



## FISCAL 2009 ANNUAL REPORT

**ClearOne.**

ClearOne is the leading global provider of audio conferencing solutions. The reliability, flexibility and performance of our comprehensive solutions save organizations time and money by creating natural environments for effective and efficient personal and group communication. Our products enhance collaboration, presentation, distance communications and multimedia applications.

In business for more than 20 years, ClearOne products are used by thousands of organizations worldwide from small enterprises to the Fortune 1000, as well as domestic and international governments and educational institutions. Our customers include a diverse group of market verticals such as education, enterprise, government/legal, healthcare, finance and houses of worship.

ClearOne dominates the professional conferencing space with over 50% global market share and is a pioneer in audio conferencing technologies. We have developed a broad portfolio of award-winning products that benefit from our innovative leadership in areas such as distributed echo cancellation, automatic microphone mixing, signal routing, equalization, automatic level control, compression, and other advanced audio processing functions.

We are committed to providing the highest quality hands-free audio for any environment, analog or VoIP, from personal conferencing on PCs and cell phones, to office desktop conferencing, to large professional conferencing venues such as boardrooms, training centers, courtrooms and auditoriums.





Dear Fellow Shareholders:

Global economic conditions, including a worldwide decline in technology spending, made fiscal 2009 a challenging year for ClearOne. While we have and will continue to take steps to reduce our expenses, we are seeing signs of improvement. Organizations are looking to us for help with bringing down the high costs of travel yet remaining connected to their customers, vendors and colleagues regardless of location.

For the fiscal year ended June 30, 2009, revenue declined to \$35.7 million compared with \$38.8 million in fiscal 2008. Gross profit, which included a \$2.3 million inventory write-off, was \$20.4 million, or 57% of revenue, compared with gross profit, which included a \$0.1 million inventory write-off, of \$22.6 million, or 58% of revenue, for the prior year. Excluding the inventory write-offs, gross profit was \$22.7 million, or 64% of revenue, compared with fiscal 2008 gross profit of \$22.7 million, or 59% of revenue. Operating income increased to \$2.8 million from \$1.1 million last year. Net income, which included income tax expense of \$1.0 million, was \$2.2 million, or \$0.24 per diluted share. Fiscal 2008 net income, which included an income tax benefit of \$3.1 million, was \$5.3 million, or \$0.49 per diluted share.

Our fiscal 2009 financial results reflect improved manufacturing efficiencies and lower overall operating expenses. And, in the 2009 fourth quarter, the company recognized the receipt of a \$1.1 million insurance settlement payment. Financial results for the prior year included the reversal of a \$4.7 million valuation allowance recorded against deferred tax assets and a \$3.3 million accrual for a contingent liability associated with indemnification agreements with two former officers.

At June 30, 2009, the company had cash, cash equivalents and marketable securities of \$11.9 million and no long-term debt.

During the past year, we formed a number of strategic relationships. ClearOne is now a certified member of the Microsoft Partner Program, which among other things provides us with an important and strategic venue for marketing our products to other member organizations that use Microsoft's unified communications platform. We partnered with Sony's Spire Global group to bring together ClearOne's audio conferencing with Sony's video conferencing capabilities. And since the end of fiscal 2009, our CHAT® 60 and CHAT 160 received Skype certification, giving Skype users access to our powerful, portable and crystal clear speakerphones.

Critical to our success is introducing new products, updating other existing products with new features our customers want and providing excellent partner and customer service and support. In fiscal 2009, we commenced marketing products across our broad portfolio, including Converge® Pro 880TA, Converge SR 1212A, Titan Articulating Arm Media Cart, ClearOne HD Video Conferencing Solution, MAX™ IP Response Point, CHAT 70 and

CHAT 170 for Microsoft Office Communicator 2007. We also established ClearOneXpress, a new Web-based customer service portal designed to provide distributor, dealer and end customer partners with the ability to conduct ClearOne business at their convenience - 24 hours a day, 7 days a week, 365 days a year.

Our company and products continue to be recognized for quality by industry experts. ClearOne's CHAT 170 received the 2008 Communications Solutions Product of the Year Award from Technology Marketing Corporation (TMC), a global integrated media company, and the 2009 Unified Communications TMC Labs Innovation Award. Our CHAT 50 received perfect scores in a review by Internet Telephony magazine, and our MAX IP Response Point received the 2008 Product of the Year Award from the same magazine. Fortune Small Business (FSB) magazine named ClearOne to its 2009 list of America's fastest growing small public companies, and one of only 30 of the fastest growing technology companies on the FSB 100 list. And, ClearOne received the Frost & Sullivan 2008 Global Market Leadership Award, which is given to the company that has exhibited excellence in all areas of the market leadership process, including the identification of market challenges, drivers and restraints, as well as strategy development and methods of addressing changing market dynamics.

International markets continue to be fertile territory for our products. In March of this year, we teamed with Digital China to be the exclusive distributor in China of our entire product offering. Digital China is the largest distributor of information technology products and services in China, and we look forward to a successful collaboration.

During the year, we added new leadership to our strong and talented senior management team. In April, Joe Sorrentino returned to ClearOne as our executive vice president of worldwide sales. In addition, Narsi Narayanan was named vice president of finance in July 2009, after joining the company in May as a financial consultant. Both of these executives are eminently qualified and have extensive experience in their relevant fields.

During the early part of fiscal 2009, we announced the final results of a modified Dutch auction tender offer, under which we repurchased approximately 1.3 million shares of ClearOne common stock at a price of \$5.00 per share for a total cost of approximately \$6.8 million. The repurchase program and tender offer demonstrate our continuing confidence in our business and represent an efficient return of capital to our shareholders.

The current economic challenges present an opportunity for ClearOne to provide our customers with solutions that save time and money. Our products allow organizations to lower their carbon footprints, and reduce the high costs and inconvenience of airline travel. Driven by the acceleration of globalization, the conferencing market is evolving and the demand for collaboration tools is growing. High audio quality remains the single most important element of the conferencing experience, which is why ClearOne is a leading audio conferencing player and the market leader with more than 50% share in the installed audio market, based on the Frost and Sullivan 2009 World Installed Audio Conferencing End Points Market Study.

Our underlying business has many bright spots. We continue to invest in product development and are planning a number of key new product launches in fiscal 2010. We are focused on improving our results and growing the business, with the goal of enhancing shareholder value. Thank you for your support of ClearOne.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Zee Hakimoglu', with a long horizontal stroke extending to the right.

Zee Hakimoglu  
Chairman, President and Chief Executive Officer  
October 2009

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2009

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number **001-33660**

**CLEARONE COMMUNICATIONS, INC.**  
(Exact name of registrant as specified in its charter)

<b>Utah</b>	<b>87-0398877</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

**5225 Wiley Post Way, Suite 500**  
**Salt Lake City, Utah 84116**  
(Address of principal executive offices, including zip code)

**(801) 975-7200**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Name of each exchange on which registered
Title of each class	
<b>Common Stock, \$0.001 par value</b>	<b>The NASDAQ Capital Market</b>

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☒ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "larger accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Larger Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐ (Do not check if a  
smaller reporting company)

Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

☐ Yes

☒ No

The aggregate market value of the shares of voting common stock held by non-affiliates was approximately \$19,605,000 at December 31, 2008, based on the \$3.93 closing price for the Company's common stock on the NASDAQ Capital Market on such date. For purposes of this computation, all officers, directors, and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors, or 10% beneficial owners are, in fact, affiliates of the registrant.

The number of shares of ClearOne common stock outstanding as of October 9, 2009 was 8,929,002.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement for the Annual Meeting of Shareholders to be held November 30, 2009 are incorporated by reference into Part III of this report.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements reflect our views with respect to future events based upon information available to us at this time. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from these statements. Forward-looking statements are typically identified by the use of the words “believe,” “may,” “could,” “will,” “should,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “intend,” and similar words and expressions. Examples of forward-looking statements are statements that describe the proposed development, manufacturing, and sale of our products; statements that describe our results of operations, pricing trends, the markets for our products, our anticipated capital expenditures, our cost reduction and operational restructuring initiatives, and regulatory developments; statements with regard to the nature and extent of competition we may face in the future; statements with respect to the sources of and need for future financing; and statements with respect to future strategic plans, goals, and objectives. Forward-looking statements are contained in this report under “Business” included in Item 1 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Qualitative and Quantitative Disclosures About Market Risk” included in Items 7 and 7A of Part II of this Annual Report on Form 10-K. The forward-looking statements are based on present circumstances and on our predictions respecting events that have not occurred, that may not occur, or that may occur with different consequences and timing than those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors, including the risk factors discussed in this report under the caption “Item 1A Risk Factors.” These cautionary statements are intended to be applicable to all related forward-looking statements wherever they appear in this report. The cautionary statements contained or referred to in this report should also be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. Any forward-looking statements are made only as of the date of this report and we assume no obligation to update forward-looking statements to reflect subsequent events or circumstances.

## **PART I**

References in this Annual Report on Form 10-K to “ClearOne,” “we,” “us,” “CLRO” or “the Company” refer to ClearOne Communications, Inc., a Utah corporation, and, unless the context otherwise requires or is otherwise expressly stated, its subsidiaries.

### **ITEM 1. BUSINESS**

#### **Overview**

ClearOne is a communications solutions company that develops and sells audio conferencing systems and related products for audio, video and web conferencing systems and applications. We enjoy the number one position in the global professional audio conferencing market with more than 50% of the global market share. The reliability, flexibility and performance of our comprehensive solutions create a natural communications environment that saves organizations time and money by enabling more effective and efficient communication. We develop, manufacture, market, and service a comprehensive line of high-quality audio conferencing products under personal, tabletop, premium and professional (installed audio) categories. We also manufacture and sell media carts for audio and video conferencing. We have an established history of product innovation and plan to continue to apply our expertise in audio engineering to develop and introduce innovative new products and enhance our existing products. We believe the performance and reliability of our high-quality audio products create a natural communications environment, which saves organizations of all sizes time and money by enabling more effective and efficient communication.

Our products are used by organizations of all sizes to accomplish effective group communication. Our end-users range from some of the world’s largest and most prestigious companies and institutions to small and medium-sized businesses, educational institutions, and government organizations as well as individual consumers. We sell our products to these end-users primarily through a network of independent distributors who in turn sell our products to dealers, systems integrators, and value-added resellers. We also sell products on a limited basis directly to dealers, systems integrators, value-added resellers, and end-users.

ClearOne was formed as a Utah corporation in 1983 organized under the laws of the State of Utah. Our website address is [www.clearone.com](http://www.clearone.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to such reports are available, free of charge, on our website as soon as reasonably practicable after we file electronically such material with, or furnish it to, the SEC.

For a discussion of certain risks applicable to our business, results of operations, financial position, and liquidity see the risk factors described in “Items 1A, Risk Factors” below.

**Business Strategy**

We currently participate in the following audio conferencing markets:

Market	Typical Number of Participants
• Professional Conferencing (Installed Audio)	20-200
• Premium Conferencing	8-30
• Tabletop Conferencing	1-30
• Personal Conferencing	1-15

Our goal is to maintain our market leadership in the professional conferencing category, continue building on our leadership in premium conferencing category (a category we created), and further penetrate the tabletop conferencing and personal conferencing markets. We will continue to improve our existing high-quality products and develop new products for stand alone audio conferencing applications or to integrate with leading video and web conferencing systems and applications. The principal components of our strategy to achieve this goal are set forth below.

*Provide a superior conferencing experience*

We have been developing audio technologies since 1981 and believe we have established a reputation for providing some of the highest quality group audio conferencing solutions in the industry. Our proprietary audio signal processing technologies, including Distributed Echo Cancellation®, have been the core of our professional conferencing products and are the foundation for our new product development in other conferencing categories. We plan to build upon our reputation of being a market leader and continue to provide the highest quality products and technologies to the customers, partners and markets we serve.

