yield in effect at the time of the grant for a term closest to the expected life of the options.

Other reasonable assumptions about these factors could provide different estimates of fair value. Future changes in stock price volatility, life of options, interest rates, forfeitures and dividend practices, if any, may require changes in our assumptions, which could materially affect the calculation of fair value. Total Stock-based compensation cost was $804 in 2015. There were no stock options exercised in 2015. As of December 31, 2015 there are no stock options outstanding.

Emergence from bankruptcy

All outstanding debt forgiven through the bankruptcy process and related costs are reported as reorganization gain, net in the accompanying statement of operations.

Recently adopted accounting pronouncements

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, related to balance sheet classification of deferred taxes. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. We have early-adopted the ASU as of December 31, 2015 on a prospective basis and our statement of financial position as of this date reflects the revised classification of current deferred tax assets and liabilities as noncurrent.

In August 2014, The FASB issues ASU No. 2014-15, *Presentation of Financial Statements - Going Concern*, which requires an entity to evaluate whether there is substantial doubt about it's ability to continue as a going concern, and to provide related footnote dosclosure. The New standard is effective for us in our fiscal year ending December 31, 2017. We are evaluating the effect of our pending adoption of ASU 2014-15 on our consolidated financial statements and related disclosures and do not expect it to have a material impact on our consolidated financial statements.

.

6. INCOME TAXES

The Company files a U.S. Federal income tax return. The provision (benefit) for income taxes for the year ended December 31, 2015, consists of the following:

Deferred expense (benefit):		
Federal	$	(369)
State		369
Total provision (benefit) for income taxes	$	-

The components of deferred tax assets and liabilities at December 31, 2015 consist of the following:

Net operating loss carryforward	$	27,764
Accruals and reserves		220
Stock equity compensation		646
Research and development credits		2,255
Net deferred tax asset		30,885
Less valuation allowance		(30,885)
	$	-

The Company has incurred losses since inception. Income tax expense (benefit) was $0 for the year ended December 31, 2015. Income taxes for financial reporting purposes differed from the amount computed by applying the U.S. federal income tax rate of 35% to pretax (loss) from continuing operations, primarily as a result of net operating losses and change in valuation allowance.

As of December 31, 2015, the Company had a federal and state net operating loss carryforward of $80.7 million and $5.7 million, for federal and state income taxes, respectively, which may be available to reduce future income tax liabilities. These net operating loss carryforwards expire between 2019 and 2035 for U.S. Federal and state income tax purposes. The Company's ability to use its net operating losses carried forward could be restricted as a result of various tax rules, including the ownership change rules of U.S. Internal Revenue code §382. As of December 31, 2015, the Company had a federal and state R&D credits carryforward of $2.41 million which may be available to reduce further income tax liabilities. These R&D credit carryforwards expire between 2018 and 2035 for U.S. Federal income tax purposes.

The realization of the deferred tax asset is primarily dependent on the Company's ability to generate sufficient future taxable income. The Company has recorded a full valuation allowance against the deferred tax asset since be realized. The deferred tax assets consist primarily of the operating loss carryforwards and various capitalized expenditures. The Company adopted the provisions of FASB Accounting Standards Codification (ASC 740), Accounting for Uncertainty in Income Taxes.

.

INCOME TAXES - (CONTINUED)

ASC 740 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in the financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. No liability related to uncertain tax positions is recorded in these financial statements related to uncertain tax positions. It is the Company's policy to include penalties and interest expense related to income taxes as a component of other expense and interest expense, respectively, as necessary.

7. COMMITMENTS AND CONTINGENCIES

We leased our facility in Salem, New Hampshire under an operating lease, which expired in August 2015, and currently have a month-to-month arrangement. Our Washington office was closed in October 2015, with no outstanding commitments. There are currently no leases, as of December 31, 2015. Rent expense for the year ended December 2015 was approximately $26,000

As of December 31, 2015, the Company has resolved all legal proceedings related to the bankruptcy. The New Hampshire Bankruptcy Court issued a favorable decision to the Company in its dispute with the former CEO. There are no other legal actions arising from the ordinary course of business or any other matters that we are aware of.

