EZENIA! INC. AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2016 and 2015

With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Ezenia! Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Ezenia! Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ezenia! Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, in connection with the adoption of the guidance summarized in ASU 2014-15, Presentation of Financial Statements – Going Concern, the Company performed an evaluation and concluded that it does not have sufficient assets to pay all of its obligations and has a working capital deficiency and a stockholders' deficit as of December 31, 2016 that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

WithumSmith+Brown, PC

December 22, 2017

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Ezenia! Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 60,913	$ 48,455
Accounts receivable	61,376	5,658
Prepaid software licenses, net	24,316	39,253
Prepaid expenses and other current assets	38,294	41,844
	184,899	135,210
Long term assets		
Intangible assets, net	912,725	-
Prepaid software licenses	-	116,114
	912,725	116,114
Total assets	$ 1,097,624	$ 251,324
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	$ 148,544	$ 224,698
Accrued expenses	85,135	52,224
Deferred revenue	70,877	20,393
Accrued obligations	959,883	-
	1,264,439	297,315
Long term liabilities		
Notes payable, net	31,555	991,465
Warrant liability	238,717	222,592
Mandatorily redeemable preferred stock	635,871	-
	906,143	1,214,057
Total liabilities	2,170,582	1,511,372
Stockholders’ deficit		
Controlling interest		
Preferred stock, $.01 par value; 2,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $.01 par value, 40,000,000 shares authorized; 16,361,138 issued and 15,601,601 outstanding at December 31, 2016 and 2015	156,016	156,016
Capital in excess of par value	67,144,023	67,144,023
Accumulated deficit	(66,563,227)	(65,615,141)
Treasury stock at cost, 759,537 shares at December 31, 2016 and 2015	(2,944,946)	(2,944,946)
Total controlling interest	(2,208,134)	(1,260,048)
Non-controlling interest	1,135,176	-
Total stockholders' deficit	(1,072,958)	(1,260,048)
Total liabilities and stockholders' deficit	$ 1,097,624	$ 251,324

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

Ezenia! Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2016 and 2015

	2016	2015
Revenues	$ 391,384	$ 555,641
Cost of goods sold	149,562	52,082
Gross profit	241,822	503,559
Operating expenses		
Sales and marketing	33,226	81,301
General and administrative	288,562	616,434
Occupancy	22,357	45,162
Amortization	148,583	417
Research and development	-	37,777
Total operating expenses	492,728	781,091
Loss from operations	(250,906)	(277,532)
Other income (expense)		
Interest expense	(673,815)	(208,365)
Other income (expense)	(5,230)	2,076
Reorganization gain, net	-	528,519
Total other income (expense)	(679,045)	322,230
Income (loss) before provision for income taxes	(929,951)	44,698
Provision for income taxes	9,931	-
Net income (loss) before non-controlling interest	(939,882)	44,698
Net income attributable to non-controlling interest	(8,204)	-
Net income (loss) attributable to controlling interest	$ (948,086)	$ 44,698

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

Ezenia! Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Deficit
Years Ended December 31, 2016 and 2015

	Common Stock		Capital In Excess	Accumulated		Non-controlling	
	Shares	Amount	of Par Value	Deficit	Treasury Stock	Interest	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)
Capital contribution from non-controlling interest	-	-	-	-	-	1,126,972	1,126,972
Net income (loss)	-	-	-	(948,086)	-	8,204	(939,882)
Balance at December 31, 2016	15,601,601	$ 156,016	$ 67,144,023	$ (66,563,227)	$ (2,944,946)	$ 1,135,176	$ (1,072,958)