*Offer greater value to our customers and partners*

To provide our customers and partners with audio conferencing products that offer high value, we are focused on listening to our customers and partners and delivering products to meet their needs. By offering high quality products that are designed to solve conferencing ease-of-use issues and are easy to install, configure, and maintain, we believe we can provide greater value to our customers and partners and enhance business communications and decision making.

*Leverage and extend ClearOne technology leadership and innovation*

We continue to focus on developing cutting edge conferencing products and are committed to incorporating the latest technologies into our new and existing product lines. Key to this effort is adopting emerging technologies such as Voice over Internet Protocol (VoIP), wideband audio, wireless connectivity, and convergence of voice and data networks, exploring new application models for our premium and personal audio conferencing technologies, and developing products based on internationally accepted standards and protocols.

### *Expand and strengthen sales channels*

We continue to expand and strengthen domestic and international sales channels through the addition of key distributors and dealers that expand beyond our traditional audio-video channels that carry our professional conferencing products. We continue to direct significant sales efforts toward channel partners who are focused on the tabletop and personal conferencing markets. We also continue to strengthen our presence within the telephony reseller channel, which is best suited to sell our RAV™ premium conferencing systems, MAX® tabletop conference phones, and CHAT® personal conferencing products.

### *Broaden our product offerings*

We believe that we offer the industry's most complete audio conferencing product line, including the following:

- Professional conferencing products that are used in executive boardrooms, courtrooms, hospitals, and auditoriums that integrate with leading video and telepresence systems
- Premium conferencing products that integrate with leading video and web conferencing systems and applications
- Tabletop conferencing phones used in conference rooms and offices
- Personal conferencing products that enable hands-free audio communications in new ways such as through PCs, laptops, cell phones and handsets.

We also provide a comprehensive portfolio of media carts that play a key role in providing equipment mobility and making conferencing equipment easy to access and use. We plan to continue to broaden and expand our product offerings to meet the evolving needs of our customers and partners, address changes in the markets we currently serve, and effectively target new markets for our products.

### *Develop strategic partnerships*

To stay on the leading edge of product and market developments, we plan to continue to identify partners with expertise in areas strategic to our growth objectives. We will work to develop partnerships with leaders in markets complimentary to conferencing who can benefit from our audio products and technologies and through whom we can access new market growth opportunities. We entered into partnerships with Avistar, Microsoft, Skype, Vidyo and others to offer personal conferencing products uniquely suited to their systems and applications.

### *Strengthen existing customer and partner relationships through dedicated support*

We have developed outstanding technical and sales support teams that are dedicated to providing customers and partners with the best available service and support. We believe our technical support is recognized as among the best in the industry and we will continue to invest in the necessary resources to ensure that our customers and partners have access to the information and support they need to be successful in using our products. We also dedicate significant resources to providing product training to our channel partners worldwide.

## **Markets and Products**

### ***Products Overview***

The performance and reliability of our high-quality audio conferencing products enable effective and efficient communication between geographically separated businesses and organizations by connecting them to their employees, customers and partners. We offer a full range of audio conferencing products including, professional conferencing products used in executive boardrooms, courtrooms, hospitals, classrooms, and auditoriums, premium conferencing products that interface with video and web conferencing systems, tabletop conferencing phones used in conference rooms and offices, and personal conferencing products that can be used with laptops and other portable devices. For each of the last three fiscal years, our professional conferencing products and tabletop conference phones have together contributed in excess of 85 percent of our consolidated revenue. Our audio conferencing products feature our proprietary Distributed Echo Cancellation® and noise cancellation technologies to enhance communication during a conference call by eliminating echo and background noise. Most of our products also feature proprietary audio processing technologies such as adaptive modeling and first-microphone priority, which combine to deliver clear, crisp and full-duplex audio. These technologies enable natural and fatigue-free communication between distant conferencing participants.

We believe the principal drivers of demand for audio conferencing products are the following:

- Availability of easy-to-use conferencing systems and applications
- Voice quality of audio conferencing systems as compared to the quality of telephone handset speakerphones
- Expansion of global, regional, and local corporate enterprises

Other factors that we expect to have a significant impact on the demand for audio conferencing systems include the following:

- Availability of affordable audio conferencing solutions for small businesses and home offices
- Growth of distance learning and corporate training programs
- Increasing adoption of teleworking
- Decreases in travel due to cost and carbon footprint considerations
- Transition to the Internet Protocol (IP) network from the traditional public switched telephone network (PSTN) and the deployment of VoIP applications

We expect these growth factors to be offset by direct competition from high-end telephone handset speakerphones, new and existing competitors in the audio conferencing market, the technological volatility of IP-based products, and continued pressures on enterprises to reduce spending.

### **Professional Audio Conferencing Products**

We enjoy the number one position in the global professional audio conferencing market with more than 50% of the global market share. We have been developing high-end, professional conferencing products since 1991 and believe we have established strong brand recognition for these products worldwide. Our professional conferencing products include the Converge® Pro, XAP® and Converge 560/590 product lines. The Converge SR 1212 product features similar technologies and is used for sound reinforcement applications.

The Converge Pro product line, which replaced the popular XAP® series of audio conferencing systems, leads our professionally installed audio products line of product offerings. The Converge Pro series delivers a significant feature set and performance improvements including unprecedented proprietary acoustical echo cancellation, noise cancellation, full duplex performance, enhanced management capabilities, and simplified configuration utilities. We continue to expand the Converge Pro product line with the addition of the Converge 880T and 880TA products which consolidates the functionality of an audio amplifier and telephone interface into a single product. These products offer easier installation and increased features to our customers and partners. The Converge SR 1212 is a digital matrix mixer that provides advanced audio processing, microphone mixing, and routing for sound reinforcement. This product line was also expanded with the addition of the Converge SR 1212A which integrates a 4 channel audio amplifier, our proprietary DARE® feedback eliminator and industry leading expandability with the features of the Converge SR1212 into a single product. These products are comprehensive audio processing systems designed to excel in the most demanding acoustical environments and routing configurations. These products are also used for integrating high-quality audio with video and web conferencing systems.

In response to our customers' and partners' need for professional audio solutions that would fit the budgetary requirements for mid-sized conference rooms, the Converge 560 and Converge 590 professional conferencing products were designed. These products are positioned between our professional and premium conferencing product lines both in terms of functionality and price, and are an excellent fit for rooms requiring customized microphone (up to nine microphones) and speaker configurations along with connectivity to leading video and web conferencing systems and applications.

In June 2008, we announced the introduction of two models of Converge Amplifiers, PA2250 and PA4160. However, for operational and strategic reasons, the products were discontinued.

We also offer a Tabletop Controller for the Converge Pro and XAP product lines. This affordable solution gives users the ability to easily start and navigate an audio conference without the need for touch panel control systems, which can be expensive, complex, or intimidating to users. The dial pad on the controller resembles a telephone keypad for instant familiarity and users can dial a conference call as easily as dialing a telephone. The Tabletop Controller can be significantly less expensive than touch-screen panel control systems, which require considerable integration and programming time and costs.

Frost and Sullivan, a leading global research and consulting group, awarded us their Product Line Strategy Award for both 2007 and 2006. This award is presented each year to a company that has demonstrated the most insight into customer needs and product demands within their industry, and has optimized its product line by leveraging products with the various price, performance, and feature points required by the market.

In November 2008, Frost and Sullivan awarded us their 2008 Global Market Leadership Award. This award is given to the company that has exhibited excellence in all areas of the market leadership process, including the identification of market challenges, drivers and restraints, as well as strategy development and methods of addressing changing market dynamics. Frost & Sullivan noted that ClearOne not only has the largest market share in the installed audio segment, but has also put into practice growth and implementation strategies to a degree well above most of their competitors. We were recognized for our ability to expand our market share, integrate new technologies into our portfolio of products, and maintain market-leading pricing.

### **Premium Conferencing Products**

RAV audio conferencing product is a complete, out-of-the-box system that includes an audio mixer, Bose® loudspeakers, microphones, and a control device that can be either wired or wireless. The RAV product uniquely combines the sound quality of a professionally installed audio system with the simplicity of a conference phone and can be easily connected to rich-media devices, such as video or web conferencing systems, to deliver enhanced audio performance. RAV is strategically positioned between our professional and tabletop conferencing products in price and functionality, and fills an important audio conferencing solution requiring integration of quality audio with leading video and web conferencing systems and applications. RAV offers many powerful audio processing technologies from our professional conferencing products without the need for professional installation and programming.

### **Tabletop Conferencing Phones**

MAX line of tabletop conferencing phones utilizes many of the high-end echo cancellation, noise cancellation, and audio processing technologies found in our professional audio conferencing products.

MAX product line is comprised of the following product families: the MAX® EX and MAXAttach™; MAX Wireless and MAXAttach Wireless; and MAX IP™ and MAXAttach IP™ tabletop conferencing phones. MAX Wireless was the industry's first wireless conferencing phone. Designed for use in executive offices or small conference rooms with multiple participants, MAX Wireless can be moved from room to room within 150 feet of its base station. MAXAttach Wireless was the industry's first and remains the only dual-phone, completely wireless solution. This system gives customers tremendous flexibility in covering larger conference room areas.

The MAX EX and MAXAttach wired phones feature an industry-first unique capability – instead of just adding extension microphones for use in larger rooms, the conference phones can be daisy chained together, up to a total of four phones. This provides even distribution of microphones, loudspeakers, and controls for better sound quality and improved user access in medium to large conference rooms. In addition, all MAXAttach wired versions can be used separately when they are not daisy-chained together.

The MAX IP and MAXAttach IP are VoIP tabletop conference phones which are based on the industry-standard SIP signaling protocol. These phones can also be daisy-chained together, up to a total of four phones providing outstanding room and control coverage that other VoIP conference phones on the market cannot match.

Our latest addition to the MAX family is MAX IP Response Point. Response Point is an innovative new phone system from Microsoft® that utilizes voice recognition technology to create an easy to use experience for small business users. MAX IP Response Point is the first and only conference phone for the response point phone system, bringing high performance audio to small business. MAX IP Response Point contains HDConference™, our suite of high-performance audio processing technologies and provides the ability to daisy-chain up to four phones together. In January 2009, Internet Telephony magazine recognized MAX IP Response Point as a recipient of its 2008 Product of the Year Award.

## **Personal Conferencing Products**

CHAT™ line of conferencing speaker phones delivers our trademark crystal-clear full-duplex audio performance, and can be used in a variety of applications with a wide number of devices including the following:

PCs & Macs	VoIP telephony applications such as Skype; Popular audio instant messaging (IM) applications like Yahoo, MSN, Google, etc.; enterprise softphones; audio for web-based videoconferencing applications; gaming; music playback
Cell phones	Connects to the 2.5mm headset jack of many cell phones for hands-free, full-duplex audio conferencing
Telephones	Connects to the headset jack (certain phone models) for hands-free, full-duplex audio conferencing
iPods & MP3 players	For full-bandwidth audio playback
Desktop video conferencing systems	For hands-free, full-duplex audio conferencing

CHAT 50 attracted significant media coverage and has won many recognitions since its introduction including, PC Magazine's Editors' Choice Award in March 2006 and Portable Computer Magazine's Best for Business Products Award for 2007.

CHAT 150 offers many of the same connectivity options as CHAT 50, but features three microphones in a larger form factor for use by a larger number of participants compared to CHAT 50. Customers have the ability to add a high-quality, full-duplex speaker phone to their handsets, and still retain the full functionality that comes with today's handsets, including access to company directory, voicemail access, audio bridge functions, etc. CHAT 150 makes it possible to introduce quality conferencing capability without the need for extending an additional analog PBX line.

