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MILY: Times New Roman">Marketing and selling expenses

	1,892
	4,121
	914
	—
	6,927
Research and development expenses	
	1,094
	—
	—
	—
	1,094
Total operating expenses	
	8,421
	7,963
	3,005
	—
	19,389
Operating loss	
\$	
	(3,069)
)	
\$	
	(1,599)
)	
\$	
	(3,005)
)	
\$	

(254

)  
\$

(7,927

)

Operating expenses not directly associated with an operating segment are classified as "Corporate Unallocated Costs". Corporate Unallocated Costs include support group compensation, travel, professional fees and marketing activities.

## **22. Related Party Transactions**

An affiliate of AFI charged the Company's Israeli subsidiary, Comverge Control Systems Ltd., \$138 in each of the years ended December 31, 2003, 2004 and 2005. Such charges were in consideration of providing office space and certain accounting and administrative services, which amounts are included in general and administrative expense. AFI also paid a cash bonus of \$200 to an executive officer of the Company in January 2004 related to performance metrics achieved during 2003. This amount was recognized in the Company's Consolidated Statement of Operations as compensation expense in 2003. Because the Company had no obligation to reimburse AFI for such bonus payment, it was classified on the Company's Consolidated Balance Sheet as a contribution to additional paid-in capital.

Prior to 2002, the Company extended loans of \$10 each to both the Chief Executive Officer and Chief Financial Officer of AFI. The loans had an initial maturity date of January 3, 2002, and were to mature on January 3, 2004. The loans bore interest at 4.25 percent per annum. The balance of the loans and accrued interest totaling \$37 was repaid in 2004.

The lender of the Convertible Debt became a stockholder of the Company in February 2006 by investing in the Series C convertible preferred stock. During 2005, the Company made interest payments on the Convertible Debt of \$130 in addition to paying the lender an \$80 placement fee related to the Convertible Debt.

A holder of greater than 5% of the Company's Series A Preferred and Series B Preferred supplies thermostats to the Company pursuant to a restated communicating thermostat co-development and supply agreement dated as of June 1, 2005. Pursuant to the agreement, such stockholder has agreed to develop one or more customized thermostats to be combined with the Company's communication interfaces. The Company has agreed to pay such stockholder a specified amount for co-development expenses with respect to each customized thermostat model and a specified price for each unit produced. For the years ended December 31, 2003, 2004 and 2005, the Company paid such stockholder \$0, \$172 and \$1,308, respectively.

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**COMVERGE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands, except share and per share data)**

**23. Subsequent Events**

*Series C Convertible Preferred Stock*

In March 2006, the Company completed the sale of 1,100,000 shares of Series C convertible preferred stock (“Series C Preferred”) for \$5,500. The rights, preferences and privileges attached to the Series C Preferred are identical to those of holders of the Series A Preferred and Series B Preferred.

*Stock Warrant*

In February 2006, a significant investor in the Series C Preferred entered into a strategic marketing and development agreement with the Company (“Agreement”). As part of the Agreement, the investor was given a warrant to purchase 500,000 shares of Series C Preferred for \$7.50 per share. The warrant is exercisable only if the investor meets certain defined performance milestones under the Agreement as specified in the warrant. The warrant expires upon the earlier of a qualified IPO or August 2008.

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**Schedule II**  
**Valuation and Qualifying Accounts**

	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Costs and Expenses</b>	<b>Deductions</b>	<b>Balance at End of Period</b>
Deducted from asset accounts:				
Year ended December 31, 2003:				
Allowance for doubtful accounts	\$ —	\$ —	\$ —	—
Allowance for inventory obsolescence	30	140	—	170
Valuation allowance on net deferred tax assets	4,626	3,905	—	8,531
	\$ 4,656	\$ 4,045	\$ —	8,701
Year ended December 31, 2004:				
Allowance for doubtful accounts	\$ —	\$ —	\$ —	—
Allowance for inventory obsolescence	170	—	125	45
Valuation allowance on net deferred tax assets	8,531	2,742	—	11,273
	\$ 8,701	\$ 2,742	\$ 125	\$ 11,318
Year ended December 31, 2005:				
Allowance for doubtful accounts	\$ —	60	\$ —	60
Allowance for inventory obsolescence	45	355	—	400
Valuation allowance on net deferred tax assets	11,273	2,807	—	14,080
	\$ 11,318	\$ 3,222	\$ —	14,540