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

Ezenia! Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income (loss)	$ (939,882)	$ 44,698
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation	-	417
Non-cash interest	646,388	117,737
Customer contract amortization	148,583	-
Amortization of software licenses	131,051	39,106
Reorganization gain	-	(575,897)
Stock-based compensation expense	-	804
Changes in operating assets and liabilities		
Accounts receivable	(10,054)	322,702
Prepaid expenses and other current assets	3,550	(21,482)
Accounts payable and accrued expenses	(43,243)	(1,168,573)
Deferred revenue	50,484	(467,191)
Net cash used in operating activities	(13,123)	(1,707,679)
Cash flows from investing activities		
Cash received in business acquisition	20,000	-
Cash flows from financing activities		
Proceeds from long term notes payable	-	1,764,657
Payments on long term notes payable	(1,590,173)	(368,046)
Common stock warrants	-	222,592
Debt issuance costs	-	(447,883)
Proceeds from issuance of preferred stock	635,871	-
Cash contribution from non-controlling interest	959,883	-
Net cash provided by financing activities	5,581	1,171,320
Net change in cash and cash equivalents	12,458	(536,359)
Cash and cash equivalents, beginning of year	48,455	584,814
Cash and cash equivalents, end of year	$ 60,913	$ 48,455

Supplemental disclosure of cash flow information:

Cash paid for interest	$ 26,875	$ 102,412

Non-cash investing and financing activity:

Windjammer Holdings, Inc. acquisition of a business in exchange for common stock to non-controlling interest valued at $147,089.

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

1. NATURE OF BUSINESS

Ezenia! Inc. ("Ezenia" or the "Company" or "we" or "our"), founded in 1991, is a holding company and parent company of one wholly-owned subsidiary, Talarc Technologies, LLC and a majority owned subsidiary, Windjammer Holdings, Inc. Talarc Technologies, LLC markets and sells real-time group collaboration and communication software for corporations and government networks. In 2016, Windjammer Holdings, Inc. was established as a holding company and acquired a wholly owned subsidiary Windjammer Communications, LLC. Windjammer Communications, LLC is a telecommunications company that generates revenues from its ownership of a cable television system located in Virginia.

In July 2015, the Company emerged from bankruptcy (see note 3). The Company continues to explore additional, strategic opportunities to acquire other businesses and to bring in new product lines and offerings, as it seeks to develop a future business direction.

2. GOING CONCERN

In connection with the adoption of the guidance summarized in ASU 2014-15, Presentation of Financial Statements – Going Concern, the Company performed an evaluation and concluded that it has a working capital deficiency of approximately ($1,080,000) including accrued obligations of approximately ($960,000) and a stockholders' deficit of approximately ($1,073,000) as of December 31, 2016 and incurred a net loss of approximately ($948,000) for the year ending December 31, 2016. The accrued obligations could become payable within one year from the date the consolidated financial statements are available to be issued. In addition, there is a concentration of revenue from one customer whose contract is subject to renewal within one year from the date the financial statements are available to be issued. These conditions create substantial doubt about the Company's ability to meet its obligations as they become due and, therefore, the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

While management acknowledges it has a working capital deficiency, the entire amount of the deficiency is made up of current or accrued obligations that management believes are unlikely to be paid within one year from the date the consolidated financial statements are available to be issued. Management has disputed such obligations and thus, the future settlement of these liabilities remains uncertain. Furthermore, it is the Company's plan to continue to explore additional, strategic opportunities to acquire other businesses and to bring in new product lines and offerings, as it seeks to develop a future business direction.

3. 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 statements of operations. For the year ended December 31, 2015 the Company recorded approximately $529,000 of net reorganization gains, consisting of settlements of legal fees, direct costs related to the reorganization and debt forgiveness.

4. 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, and its 80.50% owned subsidiary, Windjammer Holdings, Inc. The consolidated financial statements also include the accounts of Windjammer Communications, LLC, the wholly owned subsidiary of Windjammer Holdings, Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

The Company records income attributable to non-controlling interest in the consolidated statements of operations for any non-owned portion of consolidated subsidiaries. Non-controlling interest is recorded within the equity section, but separate from the Company's equity in the consolidated balance sheets.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include intangible asset fair values, intangible asset lives, intangible asset amortization and accrued obligations. It is at least reasonably possible that these estimates could change in the near term or future causing a material effect on the consolidated financial statements.

Revenue recognition

Product revenue consists of sales of InfoWorkSpace software licenses. Revenue from sales of InfoWorkSpace software licenses is recognized ratably over the subscription software license contract period, which is generally one year. 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 in advance of revenue recognition. Approximately 45% and 100% of revenue was generated from product sales during the years ended December 31, 2016 and 2015.