During 2009 CHAT 170 and CHAT 70 was introduced to fill the needs for a hands-free speakerphone for individuals using Microsoft's unified communications platform, Office Communications Server 2007. CHAT 70 is similar to CHAT 50 with single microphone, while CHAT 170 has three microphones like CHAT 150. CHAT 70 and CHAT 170 utilizes technologies shared by CHAT 50 and CHAT 150 including HDConference and full duplex audio technologies. CHAT 70 and CHAT 170 are the perfect audio peripherals for greatly enhanced collaboration through unified communication. True to their plug-and-play capability, CHAT 70 and CHAT 170 require no drivers to be installed and plugs into a USB port - enabling all incoming Office Communicator calls to ring on the CHAT 70 or CHAT 170. In the short period since its introduction, CHAT 170 has already gained industry-wide recognition and media awards.

CHAT 60 and CHAT 160 were introduced after June 30, 2009 to support Skype users.

Our personal conferencing products have become popular with large enterprises and organizations. We entered into partnerships with Avistar, Microsoft, Skype, Vidyo and others to offer personal conferencing products uniquely suited to their systems and applications for their enterprise users and consumers.

## **Other Products**

We complement our audio conferencing products with microphones, media carts for audio and video conferencing. Our wide selection of wood, metal, and laminate media carts features audiovisual carts; plasma screen carts and video conferencing carts.

We expanded our Titan media carts line with the Titan Articulating Arm Dual Plasma Cart in June 2009. This innovative product features an articulating plasma mounting system that folds the monitor support arms for angle viewing, transportation and storage. Once folded the cart will fit into standard elevators or through standard doorways while accommodating most Plasma or LCD displays up to 50".

The latest addition to the media cart product line is the The ClearPresence Dual Media Cart. It accommodates two 42" to 50" flat screen monitors for video and audio conferencing systems. The ClearPresence media cart is designed for strength and reliability and constructed of steel with a high gloss black finish and stainless steel accents. Included are two universal mounts for flat screen monitors and an adjustable mount for a high definition videoconferencing camera. The ClearPresence Dual Media Cart is ideal for corporate meeting rooms, courtrooms, training rooms, and video conferencing rooms.

## **Marketing and Sales**

We primarily use a two-tier channel model, through which we sell our products directly to a worldwide network of independent audiovisual, information technology, and telecommunications distributors, who then sell our products to independent systems integrators, dealers, and value-added resellers, who in turn work directly with the end-users of our products for product fulfillment and installation. We also sell our products on a limited basis directly to certain dealers, systems integrators, value-added resellers, and end-users.

In fiscal 2009, approximately \$24.2 million, or 68 percent, of our total product sales were generated in the United States and product sales of approximately \$11.5 million, or 32 percent, were generated outside the United States. Revenue from product sales to customers outside of the United States accounted for approximately 30 percent of our total product sales from continuing operations for fiscal 2008. We sell our products in more than 70 countries worldwide. We anticipate that the portion of our total product revenue from international sales will continue to increase as we further enhance our focus on developing new products, establishing new channel partners, strengthening our presence in key growth areas, complying with regional environmental regulatory standards, and improving product localization with country-specific product documentation and marketing materials.

### ***Distributors***

We sell our products directly to approximately 100 distributors throughout the world. Distributors purchase our products at a discount from list price and resell them on a non-exclusive basis to independent systems integrators, dealers, and value-added resellers. Our distributors maintain their own inventory and accounts receivable and are required to provide technical and non-technical support for our products to the next level of distribution participants. We work with our distributors to establish appropriate inventory stocking levels. We also work with our distributors to maintain relationships with our existing systems integrators, dealers, and value-added resellers.

### ***Independent Integrators, Dealers, and Resellers***

Our distributors sell our products worldwide to approximately 1,000 independent system integrators, telephony value-added resellers, IT value-added resellers, and PC dealers on a non-exclusive basis. While dealers, resellers, and system integrators all sell our products directly to the end-users, system integrators typically add significant value to each sale by combining our products with products from other manufacturers as part of an integrated system solution. Dealers and value-added resellers usually purchase our products from distributors and may bundle our products with products from other manufacturers for resale to the end-user. We maintain close working relationships with our reseller partners and offer them education and training on all of our products.

### ***Marketing***

Much of our marketing effort is conducted in conjunction with our channel partners, who provide leverage for us in reaching existing and prospective customers worldwide. We also regularly attend industry forums and exhibit our products at multiple regional and international trade shows, often with our channel partners. These trade shows provide exposure for our brand and products to a wide audience.

In addition to advertising our products in popular publications serving the conferencing industry, we also conduct public relations initiatives to get press coverage and product reviews in industry and non-industry publications alike.

## Customers

We do not believe that any end-user accounted for more than 10 percent of our total revenue during fiscal 2009 or 2008. In fiscal 2009, revenues included sales to three distributors that represented approximately 58 percent of total revenue. Each of these three distributors, NewComm Distributing, Starin Marketing and VSO Marketing, accounted for more than 10 percent of consolidated revenue. As discussed above, these distributors facilitate product sales to a large number of independent systems integrators, dealers, and value-added resellers and subsequently to their end-users. The loss of one or more distributors could reduce revenue and have a material adverse effect on our business and results of operations. As of June 30, 2009, our shipped orders on which we had not recognized revenue were \$4.7 million and our backlog of unshipped orders was \$381,000.

## Competition

The conferencing products market is characterized by intense competition and rapidly evolving technology. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources. If we are not able to continually design, manufacture, and successfully market new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business.

Our competitors vary within each product category. We believe we are able to differentiate ourselves and therefore successfully compete as a result of the high audio quality of our products resulting from our proprietary audio signal processing technologies, technical and channel support services, and the strength of our brand.

We believe the principal factors driving sales are the following:

- Quality and functionality of the products
- Broad and deep channel partnerships
- Established history of successful world-wide installations for diverse vertical markets
- Brand name recognition
- Quality of customer and partner support, and
- Effective sales and marketing communication

In the professional audio conferencing systems and sound reinforcement markets, our main competitors include Biamp Systems, Harman International, Lectrosonics, Peavey, Polycom, and Shure and their OEM partners, with several other companies potentially poised to enter the market. We have been enjoying the number one position in the global professional audio conferencing market with more than 50% of the global market share. We uniquely contributed to the professional conferencing market with the introduction of the Audio Perfect (“AP”) product line a number of years ago, followed by the XAP and recently with the introduction of Converge Pro. We believe we continue to enjoy a strong reputation with the system integrators and audio visual consultants.

We believe we created a new audio conferencing category with the introduction of the RAV platform, which we call premium conferencing. RAV is a unique product with capabilities we do not believe can be found on any other competing system.

In the tabletop conferencing market, our primary competitors are Aethra, Konftel, LifeSize, Panasonic and Polycom and their OEM partners. We believe MAX products are competitive due to strategic pricing, unique ability to attach or daisy chain multiple phones together and proprietary digital signal processing technologies, which we believe are the most advanced in the industry.



The personal conferencing market has seen a number of new entrants. Our primary competitors in the personal conferencing market are Actiontec, Iogear, mVox, Phoenix Audio and Polycom and their OEM partners. We believe that our CHAT family of products offer unique advantages in their superior audio performance and their abilities to connect to multiple devices for variety of applications.

Our media carts compete primarily with the products of Accuwood, Comlink, and Video Furniture International.

In each of the markets in which we compete, many of our competitors may have access to greater financial, technical, manufacturing, and marketing resources, and as a result they may respond more quickly or effectively to new technologies and changes in customer preferences. We cannot provide assurance that we will continue to compete effectively in the markets we serve.

### **Regulatory Environment**

Regulations regarding the materials used in manufacturing, the process of disposing of electronic equipment and the efficient use of energy require additional time to obtain regulatory approvals of new products in international markets. Such regulations may impact our ability to expand our sales in a timely and cost-effective manner and as a result our business could be harmed.

### **Sources and Availability of Raw Materials**

We manufacture our products through contract manufacturers, who are generally responsible to source and procure required raw materials and components. Most of the components that our contract manufacturers require for manufacturing our products are readily available from a number of sources. We continually work with our contract manufacturers to seek alternative sources for all our components and raw materials requirements to ensure higher quality and better pricing. Contract manufacturers and their vendors are qualified by Corporate Quality Assurance. We work with our contract manufacturers to ensure raw materials and components conform to specifications.

### **Seasonality**

Our audio conferencing products revenue has historically been strongest during the second and fourth quarters though the variations between the quarters are not consistently significant. There can be no assurance that any historic sales patterns will continue and, as a result, sales for any prior quarter are not necessarily indicative of the sales to be expected in any future quarter.

### **Product Development**

We are committed to research and product development and view our continued investment in research and product development as a key ingredient to our long-term business success. Our research and product development expenditures were approximately \$7.5 million in fiscal 2009 and \$7.1 million in fiscal 2008.

Our core competencies in research and product development include many audio technologies, including telephone echo cancellation, acoustic echo cancellation, and noise cancellation using advanced digital signal processing technology. We also have expertise in wireless technologies, VoIP, and software and network application development. We believe that ongoing development of our core technological competencies is vital to develop new products and to enhance existing products.

### **Manufacturing**

Currently, all of our products are manufactured by third-party manufacturers. Our primary contract manufacturers are Idea Chip Technologies, Inovar and Flextronics.

### **Intellectual Property and Other Proprietary Rights**

We believe that our success depends in part on our ability to protect our proprietary rights. We rely on a combination of patent, copyright, trademark, and trade secret laws and confidentiality agreements and processes to protect our proprietary rights. The laws of foreign countries may not protect our intellectual property to the same degree as the laws of the United States.

We generally require our employees, customers, and potential distribution participants to enter into confidentiality and non-disclosure agreements before we disclose any confidential aspect of our technology, services, or business. In addition, our employees are required to assign to us any proprietary information, inventions, or other technology created during the term of their employment with us. However, these precautions may not be sufficient to protect us from misappropriation or infringement of our intellectual property.

We currently have about 30 patents that are issued, pending, or applied for that cover conferencing products and technologies. The expiration dates of issued patents range from 2018 to 2025. We hold 15 registered trademarks and have also applied for registration for 10 trademarks. Registered trademarks include ClearOne, XAP, MAX, AccuMic, Audio Perfect, Distributed Echo Cancellation, Gentner, and others. We have also filed for trademarks for RAV, Converge, Chat, and others. We have received or filed for registered copyrights of certain of our source code for acoustic echo cancellation and other related audio signal processing algorithms.

### **Employees**

As of June 30, 2009, we had 103 full-time employees. Of these employees, 84 were located in our Salt Lake City office, 13 in other U.S. locations, two in the United Kingdom and four in Asia. None of our employees are subject to a collective bargaining agreement and we believe our relationship with our employees is good. We occasionally hire contractors with specific skill sets to meet our operational needs.

### **Dispositions**

During fiscal 2005, we sold our Canadian audiovisual integration services business to 6351352 Canada Inc. During fiscal 2006, we sold our document and educational camera product line to Ken-A-Vision Manufacturing Co. Inc.

## ITEM 1A. RISK FACTORS

*Investors should carefully consider the risks described below. The risks described below are not the only ones we face and there are risks that we are not presently aware of or that we currently believe are immaterial that may also impair our business operations. Any of these risks could harm our business. The trading price of our common stock could decline significantly due to any of these risks, and investors may lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in this Annual Report on Form 10-K, including our June 30, 2009 consolidated financial statements and related notes.*

### ***Risks Relating to Our Business***

*We face intense competition in all markets for our products and services; our operating results will be adversely affected if we cannot compete effectively against other companies.*

The markets for our products and services are characterized by intense competition and pricing pressures and rapid technological change. We compete with businesses having substantially greater financial, research and product development, manufacturing, marketing, and other resources. If we are not able to continually design, manufacture, and successfully introduce new or enhanced products or services that are comparable or superior to those provided by our competitors and at comparable or better prices, we could experience pricing pressures and reduced sales, gross profit margins, profits, and market share, each of which could have a materially adverse effect on our business.