8. DEBT

In July 2015, the Company entered into a debt agreement (“Note”) with principal totaling, $1,987,249. The Note interest at 11% per annum until the maturity date of July 2018. In connection with the Note, the Company agreed to issue 12,764,946 warrants. Each warrant provides the holder the right to purchase one common share of the Company. The Company allocated the proceeds between the debt and equity instruments. As a result of this allocation the Company recorded a discount to the face value of the debt of $745,475. The discount to the debt is being amortized to interest expense over the period of the debt on the effective interest rate method.

Aggregate maturities for debt outstanding as of December 31, 2015 are as follows:

2016		-
2017		-
2018	$	1,619,203

As of December 31, 2015, the Company was in technical default of certain debt covenants. The Company has received waivers for all defaults through September 2016 or amended the debt agreement to remove such covenants. A representative of a significant lender and warrant holder was appointed to the board as part of the Company's plan of reorganization.

9. STOCKHOLDERS’ DEFICIT

The total number of shares of all classes of stock which the Company has authorized is 42,000,000 shares consisting of 2,000,000 shares of Preferred stock, and 40,000,000 of common stock. 50,000 shares of preferred stock are designated as Series D Junior Participating Preferred Stock, and the remainder of which are undesignated. Each series of preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences as determined by our Board of Directors.

.

STOCKHOLDERS' DEFICIT - (CONTINUED)

In order to preserve the tax benefits, our Board of Directors has approved and effected a 5% ownership limit for all existing shareholders owning less than 5% of exisitng shares and any new shareholders.

In July of 2015, the Company issued 12,764,946 warrants, in connection with the debt agreement. Each warrant entitles the holder to purchase one share of Ezenia common stock. Pursuant to the plan of reorganization, the Company entered into a Registration Rights Agreement on July 15, 2015 which requires the Company to use commercially reasonable efforts to effect such registration to permit the sale of warrants, in accordance with the intended method or methods of disposition and to be done as expeditiously as possible. As part of the plan, existing shares and shareholders were unaffected.

10. BENEFIT PLANS

Stock option plans

All previous stock option plans have terminated. There were no options exercised in 2015, and there are no outstanding stock options as of December 31, 2015.

Savings plan

We sponsor a savings plan for our employees, which has been qualified under Section 401(k) of the Code. Eligible employees are permitted to contribute to the 401(k) plan through payroll deductions within statutory and plan limits. At the discretion of the Board, a contribution to the plan was made for each participating employee. Total expense was $765 for the year ended December 31, 2015.

11. FAIR VALUE MEASUREMENTS

We measure certain financial assets and liabilities at fair value based on valuation techniques using the best information available, which may include quoted market prices, market comparables, and discounted cash flow projections. We measure fair value using the framework established by the FASB accounting guidance for fair value measurements and disclosures. This framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based upon observable and unobservable inputs. Observable or market inputs reflect market data obtained from independent sources.

Unobservable inputs require management to make certain assumptions and judgments based on the best information available. Observable inputs are the preferred source of values. These two types of inputs create the following fair value hierarchy:

- Level 1: valuations consist of unadjusted quoted prices in active markets for identical assets and liabilities and has the highest priority;
- Level 2: valuations rely on quoted prices in markets that are not active or observable inputs over the full term of the asset or liability; and
- Level 3: valuations are based on prices or third-party or internal valuation models that require inputs that are significant to the fair value measurement and are less observable and thus have the lowest priority.

.

FAIR VALUE MEASUREMENTS - (CONTINUED)

The warrant liability is fair valued using certain valuation models that incorporate level three inputs.

12. SUBSEQUENT EVENTS

Management of the Company has reviewed subsequent events through October 13, 2016, the date the financial statements were available to be issued. No matter requiring recognition or disclosure were noted, except for:

In June 2016, Windjammer Holdings Inc., (Holdings) a newly formed Ezenia! Inc. subsidiary has purchased 100% equity interests in Windjammer Communications, LLC (Communcations) in exchange for 4,924 shares of preferred shares and 5,850 shares of common stock of holdings. Assets of Communication were principally $1.6 million in cash.

In June, July and August 2016, The Company paid principal payments of $1,462,188, $33,070 and $34,666, respectively against its note payable.

.