The Company's telecommunications revenue is derived from the sale of telecommunication services in Virginia, through the ownership of a cable television system. Revenue is based on usage. Usage fee revenue is recognized in the period when the service is provided. Approximately 55% of revenue was generated from telecommunication services during the year ended December 31, 2016. There was no telecommunication services revenue earned during the year ended December 31, 2015.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on the reported net income for the year ended December 31, 2015.

Cash and cash equivalents

The Company considers 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, accounts receivables, accounts payable and accrued expenses. 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.

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. When appropriate, 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.

Accounts receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms, usually within 45 days of the services provided. The Company does not charge interest on unpaid balances and considers accounts receivable outstanding for more than 60 days delinquent. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Accounts are written off as uncollectible on a case-by-case basis. As of December 31, 2016 and 2015, there is no allowance for doubtful accounts.

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. Prepaid licenses are reduced to reflect management’s best estimate of amounts that will be deployed.

Intangible assets

Intangible assets with finite lives are amortized using the straight-line method over their estimated period of benefit of approximately four years. The Company periodically evaluates the recoverability of intangible assets and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of the Company’s intangible assets have finite lives and are subject to amortization.

Long-lived assets and all amortizable intangible assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are held and used, impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. No impairment charges were recorded for the years ended December 31, 2016 and 2015.

Acquisitions

The Company acquires businesses or assets that expand or complement its operations from time to time. These acquisitions are accounted for under the purchase method of accounting. The consolidated financial statements include the results of operations from such business combinations from the dates of acquisition.

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, the Company determines that technological feasibility for its software products and updates is reached shortly before the products are released to manufacturing.

The material portion of research and development cost is related to the Next Generation Product Line. Total costs for research and development in 2015 were approximately $38,000, all of which were expensed. There were no research and development costs incurred in 2016.

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 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 concerning 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.

No liability related to uncertain tax positions is recorded in these consolidated financial statements. 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. Management has evaluated the Company's tax positions and concluded that the Company has taken no uncertain tax positions that require financial statement recognition or disclosure.

New accounting pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard is effective for our annual reporting periods ending December 31, 2019, with early adoption permitted, beginning with our December 31, 2017 annual financial statements. The Company is evaluating the effect of their pending adoption of ASU 2016-12 on the consolidated financial statements and related consolidated disclosures and does not expect it to have a material impact on the consolidated financial statements.

In July 2017, The FASB issued ASU No. 2017-11, *Earnings Per Share; Distinguishing Liabilities from Equity; Derivatives and Hedging: (Part 1) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception,* which change the classification of certain equity-linked financial instruments or embedded features with down round features and clarifies existing disclosure requirements for equity-classified instruments. The new standard is effective for the Company in the fiscal year ending December 31, 2020, with early adoption permitted. The Company is evaluating the effect of their pending adoption of ASU 2017-11 on the consolidated financial statements and related consolidated disclosures.

5. WINDJAMMER HOLDINGS, INC CAPTALIZATION AND BUSINESS ACQUISTION

On June 2, 2016, Ezenia established Windjammer Holdings, Inc. as a wholly-owned subsidiary, in an effort to expand its business lines. On June 9, 2016, Windjammer Holdings, Inc. issued 635,871 shares of mandatorily redeemable preferred stock (see Note 9) valued at $635,871 and 195,000 shares of common stock valued at $1,126,972 to outside investors, in exchange for cash of $1,595,754 and a 100% equity interest in Windjammer Communications, LLC, valued at $167,089. As a result of this transaction, Ezenia's equity interest in Windjammer Holdings, Inc. was diluted to 80.5%. The acquisition of Windjammer Communications, LLC, a telecommunications company deriving revenue from a cable television system in Virginia, was accounted for as a business combination under the purchase method.

The purchase consideration of the acquisition has been allocated to the assets acquired and liabilities assumed based on estimated fair values. The purchase price allocations are as follows:

Cash	$	20,000
Accounts receivable		45,664
Customer relationship		1,061,308
Accrued obligations		(959,883)
Net assets acquired	$	167,089

During 2016, the Company incurred approximately $38,000 in legal costs associated with the business acquisition. These costs are included in general and administrative expenses in the consolidated statements of operations.

6. INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31, 2016 and 2015:

		2016		2015
Customer relationship	$	1,061,308	$	-
Less: accumulated amortization		(148,583)		-
	$	912,725	$	-

Amortization expense for the year ended December 31, 2016 amounted to $148,583. There was no amortization expense for the year ended December 31, 2015.

Aggregate future amortization expense for the years ending December 31 is as follows:

2017	$	254,714
2018		254,714
2019		254,714
2020		148,583
	$	912,725

7. INCOME TAXES

The Company files U.S. Federal and various state income tax returns. The provision for income taxes for the years ended December 31, 2016 and 2015 consists of the following:

		2016		2015
Current tax expense				
Federal	$	-	$	-
State		9,931		-
Deferred tax provision				
Federal		-		-
State		-		-
Provision for income taxes	$	9,931	$	-

The components of deferred tax assets and liabilities at December 31, 2016 and 2015 consist of the following:

	2016	**2015**
Net operating loss carryforwards	$ 28,024,669	$ 27,764,489
Accruals and reserves	216,998	219,962
Research and development and AMT credits	2,256,843	2,254,807
Intangible assets	4,483	-
Net deferred tax assets	30,502,993	30,239,258
Less valuation allowance	(30,502,993)	(30,239,258)
	$ -	$ -

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

As of December 31, 2016, the Company had federal and state net operating loss carryforwards of approximately $81.4 million and $6.6 million, respectively, which may be available to reduce future income tax liabilities. These net operating loss carryforwards expire between 2017 and 2036 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, 2016, the Company had federal and state R&D credit carryforwards of approximately $2.2 million which may be available to reduce further income tax liabilities. These R&D credit carryforwards expire between 2018 and 2031 for U.S. Federal income tax purposes.

The realization of the deferred tax assets 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 assets. The deferred tax assets consist primarily of the operating loss and research and development carryforwards.

8. COMMITMENTS AND CONTINGENCIES

The Company had a month-to-month arrangement at an office facility in Salem, New Hampshire through July 2016. Effective August 1, 2016, the Company leased this office space through February 28, 2017. The Company's Washington office was closed in October 2015, with no outstanding commitments. Rent expense for the years ended December 31, 2016 and 2015 was approximately $10,000 and $26,000, respectively. Future minimum lease payments amount to $1,700 for the year ended December 31, 2017.

In conjunction with the acquisition of Windjammer Communications, LLC referenced in Note 4, the Company assumed $959,883 of accrued obligations. These obligations arose from disputes between prior management and customers over contract price as well as allegations regarding an overcharge of certain fees. In connection with due diligence procedures, the Company evaluated these obligations and recorded an accrual estimating the potential obligations based upon data available during the acquisition process. It is at least reasonably possible that the status of these accrued obligations could change in the near term or future causing a material effect on the consolidated financial statements.

9. DEBT

In July 2015, the Company entered into debt agreements ("Notes") with certain equity owners totaling, $1,987,249. The Notes bear interest at 11% per annum and are payable in full on the maturity date of July 15, 2018. The principal balance on the Notes as of December 31, 2016 and 2015 is $106,157 and $1,619,203, respectively. The Notes are subject to various covenants of which not all have been met at December 31, 2016. The Notes have been presented as current liabilities in the consolidated balance sheets as of December 31, 2016.

In connection with the Notes, the Company agreed to issue 12,764,946 warrants (see Note 10). 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. In addition, in 2015, the Company incurred deferred financing costs of $522,883 which are recorded as a discount to the Notes and are amortized over the period of the Notes on the effective interest rate method. In 2016, the Company made prepayments against the Notes of $1,590,173, which resulted in a significant change in the estimated effective interest rate. Discount amortization for the years ended December 31, 2016 and 2015 was $553,137 and $117,737 respectively. Such amounts are included in interest expense in the consolidated statements of operations. The unamortized discounts on Notes at December 31, 2016 and 2015 is $74,602 and $627,738, respectively.

10. MANDATORILY REDEEMABLE PREFERRED STOCK

In 2016, Windjammer Holdings, Inc. ("WHI") authorized the issuance of 1,000,000 shares of preferred stock, with a par value of $.0001 per share, to be issued in one or more series. The first series of preferred stock is designated as "Tranche A Preferred Stock", with 650,000 shares designated and 635,871 issued in June 2016. Mandatorily redeemable stock at December 31, 2016 was $635,871. There was no mandatorily redeemable stock outstanding at December 31, 2015.