*Difficulties in estimating customer demand in our products segment could harm our profit margins.*

Orders from our distributors and other distribution participants are based on demand from end-users. Prospective end-user demand is difficult to measure. This means that our revenue during any fiscal quarter could be adversely impacted by low end-user demand, which could in turn negatively affect orders we receive from distributors and dealers. Our expectations for both short- and long-term future net revenues are based on our own estimates of future demand.

Revenue for any particular time period is difficult to predict with any degree of certainty. We typically ship products within a short time after we receive an order; consequently, unshipped backlog has not historically been a good indicator of future revenue. We believe that the level of backlog is dependent in part on our ability to forecast revenue mix and plan our manufacturing accordingly. A significant portion of our customers' orders are received during the last month of the quarter. We budget the amount of our expenses based on our revenue estimates. If our estimates of sales are not accurate and we experience unforeseen variability in our revenue and operating results, we may be unable to adjust our expense levels accordingly and our gross profit and results of operations will be adversely affected. Higher inventory levels or stock shortages may also result from difficulties in estimating customer demand.

*Our sales depend to a certain extent on government funding and regulation.*

In the audio conferencing products market, the revenue generated from sales of our audio conferencing products for distance learning and courtroom facilities depend on government funding. In the event government funding for such initiatives was reduced or became unavailable, our sales could be negatively impacted. Additionally, many of our products are subject to governmental regulations. New regulations could significantly impact sales in an adverse manner.

*Environmental laws and regulations subject us to a number of risks and could result in significant costs and impact on revenue*

Regulations regarding the materials used in manufacturing, the process of disposing of electronic equipment and the efficient use of energy require additional time to obtain regulatory approvals of new products in international markets. Such regulations may impact our ability to expand our sales in a timely and cost-effective manner and as a result our business could be harmed.

*Product development delays or defects could harm our competitive position and reduce our revenue.*

We have, in the past, and may again experience, technical difficulties and delays with the development and introduction of new products. Many of the products we develop contain sophisticated and complicated circuitry, software and components, and utilize manufacturing techniques involving new technologies. Potential difficulties in the development process that could be experienced by us include difficulty in the following:

- meeting required specifications and regulatory standards;
- meeting market expectations for performance;
- hiring and keeping a sufficient number of skilled developers;
- obtaining prototype products at anticipated cost levels;
- having the ability to identify problems or product defects in the development cycle; and
- achieving necessary manufacturing efficiencies.

Once new products reach the market, they may have defects, or may be met by unanticipated new competitive products, which could adversely affect market acceptance of these products and our reputation. If we are not able to manage and minimize such potential difficulties, our business and results of operations could be negatively affected.

*Our profitability may be adversely affected by our continuing dependence on our distribution channels.*

We market our products primarily through a network of distributors who in turn sell our products to systems integrators, dealers, and value-added resellers. All of our agreements with such distributors and other distribution participants are non-exclusive, terminable at will by either party, and generally short-term. No assurances can be given that any or all such distributors or other distribution participants will continue their relationship with us. Distributors and to a lesser extent systems integrators, dealers, and value-added resellers cannot easily be replaced and the loss of revenues and our inability to reduce expenses to compensate for the loss of revenue could adversely affect our net revenue and profit margins.

Although we rely on our distribution channels to sell our products, our distributors and other distribution participants are not obligated to devote any specified amount of time, resources, or efforts to the marketing of our products or to sell a specified number of our products. There are no prohibitions on distributors or other resellers offering products that are competitive with our products and some do offer competitive products. The support of our products by distributors and other distribution participants may depend on the competitive strength of our products and the price incentives we offer for their support. If our distributors and other distribution participants are not committed to our products, our revenue and profit margins may be adversely affected.

Additionally, we offer our distributors price protection on their inventory of our products. If we reduce the list price of our products, we will compensate our distributors for the respective products that remain in their inventory on the date the price adjustment becomes effective provided that they have taken delivery of the products within the last 35 days. Our net revenue and profit margins could adversely be affected if we reduce product prices significantly or distributors happen to have significant inventory on-hand of the affected product at the time of a price reduction. Further, if we do not have sufficient cash resources to compensate distributors on terms satisfactory to them or us, our price protection obligations may prevent us from reacting quickly to competitive market conditions.

*Reporting of channel inventory by distributors.*

We defer recognition of revenue from product sales to distributors until the return privilege has expired, which approximates when product is sold-through to customers of our distributors. We evaluate, at each quarter-end, the inventory in the channel through information provided by our distributors. We use this information to determine the amount of inventory in the channel, and the appropriate revenue and cost of goods sold associated with those channel products. We cannot guarantee that the third party data, as reported, or that our assumptions and judgments regarding total channel inventory revenue and cost of goods sold will be accurate. We periodically audit a limited number of distributors.

*We depend on an outsourced manufacturing strategy.*

We outsource the manufacture of all of our products to third-party manufacturers located in both the U.S. and Asia. If any of these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceed anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in shipping these products which would have a negative impact on our revenue. Should there be any disruption in services due to natural disaster, economic or political difficulties, quarantines, transportation restrictions, acts of terror, or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption would have a material adverse effect on our business. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a portion of our products.

The cost of delivered product from our contract manufacturers is a direct function of their ability to buy components at a competitive price and to realize efficiencies and economies of scale within their overall business structure. If they are unsuccessful in driving efficient cost models, our delivered costs could rise, affecting our profitability and ability to compete. In addition, if the contract manufacturers are unable to achieve greater operational efficiencies, delivery schedules for new product development and current product delivery could be negatively impacted.

*Product obsolescence could harm demand for our products and could adversely affect our revenue and our results of operations.*

Our industry is subject to technological innovations that could render existing technologies in our products obsolete and thereby decrease market demand for such products. If any of our products become slow-moving or obsolete and the recorded value of our inventory is greater than its market value, we will be required to write down the value of our inventory to its fair market value, which would adversely affect our results of operations. In limited circumstances, we are required to purchase components that our outsourced manufacturers use to produce and assemble our products. Should technological innovations render these components obsolete, we will be required to write down the value of this inventory, which could adversely affect our results of operations.

*If we are unable to protect our intellectual property rights or have insufficient proprietary rights, our business would be materially impaired.*

We currently rely primarily on a combination of trade secrets, copyrights, trademarks, patents, patents pending, and nondisclosure agreements to establish and protect our proprietary rights in our products. No assurances can be given that others will not independently develop similar technologies, or duplicate or design around aspects of our technology. In addition, we cannot assure that any patent or registered trademark owned by us will not be invalidated, circumvented or challenged, or that the rights granted hereunder will provide competitive advantages to us. Litigation may be necessary to enforce our intellectual property rights. We believe our products and other proprietary rights do not infringe upon any proprietary rights of third parties; however, we cannot assure that third parties will not assert infringement claims in the future. Our industry is characterized by vigorous protection of intellectual property rights. Such claims and the resulting litigation are expensive and could divert our attention, regardless of the merit of such claims. In the event of a claim, we might be required to license third-party technology or redesign our products, which may not be possible or economically feasible.

We currently hold only a limited number of patents. To the extent that we have patentable technology for which we have not filed patent applications, others may be able to use such technology or even gain priority over us by patenting such technology themselves.

*International sales account for a significant portion of our net revenue and risks inherent in international sales could harm our business.*

International sales represent a significant portion of our total product revenue. We anticipate that the portion of our total product revenue from international sales will continue to increase as we further enhance our focus on developing new products for new markets, establishing new distribution partners, strengthening our presence in emerging economies, and improving product localization with country-specific product documentation and marketing materials. Our international business is subject to the financial and operating risks of conducting business internationally, including the following:

- unexpected changes in, or the imposition of, additional legislative or regulatory requirements;
- unique environmental regulations;
- fluctuating exchange rates;
- tariffs and other barriers;
- difficulties in staffing and managing foreign sales operations;
- import and export restrictions;
- greater difficulties in accounts receivable collection and longer payment cycles;
- potentially adverse tax consequences;
- potential hostilities and changes in diplomatic and trade relationships; and
- disruption in services due to natural disaster, economic or political difficulties, quarantines, transportation, or other restrictions associated with infectious diseases.

*We may not be able to hire and retain qualified key and highly-skilled technical employees, which could affect our ability to compete effectively and may cause our revenue and profitability to decline.*

We depend on our ability to hire and retain qualified key and highly skilled employees to manage, research and develop, market, and service new and existing products. Competition for such key and highly-skilled employees is intense, and we may not be successful in attracting or retaining such personnel. To succeed, we must hire and retain employees who are highly skilled in the rapidly changing communications and Internet technologies. Individuals who have the skills and can perform the services we need to provide our products and services are in great demand. Because the competition for qualified employees in our industry is intense, hiring and retaining employees with the skills we need is both time-consuming and expensive. We may not be able to hire enough skilled employees or retain the employees we do hire. In addition, provisions of the Sarbanes-Oxley Act of 2002 and related rules of the SEC impose heightened personal liability on some of our key employees. The threat of such liability could make it more difficult to identify, hire and retain qualified key and highly-skilled employees. We have relied on our ability to grant stock options as a means of recruiting and retaining key employees. Recent accounting regulations requiring the expensing of stock options will impair our future ability to provide these incentives without incurring associated compensation costs. Our inability to hire and retain employees with the skills we seek could hinder our ability to sell our existing products, systems, or services or to develop new products, systems, or services with a consequent adverse effect on our business, results of operations, financial position, or liquidity.

*We rely on third-party technology and license agreements.*

We have licensing agreements with various suppliers for software and hardware incorporated into our products. These third-party licenses may not continue to be available to us on commercially reasonable terms, if at all. The termination or impairment of these licenses could result in delays of current product shipments or delays or reductions in new product introductions until equivalent designs could be developed, licensed, and integrated, if at all possible, which would have a material adverse effect on our business.

*We may have difficulty in collecting outstanding receivables.*

We grant credit to substantially all of our customers without requiring collateral. In times of economic uncertainty, the risks relating to the granting of such credit would typically increase. Although we monitor and mitigate the risks associated with our credit policies, we cannot ensure that such mitigation will be effective. We have experienced losses due to customers failing to meet their obligations. Future losses could be significant and, if incurred, could harm our business and have a material adverse effect on our operating results and financial position.

*Interruptions to our business could adversely affect our operations.*

As with any company, our operations are at risk of being interrupted by earthquake, fire, flood, and other natural and human-caused disasters, including disease and terrorist attacks. Our operations are also at risk of power loss, telecommunications failure, and other infrastructure and technology based problems. To help guard against such risks, we carry business interruption loss insurance to help compensate us for losses that may occur.

## ***Risks Relating to Share Ownership***

*Our stock price fluctuates as a result of the conduct of our business and stock market fluctuations.*

The market price of our common stock has experienced significant fluctuations and may continue to fluctuate significantly. The market price of our common stock may be significantly affected by a variety of factors, including the following:

- statements or changes in opinions, ratings, or earnings estimates made by brokerage firms or industry analysts relating to the market in which we do business or relating to us specifically;
- disparity between our reported results and the projections of analysts;
- the shift in sales mix of products that we currently sell to a sales mix of lower-gross profit product offerings;
- the level and mix of inventory levels held by our distributors;
- the announcement of new products or product enhancements by us or our competitors;
- technological innovations by us or our competitors;
- success in meeting targeted availability dates for new or redesigned products;
- the ability to profitably and efficiently manage our supplies of products and key components;
- the ability to maintain profitable relationships with our customers;
- the ability to maintain an appropriate cost structure;
- quarterly variations in our results of operations;
- general consumer confidence or general market conditions or market conditions specific to technology industries;
- domestic and international economic conditions;
- unexpected changes in regulatory requirements and tariffs;
- our ability to report financial information in a timely manner; and
- the markets in which our stock is traded.

*Rights to acquire our common stock could result in dilution to other holders of our common stock.*

As of June 30, 2009, we had outstanding options to acquire approximately 1.2 million shares of our common stock at a weighted average exercise price of \$5.62 per share. An additional 805,000 shares remain available for grant under our 2007 Plan. During the terms of these options, the holders thereof will have the opportunity to profit from an increase in the market price of the common stock. The existence of these options may adversely affect the terms on which we can obtain additional financing, and the holders of these options can be expected to exercise such options at a time when we, in all likelihood, would be able to obtain additional capital by offering shares of our common stock on terms more favorable to us than those provided by the exercise of these options.

*Sales of additional shares of our common stock could have a negative effect on the market price of our common stock.*

Sales of substantial amounts of our common stock in the public market could adversely affect prevailing market prices and could impair our ability to raise capital through the sale of our equity securities. Most shares of common stock currently outstanding are eligible for sale in the public market, subject in certain cases to compliance with the requirements of Rule 144 under the securities laws. Shares issued upon the exercise of stock options granted under our stock option plan generally will be eligible for sale in the public market. We also have the authority to issue additional shares of common stock and shares of one or more series of preferred stock. The issuance of such shares could dilute the voting power of the currently outstanding shares of our common stock and could dilute earnings per share.

*We have previously identified material weaknesses in our internal controls.*

In our Form 10-K for the fiscal year ending June 30, 2006 and Form 10-K/A-2 for the fiscal year ending June 30, 2008, we reported and identified a material weakness in our internal controls. Although we believe we have remedied this weakness through the commitment of considerable resources, we are always at risk that any future failure of our own internal controls or the internal control at any of our outsourced manufacturers or partners could result in additional reported material weaknesses. Any future failures of our internal controls could have a material impact on our market capitalization, results of operations, or financial position, or have other adverse consequences.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 2. PROPERTIES**

We currently occupy a 36,279 square-foot facility in Salt Lake City, Utah under the terms of an operating lease expiring in December 2013 which supports our principal administrative, sales, marketing, customer support, and research and product development facility. We also occupy a 23,712 square-foot warehouse in Salt Lake City under the terms of an operating lease expiring in November 2013 which warehouses our inventory for fulfillment, serves as our fulfillment and repair center, as well as a 6,500 square-foot facility in Salt Lake City under the terms of an operating lease expiring in December 2011 which warehouses our inventory for fulfillment. Finally, we lease approximately 4,000 square-feet in warehouse space in Hong Kong under the terms of two operating leases both expiring in February 2010 which support our partners and customers located in the Asia-Pacific region.

We believe our current facilities are adequate to meet our needs for the foreseeable future and that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

#### **ITEM 3. LEGAL PROCEEDINGS**

See Note 8 – Commitments and Contingencies of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding legal proceedings in which we are involved.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.



## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock has been traded on the Nasdaq Capital Market under the symbol CLRO since August 14, 2007. The following table sets forth high and low sale prices (or high and low bid quotations) of our common stock for each fiscal quarter indicated as reported on the applicable exchange or market.

	2009		2008	
	High	Low	High	Low
First Quarter	\$ 5.00	\$ 3.10	\$ 7.25	\$ 4.40
Second Quarter	4.74	3.27	7.42	5.00
Third Quarter	4.06	3.00	5.81	4.50
Fourth Quarter	3.25	2.47	5.07	3.66

On October 9, 2009, the closing price for our common stock as reported on the Nasdaq Capital Market was \$2.85.

#### Shareholders

As of October 9, 2009, there were 8,929,002 shares of our common stock issued and outstanding and held by approximately 500 shareholders of record. This number includes each broker dealer and clearing corporation, that hold shares for customers, as a single shareholder.

#### Dividends

We have not paid a cash dividend on our common stock and do not anticipate doing so in the foreseeable future. We intend to retain earnings to fund future working capital requirements, infrastructure needs, growth, product development, and our stock repurchase program.

#### Securities Authorized for Issuance under Equity Compensation Plans

We currently have two equity compensation plans, our 1998 Stock Option Plan (the "1998 Plan") and our 2007 Equity Incentive Plan (the "2007 Plan").

#### Issuer Purchases of Equity Securities

See Note 9 – Shareholders' Equity of the Notes to Consolidated Financial Statements (Part II, Item 8) for information regarding issuer purchases of equity shares.

### ITEM 6. SELECTED FINANCIAL DATA

None.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes included in this report, as well as our other filings with the SEC. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions, as set forth under "Disclosure Regarding Forward-Looking Statements." Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following discussion and under the caption "Risk Factors" in Item 1A and elsewhere in this report. Unless otherwise indicated, all references to a year reflect our fiscal year that ends on June 30.

### OVERVIEW

We develop, manufacture, market, and service a comprehensive line of high-quality audio conferencing products. The products range from personal conferencing products to tabletop conferencing phones to professionally installed audio systems. We also manufacture and sell conferencing media carts. Our products are used by organizations of all sizes to accomplish effective group communication. Our end-users range from some of the world's largest and most prestigious companies and institutions to small and medium-sized businesses, educational institutions, and government organizations as well as individual consumers. We sell our products to these end-users primarily through a network of independent distributors who in turn sell our products to dealers, systems integrators, and value-added resellers. We also sell products on a limited basis directly to dealers, systems integrators, value-added resellers, and end-users.

We derive a major portion (approximately 68%) of our revenue from North America. Our share of revenue from foreign markets outside North America increased steadily over the years.

The conferencing products market is characterized by intense competition and rapidly evolving technology. Our competitors vary within each product category. We continue to enjoy the leadership position with respect to professionally installed audio category and were able to expand our market share of personal conferencing products. However we face significant competition in premium and tabletop categories due to price pressures, evident from the decline in premium and tabletop revenues.

The deep recession that affected the global economy impacted our financials, especially during the last two quarters of fiscal year 2009. Except for the personal conferencing products all other product categories suffered a drop in the revenue when compared with fiscal year 2008. Despite the reduction in gross profit by \$2.2 million, net income before tax for the year increased by \$1.1 million from the previous year largely due to the reversal of \$1.1 million contingent liability recorded with respect to "indemnification of former officers" and recognition of insurance settlement proceeds of \$1.1 million. However income after tax reduced by \$3 million due to the increase in tax expense by \$4.1 million. The tax expense increased significantly during fiscal year 2009 since we had the benefit in fiscal year 2008 of reversal of \$4.7 million in valuation allowance recorded against deferred tax assets and a reversal of \$3.3 million accrual for a contingent liability associated with indemnification agreements with two former officers.

During the fiscal year 2009, we repurchased 1,343,000 shares of our common stock at a total cost of approximately \$6.77 million through a tender offer.

During the fiscal year 2008, we repurchased 835,000 shares of our common stock at a total cost of approximately \$4.3 million in open market and private block transactions.

## DISCUSSION OF OPERATIONS

### Results of Operations

The following table sets forth certain items from our consolidated statements of operations for the fiscal years ended June 30, 2009 and 2008, together with the percentage of total revenue which each such item represents.

	(in thousands of dollars)					
	Fiscal Year 2009		Fiscal Year 2008		2009 vs. 2008 Favorable (Unfavorable)	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
Revenue	\$ 35,700	100.0%	\$ 38,758	100.0%	\$ (3,058)	-7.9%
Cost of goods sold	15,323	42.9%	16,204	41.8%	881	5.4%
Gross profit	20,377	57.1%	22,554	58.2%	(2,177)	-9.7%
Operating expenses (benefit):						
Sales and marketing	7,529	21.1%	6,673	17.2%	(856)	-12.8%
Research and product development	7,541	21.1%	7,070	18.2%	(471)	-6.7%
General and administrative	3,631	10.2%	7,669	19.8%	4,038	52.7%
Insurance settlement proceeds	(1,100)	-3.1%	—	0.0%	1,100	*
Total operating expenses	17,601	49.3%	21,412	55.2%	3,811	17.8%
Operating income	2,776	7.8%	1,142	2.9%	1,634	143.1%
Other income, net	446	1.2%	1,005	2.6%	(559)	-55.6%
Income from continuing operations before income taxes	3,222	9.0%	2,147	5.5%	1,075	50.1%
Benefit from (provision for) income taxes	(995)	-2.8%	3,096	8.0%	(4,091)	-132.1%
Income from continuing operations	2,227	6.2%	5,243	13.5%	(3,016)	-57.5%
Income from discontinued operations, net of tax	—	0.0%	16	0.0%	(16)	-100.0%
Net income	<u>\$ 2,227</u>	<u>6.2%</u>	<u>\$ 5,259</u>	<u>13.6%</u>	<u>\$ (3,032)</u>	<u>-57.7%</u>

\* Not Meaningful

The following is a discussion of our results of operations for our fiscal years ended June 30, 2009 and 2008. All items are discussed on a consolidated basis.

### Revenue

Our revenue was \$35.7 million for the fiscal year ended June 30, 2009 (“2009”) compared to revenue of \$38.8 million for the fiscal year ended June 30, 2008 (“2008”).

Revenue during 2009 decreased approximately \$3.1 million, or 8% from 2008. The decrease in revenue in 2009 from 2008 was primarily the result of declines in our professional, premium, tabletop, conferencing media carts and conferencing accessories products which collectively decreased approximately \$4.3 million partially offset by a collective increase of approximately \$1.2 million in our personal conferencing products. The revenue from professional products declined by approximately 10% during 2009 and the share of revenue from professional products as a percentage of total revenue also reduced from approximately 75% in 2008 to about 73.5% in 2009. Revenue from tabletop products declined approximately 22% during 2009. However, the revenue from personal conferencing products increased approximately 73% during 2009. The competitive pressures in the professional and tabletop categories are not expected to ease while the outlook for personal conferencing products continues to be promising.

We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying channel inventory at quarter-end. During the fiscal years ended June 30, 2009 and 2008, the change in deferred revenue based on the movement of inventory in the channel was a recognition (deferral) of \$1.1 million and (\$670,000) in revenue, respectively.

Revenue from sales outside of the United States as a percent of total revenue was 32% for 2009 and 30% for 2008.

### **Costs of Goods Sold and Gross Profit**

Costs of goods sold ("COGS") includes expenses associated with finished goods purchased from outsourced manufacturers, the manufacture of our products, including material and direct labor, our manufacturing and operations organization, property and equipment depreciation, warranty expense, freight expense, royalty payments, and the allocation of overhead expenses.

Our 2009 gross profit was approximately \$20.4 million compared to approximately \$22.6 million in 2008. Gross profit margins ("GPM"), gross profit as a percentage of sales, were 57.1% and 58.2% in 2009 and 2008, respectively. The gross profit decline was primarily the result of inventory write-offs amounting to approximately \$2.3 million during 2009. GPM as a percentage of sales excluding the inventory write-offs were 63.5% and 58.4% in 2009 and 2008 respectively, signifying increased manufacturing efficiencies during 2009. The positive impact on gross profit of increased efficiencies in manufacturing operations was offset by reduced revenue and inventory write-offs. While we believe the manufacturing efficiencies can be sustained in the near future, any change in our outsourced manufacturers' capabilities would negatively impact the cost to manufacture our products.

Professional conferencing products continued to be the major contributor to the gross margin despite a decline in its revenue during 2009. Our profitability in the near-term depends heavily on our ability to increase revenue from professional conferencing products. Significant increase in inventories during 2009 might further impact future gross margin as we attempt to sell the accumulated inventory through sales promotions and other means. If we are unable to sell our long-term inventory in the near-term, profitability might be affected by more inventory write-offs.

### **Operating Expenses and Profits (Losses)**

Operating profits (losses), or income from operations, is the surplus after operating expenses are deducted from gross profits. Operating expenses include sales & marketing ("S&M") expenses, research and development ("R&D") expenses and general and administrative ("G&A") expenses. Total operating expenses were approximately \$17.6 million in 2009 compared with approximately \$21.4 million in 2008. The following is a more detailed discussion of expenses related to sales and marketing, research and product development, general and administrative, and other items.