The rights of the Tranche A Preferred Stock as of December 31, 2016 are defined below:

Mandatory Redemption

On June 30, 2041, WHI will redeem all shares of Tranche A Preferred Stock then outstanding at the redemption price of $1.00 per share. On any date prior to the mandatory redemption date, WHI may elect, at its sole option, with no later than 10 days written notice to the shareholders, to redeem any or all of the shares of Tranche A Preferred Stock then outstanding for the redemption price. If a fundamental change occurs, WHI shall make an offer to purchase all of the shares of Tranche A Preferred Stock at a price of $1.01 per share plus accrued and unpaid dividends. A fundamental change in WHI includes a change of ownership, a majority change in the board of directors, a sale of all assets to any party other than a wholly-owned subsidiary, a liquidation or dissolution plan, or a public issuance of common stock shares.

Voting

The holders of the Tranche A Preferred Stock are not entitled or permitted to vote on any matter required or permitted to be voted upon by the common stockholders.

Dividends

The holders of Tranche A Preferred Stock are entitled to receive dividends, at the rate of 4.0% per annum of the redemption price of $1.00 per share. Commencing December 15, 2016, WHI pays dividends semi-annually in arrears on June 15 and December 15 of each year. For the year ended December 31, 2016, WHI paid dividends in the amount of $12,294 which is included in interest expense in the consolidated statements of operations.

Liquidation

In the event of any voluntary or involuntary liquidation, dissolution, or winding up of WHI, each holder of the Tranche A Preferred Stock will be entitled to be paid out of the assets of WHI available for distribution prior and in preference to any payment made to holders of common stock or junior securities in an amount equal to $1.00 per share, subject to adjustment for any unpaid stock dividends, combinations or splits with respect to such shares, plus all accrued but unpaid dividends.

If the assets of WHI are not sufficient to pay the holders the full amount to which they are entitled, the holders of the Tranche A Preferred Stock shall share ratably in any distribution of the assets legally available for distribution in proportion to the respective amounts which would otherwise be payable in respect to the shares held by them upon such distribution if all amounts payable on or with respect to such shares were paid in full.

Protective Provisions

As long as any shares of Tranche A Preferred Stock remain outstanding, WHI shall not, without the approval, by vote or written consent, of the holders of a majority of the shares of Tranche A Preferred stock then outstanding, voting as a separate class, amend the Certificate of Incorporation or Bylaws in any manner that would alter or change the rights, preferences, privileges or restrictions of the Tranche A Preferred Stock so as to adversely affect such Tranche A Preferred Stockholders.

11. STOCKHOLDERS' DEFICIT AND WARRANT LIABILITY

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 shares 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.

In order to preserve the tax benefits, the Board of Directors approved and effected a 5% ownership limit for all existing and future shareholders.

In July of 2015, the Company issued 12,764,946 warrants, in connection with the debt agreements. Each warrant entitles the holder to purchase one share of Ezenia common stock and expires on July 15, 2018. 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.

12. MAJOR CUSTOMERS

Three clients accounted for approximately 92% of the Company's revenues for the year ended December 31, 2016 and two clients accounted for approximately 72% of the Company's revenues for the year ended December 31, 2015.

One client accounted for approximately 98% and 70% of the Company's accounts receivable balance as of December 31, 2016 and 2015, respectively.

13. RETIREMENT PLAN

The Company sponsors a retirement plan for its 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 $400 and $765 for the years ended December 31, 2016 and 2015, respectively.

14. FAIR VALUE MEASUREMENTS

The Company measures 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. Fair value is measured 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.

The warrant liability is fair valued using certain valuation models that incorporate level three inputs. The warrant liability value increased by $16,125 during the year ended December 31, 2016, and was recorded as interest expense in the consolidated statements of operations. There was no change in the warrant value during the year ended December 31, 2015.

15. SUBSEQUENT EVENTS

Management of the Company has reviewed subsequent events through December 22, 2017, the date the consolidated financial statements were available to be issued. No matters requiring recognition or disclosure were identified.