**Sales and Marketing.** S&M expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses. Total S&M expenses were approximately \$7.5 million in 2009 compared with approximately \$6.7 million in 2008. As a percentage of revenue, S&M expenses were 21.1% in 2009 compared with 17.2% in 2008. S&M expenses during 2009 were approximately \$900,000 or 13% higher than 2008 primarily as a result of higher labor and related expenses and higher marketing related expense.

**Research and Development.** R&D expenses include research and development, product line management, engineering services, and test and application expenses, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses. Total R&D expenses were approximately \$7.5 million in 2009 compared to approximately \$7.1 million in 2008. As a percentage of revenue, R&D expenses were 21.1% in 2009 compared to 18.2% in 2008. R&D expenses during 2009 increased approximately \$500,000 from 2008 primarily as a result of higher labor and related expenses as well as increased research and development project related expenses.

**General and Administrative.** G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs and corporate administrative costs, including finance and human resources. Total G&A expenses were approximately \$3.6 million in 2009 compared with approximately \$7.7 million in 2008. As a percentage of revenue, G&A expenses were 10.2% in 2009 and 19.8% in 2008. G&A expenses were lower in 2009 when compared to 2008 primarily as a result of reduction in legal expenses by approximately \$3.7 million, which included reversal of \$1.1 million of a contingent liability associated with the indemnification agreements with two former officers and payment of \$200,000 in fiscal year 2008 to Edward D. Bagley, our former director and Chairman, upon his resignation and in consideration for his service as a director of the Company since 1994. The above reductions were partially offset by an increase in the allowance for bad debts by \$16,000. We will continue to incur legal expenses as we defend ourselves from indemnification claims, protect our intellectual property and attempt to collect judgments entered in our favor. Any unfavorable outcomes from these legal matters would adversely affect our profitability and financial position.

**Insurance Settlement Proceeds.** We recognized income of \$1.1 million received from the insurance company in settlement of dispute over insurance coverage under directors and officers' liability insurance policies. (See Item 3, "Legal Proceedings" - the Insurance Coverage Action").

**Other operating income, net.** Other income, net, includes our interest income, interest expense, capital gains, gain (loss) on the disposal of assets, and currency gain (loss). Other income was approximately \$446,000 in 2009 compared to approximately \$1.0 million in 2008. The \$559,000 decrease in 2009 from 2008 was primarily the result of lower interest income associated with lower interest rates on our investments and lower cash and marketable securities balances as we used approximately \$6.77 million of our cash during 2009 to repurchase our common stock. The decreases were partially offset by the recognition of additional approximately \$200,000 in interest income related to the insurance settlement proceeds.

**(Provision for) Benefit from income taxes.** Our provision for income taxes from continuing operations was (\$995,000) in 2009 compared to a benefit of \$3.1 million in 2008. The (\$995,000) provision in 2009 was primarily the result of tax on current year income; the true-up of certain tax attribute carryovers related to federal and state research and development credits and federal alternative minimum tax credits from the prior year's tax returns; and the recording of a valuation allowance against capital and unrealized loss carryovers, certain state net operating loss ("NOL") carryovers and state research and development credits. The true-up of these tax attribute carryovers resulted in a relatively low 30.8% effective income tax rate on 2009 income from continuing operations. The valuation allowance was established, in accordance with SFAS No. 109, "*Accounting for Income Taxes*", because it was not considered more likely than not that certain deferred tax assets related to capital and unrealized loss carryovers, certain state NOL carryovers and state research and development credits would be realized. As a result of our analysis, and in accordance with generally accepted accounting principles, a valuation allowance of \$928,000 was recorded against certain deferred tax assets.

The \$3.1 million benefit in 2008 was primarily the result of reversal of our valuation allowance during the fiscal fourth quarter that we had recorded against our deferred tax assets. Given our past history of losses from continuing operations, prior to fiscal 2007, a valuation allowance was recorded against all of our deferred tax assets. The valuation allowance was initially established, in accordance with SFAS No. 109 because it was not considered more likely than not that the deferred tax assets would be realized. However, as a result of our analysis and in accordance with generally accepted accounting principles, the previously established valuation allowance related primarily to deferred revenue, inventory reserves, and accrued liabilities of approximately \$4.7 million was reversed. Our income taxes were negatively impacted in 2008 by our adoption of FIN 48 *Accounting for Uncertainty in Income Taxes* in addition to our recognition of tax on the undistributed earnings of our foreign subsidiaries which together added approximately \$541,000 to our 2008 income tax expense.

**Income from discontinued operations, net of tax.** Income from discontinued operations related to our Canadian audiovisual integration business ("OM Video"). Accordingly, the results of operations and the financial position have been reclassified in the accompanying consolidated financial statements as discontinued operations. The total income from discontinued operations, net of tax, was \$0 for 2009 compared with \$16,000 for 2008.

## LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL POSITION

As of June 30, 2009, our cash and cash equivalents were approximately \$9.8 million and our marketable securities were approximately \$2.1 million, which represented an overall decrease of \$8.5 million in our balance from June 30, 2008 which had cash and cash equivalents of approximately \$3.3 million and our marketable securities of approximately \$17.1 million.

Net cash flows used in operating activities were approximately \$1.9 million in 2009 compared to net cash flows provided by operating activities of approximately \$3.5 million in 2008. During 2009 net cash flows from operating activities decreased by approximately \$5.4 million primarily as a result of increase in inventories by \$8.9 million, decrease in net income by \$3.0 million, change in accrued liabilities by \$3.0 million, and decrease in our deferred revenue accrual by \$1.8 million, partially offset by a \$5.1 million change in deferred taxes, \$2.2 million increase in inventory write-offs, and \$4.2 million increase in changes in other operating assets and liabilities.

Net cash flows provided by investing activities were \$15.0 million in 2009 compared to \$700,000 in 2008. The \$14.3 million increase in net cash provided by investing activities during 2009 was primarily as a result of \$14.6 million increase in the sale of marketable securities, net of purchases of marketable securities in 2008, partially offset by purchases of property and equipment.

Net cash used in financing activities during 2009 totaled approximately \$6.6 million compared with approximately \$3.7 million in 2008. During 2009, we repurchased 1,343,000 shares of our common stock for \$6.77 million. We also received \$135,000 and issued 41,000 shares of stock upon the exercise of employee stock options. During 2008, we repurchased 835,000 shares of our common stock for \$4.3 million. Also during 2008 we received \$800,000 and issued 228,000 shares of stock upon the exercise of employee stock options. We received a \$70,000 tax benefit from option exercises in 2008.

In 2009 we paid approximately \$1.6 million in income taxes. Additionally, in 2008 we paid approximately \$1.7 million in income taxes and reduced our July 1, 2007 balance of retained earnings by \$295,000 upon adoption of FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes."

We believe that future income from operations and effective management of working capital will provide the liquidity needed to meet our short-term and long-term operating requirements and finance our growth plans. We also believe that our strong debt-free financial position and solid business model would help us raise additional capital when needed to meet our short and long-term financing needs. In addition to capital expenditures, we may use cash during fiscal 2009 for selective infusions of technological, marketing or product manufacturing rights to broaden our product offerings; and acquisitions that may strategically fit our business and are accretive to performance.

At June 30, 2009, we had open purchase orders related to our contract manufacturers and other contractual obligations of approximately \$3.8 million, primarily related to inventory purchases.

As of June 30, 2008, we had approximately \$12.2 million par value of auction rate securities, less a temporary valuation adjustment of approximately \$1.1 million to reflect the then prevailing lack of liquidity of these investments. During October 2008, we accepted offers to repurchase our Auction Rate Securities (ARSs), at par value, from the two investment banks that sold them to us. Between November 2008 and January 2009, UBS and Morgan Stanley fulfilled their offers and repurchased our ARSs, at par value, totaling approximately \$12.2 million.

As of June 30, 2009, we had inventories totaling \$15.6 million, including non-current inventory of \$8.6 million. Inventories increased by \$7.5 million during 2009 as a result of many factors including slow down in the economy resulting in lower sales volume, prior forecasted commitments to contract manufacturers and acquisition of additional safety stock to tide over transition from a contract manufacturer who went out of business. In addition to the possible negative effect on gross margins due to sales promotions, any delays in the planned sales of inventory would reduce our liquidity and might affect our ability to execute our future financial plans.

## **Off-Balance Sheet Arrangements**

We have no off-balance-sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, results of operations or liquidity.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our results of operations and financial position are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. Our significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in Item 8 of this report. We believe the following critical accounting policies identify our most critical accounting policies, which are the policies that are both important to the representation of our financial condition and results and requires our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

### **Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts**

Included in continuing operations is product revenue, primarily from product sales to distributors, dealers, and end-users. Product revenue is recognized when (i) the products are shipped and any right of return expires, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured.

We provide a right of return on product sales to major distributors under a product rotation program. Under this seldom used program, a distributor is allowed to return once a quarter products purchased during the prior 180 days for a total value generally not exceeding 15% of the distributor's net purchases during the preceding quarter. The distributor is, however, required to place a new purchase order for an amount not less than the value of products returned under the stock rotation program. When products are returned, the associated revenue, cost of goods sold, inventory and accounts receivable originally recorded are reversed. When the new order is placed, the revenue, associated cost of goods sold, inventory and accounts receivable are recorded and the product revenue is subject to deferral analysis described below. In a small number of cases, the distributors are also permitted to return the products for other business reasons.

Revenue from product sales to distributors is not recognized until the return privilege has expired or it can be determined with reasonable certainty that the return privilege has expired, which approximates when product is sold-through to customers of our distributors (dealers, system integrators, value-added resellers, and end-users) rather than when the product is initially shipped to a distributor. We evaluate, at each quarter-end, the inventory in the channel through information provided by our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral for revenue and associated cost of goods sold are calculated and recorded based upon the actual channel inventory reported at quarter-end. Further, with respect to distributors and other channel partners not reporting the channel inventory, the revenue and associated cost of goods sold are deferred until we receive payment for the product sales made to such distributors or channel partners.

The accuracy of the deferred revenue and costs depend to a large extent on the accuracy of the inventory reports provided by our distributors and other resellers and any material error in those reports would affect our revenue deferral. However we believe that the controls we have in place including periodic physical inventory verifications and analytical reviews would help us identify and prevent any material errors in such reports.

The amounts of deferred cost of goods sold were included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit at each quarter end for the 24-month period ended June 30, 2009 (in thousands).

	Deferred Revenue	Deferred Cost of Goods Sold	Deferred Gross Profit
<b>Year ended June 30, 2009</b>			
Fourth Quarter	\$ 4,709	\$ 1,843	\$ 2,866
Third Quarter	4,611	1,692	2,919
Second Quarter	5,320	1,914	3,406
First Quarter	4,856	1,938	2,918
<b>Year ended June 30, 2008</b>			
Fourth Quarter	5,795	2,047	3,748
Third Quarter	4,586	1,772	2,814
Second Quarter	5,240	2,079	3,161
First Quarter	5,822	2,121	3,701

We offer rebates and market development funds to certain of our distributors, dealers/resellers, and end-users based upon volume of product purchased by them. We record rebates as a reduction of revenue in accordance with Emerging Issues Task Force (“EITF”) Issue No. 00-22, “Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future.”

We offer credit terms on the sale of our products to a majority of our customers and perform ongoing credit evaluations of our customers’ financial condition. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments based upon our historical collection experience and expected collectability of all accounts receivable. Our actual bad debts in future periods may differ from our current estimates and the differences may be material, which may have an adverse impact on our future accounts receivable and cash position.

#### **Impairment of Long-Lived Assets**

We assess the impairment of long-lived assets, such as property and equipment and definite-lived intangibles subject to amortization, annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated future undiscounted net cash flows of the related asset or group of assets over their remaining lives. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. The impairment of long-lived assets requires judgments and estimates. If circumstances change, such estimates could also change. Assets held for sale are reported at the lower of the carrying amount or fair value, less the estimated costs to sell.



## **Accounting for Income Taxes**

We are subject to income taxes in both the United States and in certain non-U.S. jurisdictions. We estimate our current tax position together with our future tax consequences attributable to temporary differences resulting from differing treatment of items, such as deferred revenue, depreciation, and other reserves for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, prior year carryback, or future reversals of existing taxable temporary differences. To the extent we believe that recovery is not more likely than not, we establish a valuation allowance against these deferred tax assets. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations. In accordance with SFAS No. 109, *Accounting for Income Taxes*, we analyzed our valuation allowance at June 30, 2009 and determined that based upon available evidence it is more likely than not that certain of our deferred tax assets related to capital and unrealized loss carryovers, certain state net operating loss carryovers and state research and development credits will not be realized and as such we have recorded a valuation allowance against these deferred tax assets in the amount of \$928,000. The recording of a portion of this valuation allowance results in an increase in our income tax expense for 2009 of \$83,000. See Note 13 in the notes to financial statements for additional information.

## **Lower-of-Cost or Market Adjustments and Reserves for Excess and Obsolete Inventory**

We account for our inventory on a first-in, first-out basis, and make appropriate adjustments on a quarterly basis to write-down the value of inventory to the lower-of-cost or market. In addition to the price of the product purchased, the cost of inventory includes our internal manufacturing costs including warehousing, material purchasing, quality and product planning expenses.

We perform a quarterly analysis of obsolete and slow-moving inventory to determine if any inventory needs to be written down. In general, we write-down our excess and obsolete inventory by an amount that is equal to the difference between the cost of the inventory and its estimated market value if market value is less than cost, based upon assumptions about future product life-cycles, product demand, shelf life of the product, inter-changeability of the product and market conditions. Those items that are found to have a supply in excess of our estimated current demand are considered to be slow-moving or obsolete and classified as long-term. An appropriate reserve is made to write-down the value of that inventory to its expected realizable value. These charges are recorded in cost of goods sold. The reserve against slow-moving or obsolete inventory is increased or reduced based on several factors which among other things require us to make an estimate of a product's life-cycle, potential demand and our ability to sell these products at estimated price levels. While we make considerable efforts to calculate reasonable estimates of these variables actual results may vary. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of changing technology and customer requirements, we could be required to increase our inventory allowances, and our gross profit could be adversely affected.

## **Share-Based Payment**

Prior to June 30, 2005 and as permitted under the original SFAS No. 123, "Accounting for Stock-Based Compensation," we accounted for our share-based payments following the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as interpreted. Accordingly, no share-based compensation expense had been reflected in our statements of operations for unmodified option grants since (1) the exercise price equaled the market value of the underlying common stock on the grant date and (2) the related number of shares to be granted upon exercise of the stock option was fixed on the grant date.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment." SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. Primarily, SFAS No. 123R focuses on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments.

Under SFAS No. 123R, we measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the awards – the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Therefore, if an employee does not ultimately render the requisite service, the costs associated with the unvested options will not be recognized cumulatively.

Effective July 1, 2005, we adopted SFAS No. 123R and its fair value recognition provisions using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized after July 1, 2005 includes the straight-line basis compensation cost for (a) all share-based payments granted prior to July 1, 2005, but not yet vested, based on the grant date fair values used for the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted or modified on or after July 1, 2005, in accordance with the provisions of SFAS No. 123R.

Under SFAS No. 123R, we recognize compensation cost net of an anticipated forfeiture rate and recognize the associated compensation cost for those awards expected to vest on a straight-line basis over the requisite service period. We use judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. If assumptions change in the application of SFAS No. 123R in future periods, the stock-based compensation cost ultimately recorded under SFAS No. 123R may differ significantly from what was recorded in the current period.

#### **ISSUED BUT NOT YET ADOPTED ACCOUNTING PRONOUNCEMENTS**

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which is effective for us beginning July 1, 2010. This Statement amends FIN 46(R), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, to require revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe the adoption of this pronouncement will not have any material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations.” SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for fiscal periods beginning after December 15, 2008. The Company is currently evaluating the impact of SFAS 141(R).

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

Not Applicable

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this item is submitted as a separate section of this Form 10-K beginning on page F-1.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A(T). CONTROLS AND PROCEDURES

### *Disclosure Controls and Procedures*

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. The effectiveness of any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing, and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate improper conduct completely. A controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud.

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Principal Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of June 30, 2009. Based upon this evaluation our Chief Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures are effective at a reasonable assurance level.

There has been no change in our internal controls and procedures over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal controls and procedures over financial reporting, during the fourth quarter ended June 30, 2009, and there were no significant deficiencies or material weaknesses.

### *Management's Annual Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that are intended to:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of this Annual Report on Form 10-K for the fiscal year ended June 30, 2009, our management, with the participation of our Chief Executive Officer and Principal Financial Officer, has assessed the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. We have concluded that the design and operation of our internal control over financial reporting are effective as of June 30, 2009. There were no significant changes in our internal control over financial reporting that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Commission that permit us to provide only management's report in this annual report.

#### **ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item relating to our directors is incorporated herein by reference to the definitive proxy statement for our 2009 Annual Meeting of Shareholders.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference to the definitive proxy statement for our 2009 Annual Meeting of Shareholders.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference to the definitive proxy statement for our 2009 Annual Meeting of Shareholders.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated herein by reference to the definitive proxy statement for our 2009 Annual Meeting of Shareholders.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is incorporated herein by reference to the definitive proxy statement for our 2009 Annual Meeting of Shareholders.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) 1. Financial Statements

The following financial statements set forth under Item 8 of this Annual Report on Form 10-K are filed in a separate section of this Form 10-K/A beginning on page F-1.

Report of Independent Registered Public Accounting Firm – Jones Simkins, P.C.  
Consolidated Balance Sheets as of June 30, 2009 and 2008  
Consolidated Statements of Operations and Comprehensive Income (Loss) for fiscal years ended June 30, 2009 and 2008  
Consolidated Statements of Shareholders' Equity for fiscal years ended June 30, 2009 and 2008  
Consolidated Statements of Cash Flows for fiscal years ended June 30, 2009 and 2008  
Notes to Consolidated Financial Statements

#### 2. Financial Statement Schedules

All schedules are omitted since they either are not required, not applicable or the information is presented in the accompanying consolidated financial statements and notes thereto.

#### 3. Exhibits

The following documents are included as exhibits to this report.

Exhibit No.	Title of Document
3.1	Articles of Incorporation and amendments thereto (9)
3.2	Bylaws (1)
10.1	Employment Separation Agreement between ClearOne Communications, Inc. and Frances Flood, dated December 5, 2003* (2)
10.2	Employment Separation Agreement between ClearOne Communications, Inc. and Susie Strohm, dated December 5, 2003* (2)
10.3	Joint Prosecution and Defense Agreement dated April 1, 2004 between ClearOne Communications, Inc., Parsons Behle & Latimer, Edward Dallin Bagley and Burbidge & Mitchell, and amendment thereto (2)
10.4	1997 Employee Stock Purchase Plan (5)
10.5	1998 Stock Option Plan (5)
10.6	2007 Equity Incentive Plan (8)
10.7	Manufacturing Agreement between ClearOne Communications, Inc. and Inovar, Inc. dated August 1, 2005 (3)
10.8	Office Lease between Edgewater Corporate Park, LLC and ClearOne Communications, Inc. dated June 5, 2006 (4)
10.9	Consulting Agreement between Edward D. Bagley and ClearOne Communications, Inc. dated July 6, 2007 (6)
10.10	Severance Agreement between ClearOne Communications, Inc. and Edward D. Bagley dated July 6, 2007* (6)
10.11	Compromise Agreement between ClearOne Communications UK Limited and Martin Offwood dated August 13, 2007* (7)
10.12	Warehouse Lease Agreement between Woodenshoe Development and ClearOne Communications, Inc. dated October 5, 2007 (7)
10.13	Warehouse Lease Agreement between CB Center, LLC and ClearOne Communications, Inc. Dated October 13, 2008 (11)
10.20	Margin Loan Agreement between ClearOne Communications, Inc. and UBS Financial Services, Inc. dated September 10, 2008 (10)

10.21	Manufacturing Services Agreement between Flextronics Industrial, Ltd. and ClearOne Communications, Inc. dated November 3, 2008
10.22	Settlement and Release Agreement between ClearOne Communications, Inc. and Edward Dallin Bagley dated October 7, 2009
14.1	Code of Ethics, approved by the Board of Directors on August 23, 2006 (4)
21.1	Subsidiaries of the registrant
23.1	Consent of Jones Simkins P.C., independent auditors for the year ending June 30, 2009
31.1	Section 302 Certification of Chief Executive Officer
31.2	Section 302 Certification of Chief Financial Officer
32.1	Section 906 Certification of Chief Executive Officer
32.2	Section 906 Certification of Chief Financial Officer

\*Constitutes a management contract or compensatory plan or arrangement.

- <sup>1</sup> Incorporated by reference to the Registrant's registration statement on Form S-3/A filed with the SEC on November 1, 2002.
- <sup>2</sup> Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.
- <sup>3</sup> Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2004.
- <sup>4</sup> Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2006.
- <sup>5</sup> Incorporated by reference to the Registrant's registration statement on form S-8 filed with the SEC on October 6, 2006.
- <sup>6</sup> Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2007.
- <sup>7</sup> Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.
- <sup>8</sup> Incorporated by reference to the Registrant's registration statement on Form S-8 filed with the SEC on January 22, 2008.
- <sup>9</sup> Incorporated by reference to the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2008.
- <sup>10</sup> Incorporated by reference to the Registrant's Current Report on Form 8-K filed with the SEC on September 11, 2008.
- <sup>11</sup> Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLEARONE COMMUNICATIONS, INC.

October 13, 2009

By: /s/ Zeynep Hakimoglu  
Zeynep Hakimoglu  
President, Chief Executive Officer, and Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Zeynep Hakimoglu</u> Zeynep Hakimoglu	President, Chief Executive Officer, and Chairman	October 13, 2009
	(Principal Executive Officer)	
<u>/s/ Narsi Narayanan</u> Narsi Narayanan	Vice President of Finance (Principal Financial and Accounting Officer)	October 13, 2009
<u>/s/ Brad R. Baldwin</u> Brad R. Baldwin	Director	October 13, 2009
<u>/s/ Larry R. Hendricks</u> Larry R. Hendricks	Director	October 13, 2009
<u>/s/ Scott M. Huntsman</u> Scott M. Huntsman	Director	October 13, 2009



## **Index to Consolidated Financial Statements**

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Consolidated Statements of Operations and Comprehensive Income for fiscal years ended June 30, 2009 and 2008	<a href="#">F-4</a>
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## Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Shareholders of ClearOne Communications, Inc.

We have audited the accompanying consolidated balance sheets of ClearOne Communications, Inc. and subsidiaries (the Company) as of June 30, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the years ended June 30, 2009 and 2008. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ClearOne Communications, Inc. and subsidiaries as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the years ended June 30, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ Jones Simkins, P.C.

JONES SIMKINS, P.C.  
Logan, Utah  
October 13, 2009

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands of dollars, except per share amounts)

	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 9,801	\$ 3,327
Marketable securities	2,103	5,922
Receivables, net of allowance for doubtful accounts of \$103 and \$87, respectively	4,968	7,281
Deposit, bond for preliminary injunction	-	908
Inventories, net	7,075	8,129
Deferred income taxes	2,970	3,168
Prepaid expenses and other assets	1,398	820
Total current assets	28,315	29,555
Long-term inventory	8,559	-
Long-term marketable securities	-	11,168
Property and equipment, net	2,762	2,554
Long-term deferred tax asset	1,159	1,639
Other assets	58	54
Total assets	<u>\$ 40,853</u>	<u>\$ 44,970</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 3,545	\$ 2,187
Accrued liabilities	2,380	3,672
Deferred product revenue	4,709	5,795
Total current liabilities	10,634	11,654
Deferred rent	544	700
Other long-term liabilities	1,189	1,054
Total liabilities	<u>12,367</u>	<u>13,408</u>
Shareholders' equity:		
Common stock, par value \$0.001, 50,000,000 shares authorized, 8,928,802 and 10,228,902 shares issued and outstanding, respectively	9	10
Additional paid-in capital	38,616	44,618
Accumulated other comprehensive income (loss)	6	(694)
Accumulated deficit	(10,145)	(12,372)
Total shareholders' equity	<u>28,486</u>	<u>31,562</u>
Total liabilities and shareholders' equity	<u>\$ 40,853</u>	<u>\$ 44,970</u>

See accompanying notes to consolidated financial statements

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**  
(in thousands of dollars, except per share amounts)

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Revenue	\$ 35,700	\$ 38,758
Cost of goods sold	15,323	16,204
Gross profit	<u>20,377</u>	<u>22,554</u>
Operating expenses:		
Sales and marketing	7,529	6,673
Research and product development	7,541	7,070
General and administrative	3,631	7,669
Insurance settlement proceeds	(1,100)	-
Total operating expenses	<u>17,601</u>	<u>21,412</u>
Operating income	<u>2,776</u>	<u>1,142</u>
Other income, net:		
Interest income	474	1,039
Interest expense	(1)	(5)
Other expense, net	(27)	(29)
Total other income, net	<u>446</u>	<u>1,005</u>
Income from continuing operations before income taxes	3,222	2,147
(Provision for) benefit from income taxes	(995)	3,096
Income from continuing operations	<u>2,227</u>	<u>5,243</u>
Gain on disposal of discontinued operations, net of taxes of \$9	-	16
Net income	<u>\$ 2,227</u>	<u>\$ 5,259</u>
Comprehensive income:		
Net income	\$ 2,227	\$ 5,259
Unrealized gain (loss) on marketable securities, net of taxes of (\$415) and \$413, respectively	\$ 700	\$ (694)
Comprehensive income	<u>\$ 2,927</u>	<u>\$ 4,565</u>
Basic earnings per common share	\$ 0.24	\$ 0.49
Diluted earnings per common share	\$ 0.24	\$ 0.49
Basic weighted average shares outstanding	9,213,731	10,694,401
Diluted weighted average shares outstanding	9,338,320	10,798,281

See accompanying notes to consolidated financial statements

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(in thousands of dollars, except per share amounts)

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>		<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Other</u>		<u>Deficit</u>	<u>Shareholders'</u>
			<u>Capital</u>	<u>Income</u>			<u>Equity</u>
Balances at June 30, 2007	10,861,920	\$ 11	\$ 47,582	\$ -	\$ (17,336)	\$	30,257
Stock buy back program	(834,646)	(1)	(4,354)	-	-		(4,355)
Exercise of stock options	228,368	-	792	-	-		792
Shares received/retired upon exercise of stock options	(28,066)	-	(186)	-	-		(186)
Tax benefit from stock option exercise	-	-	70	-	-		70
Compensation cost associated with SFAS No. 123R	-	-	707	-	-		707
Employee Stock Purchase Plan	1,326	-	7	-	-		7
Adoption of FIN 48	-	-	-	-	(295)		(295)
Unrealized loss on marketable securities, net of tax of \$413	-	-	-	(694)	-		(694)
Net income	-	-	-	-	5,259		5,259
Balances at June 30, 2008	10,228,902	10	44,618	(694)	(12,372)		31,562
Stock buy back program	(1,342,620)	(1)	(6,767)	-	-		(6,768)
Exercise of stock options	40,799	0	134	-	-		134
Compensation cost associated with SFAS No. 123R	-	-	625	-	-		625
Employee Stock Purchase Plan	1,721	0	6	-	-		6
Unrealized gain on marketable securities, net of tax of (\$415)	-	-	-	700	-		700
Net income	-	-	-	-	2,227		2,227
Balances at June 30, 2009	<u>8,928,802</u>	<u>\$ 9</u>	<u>\$ 38,616</u>	<u>\$ 6</u>	<u>\$ (10,145)</u>		<u>\$ 28,486</u>

See accompanying notes to consolidated financial statements

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands of dollars, except per share amounts)

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income from continuing operations	\$ 2,227	\$ 5,243
Adjustments to reconcile net income from continuing operations to net cash (used in) provided by operations:		
Impairment of marketable securities	-	155
Depreciation and amortization expense	720	767
Stock-based compensation	631	714
Provision for doubtful accounts	16	33
Write-off of inventory	2,293	136
Write-off of note receivable	5	-
Loss on disposal of assets	-	6
Changes in operating assets and liabilities:		
Receivables	1,248	485
Deposit, bond for preliminary injunction	908	(908)
Inventories	(9,798)	(929)
Deferred income taxes	262	(4,807)
Prepaid expenses and other assets	(592)	(590)
Accounts payable	2,402	875
Accrued liabilities	(1,292)	1,676
Deferred product revenue	(1,086)	669
Other long-term liabilities	135	-
Net cash (used in) provided by operating activities	<u>(1,921)</u>	<u>3,525</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,074)	(786)
Purchase of intangible assets	-	(49)
Purchase of marketable securities	(1,253)	(15,378)
Sale of marketable securities	17,356	16,897
Net cash provided by continuing investing activities	15,025	684
Net cash provided by discontinued investing activities	-	16
Net cash provided by investing activities	<u>15,025</u>	<u>700</u>
Cash flows from financing activities:		
Proceeds from the issuance of common stock - options	134	605
Common stock purchased and retired	(6,768)	(4,355)
Tax benefit from stock options	-	70
Net cash used in financing activities	<u>(6,634)</u>	<u>(3,680)</u>
Net increase in cash and cash equivalents	6,474	545
Cash and cash equivalents at the beginning of the year	3,327	2,782
Cash and cash equivalents at the end of the year	<u>\$ 9,801</u>	<u>\$ 3,327</u>

See accompanying notes to consolidated financial statements

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
(in thousands of dollars, except per share amounts)

	<b>Years Ended June 30,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1	\$ 5
Cash paid for income taxes	\$ 1,637	\$ 1,701
Supplemental disclosure of non-cash financing activities:		
Exchanged accounts receivable from a vendor with accounts payable to the same vendor	\$ 1,044	\$ 432
Adoption of FIN48	\$ -	\$ 295
Unrealized gain (loss) on marketable securities, net of tax of (\$415) and \$413, respectively	\$ 700	\$ (694)

See accompanying notes to consolidated financial statements

**CLEARONE COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in thousands of dollars, except per share amounts)**

**1. Organization – Nature of Operations**

ClearOne Communications, Inc., a Utah corporation, and its subsidiaries (collectively, the “Company”) develop, manufacture, market, and service a comprehensive line of audio conferencing products, which range from personal conferencing products to tabletop conferencing phones to professionally installed audio systems. The Company’s solutions create a natural communication environment, designed to save organizations time and money by enabling more effective and efficient communication between geographically separated businesses, employees, and customers.

**2. Summary of Significant Accounting Policies**

*Consolidation* – These consolidated financial statements include the financial statements of ClearOne Communications, Inc. and its wholly owned subsidiaries. The discontinued operations portion of these consolidated financial statements include transactions from our previously wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current year presentation.

*Pervasiveness of Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Key estimates in the accompanying consolidated financial statements include, among others, revenue recognition, allowances for doubtful accounts and product returns, provisions for obsolete inventory, valuation of long-lived assets, and deferred income tax asset valuation allowances. Actual results could differ materially from these estimates.

*Foreign Currency Translation* –The results of operations for the Company’s foreign subsidiary in the United Kingdom are recorded by the subsidiary in the British Pound and remeasured in the U.S. Dollar. Assets and liabilities are translated into U.S. dollars at the exchange rate prevailing on the balance sheet date or the historical rate, as appropriate. Revenue and expenses are translated at average rates of exchange prevailing during the period. Upon making the translations to the U.S. Dollar we concluded that as of the balance sheet date the impact of such re-measurements was immaterial and as such have been posted through our statement of income as opposed to including them in other comprehensive income.

*Concentration Risk* – We depend on an outsourced manufacturing strategy for our products. We outsource the manufacture of all of our products to third-party manufacturers located in both the U.S. and Asia. If any of these manufacturers experience difficulties in obtaining sufficient supplies of components, component prices significantly exceeding the anticipated costs, an interruption in their operations, or otherwise suffer capacity constraints, we would experience a delay in shipping these products which would have a negative impact on our revenues. Should there be any disruption in services due to natural disaster, economic or political difficulties, quarantines, transportation restrictions, acts of terror, or other restrictions associated with infectious diseases, or other similar events, or any other reason, such disruption would have a material adverse effect on our business. Operating in the international environment exposes us to certain inherent risks, including unexpected changes in regulatory requirements and tariffs, and potentially adverse tax consequences, which could materially affect our results of operations. Currently, we have no second source of manufacturing for a portion of our products.

*Cash Equivalents* – The Company considers all highly-liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. The Company places its temporary cash investments with high-quality financial institutions. At times, including at June 30, 2009 and 2008, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit of \$250 and \$100, respectively.



*Marketable Securities* – The Company’s marketable securities classified as available-for-sale securities, are carried at fair value which approximated cost and generally have original maturities of greater than one year. Management determines the appropriate classifications of investments at the time of purchase, based on management’s intent to use these investments during the normal operating cycle of the business, and reevaluates such designation as of each balance sheet date.

The Company considers highly liquid marketable securities with an effective maturity to the Company of less than one year, and held as available-for-sale, to be current assets. The Company defines effective maturity as the shorter of the original maturity to the Company or the effective availability as a result of periodic auction or optional redemption features of these marketable securities.

The Company regularly monitors and evaluates the value of its marketable securities. In accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and related guidance issued by FASB and the SEC which calls for the classification of impairments as “temporary” or “other-than-temporary.” A temporary impairment charge results in an unrealized loss being recorded in the other comprehensive income (loss) component of stockholders’ equity. Such an unrealized loss does not affect net income (loss) for the applicable reporting period. An other-than-temporary impairment charge is recorded as a recognized loss in the consolidated statement of operations and reduces net income (loss) for the applicable reporting period. The differentiating factors between temporary and other-than-temporary impairment are primarily the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer and the intent and ability of the Company to retain its investment with the issuer for a period of time sufficient to allow for any anticipated recovery in market value. When assessing marketable securities for other-than-temporary declines in value, the Company considers such factors, among other things, as how significant the decline in value is as a percentage of the original cost, how long the market value of the investment has been less than its original cost, the collateral supporting the investments, insurance policies which protect the Company’s investment position, the interval between auction periods, whether or not there have been any failed auctions, and the credit rating issued for the securities by one or more of the major credit rating agencies.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. During 2008 the Company recognized an other-than-temporary impairment. Please refer to Note 5.

Unrealized holding gains and losses, net of the related tax effect on available-for-sale securities, are excluded from earnings and are reported as a separate component of other comprehensive income until realized. During 2008, the Company determined there was a temporary decline in the fair value of its investments in auction-rate securities resulting in an unrealized loss in other comprehensive income. Please refer to Note 5.

*Accounts Receivable* – Accounts receivable are recorded at the invoiced amount. Generally, credit is granted to customers without requiring collateral. The Company extends credit to customers who it believes have the financial strength to pay. The Company has in place credit policies and procedures, an approval process for sales returns and credit memos, and processes for managing and monitoring channel inventory levels.

The allowance for doubtful accounts is the Company’s best estimate of the amount of probable credit losses in the Company’s existing accounts receivable. Management regularly analyzes accounts receivable including current aging, historical write-off experience, customer concentrations, customer creditworthiness, and current economic trends when evaluating the adequacy of the allowance for doubtful accounts. If the assumptions that are used to determine the allowance for doubtful accounts change, the Company may have to provide for a greater level of expense in future periods or reverse amounts provided in prior periods.

The Company's allowance for doubtful accounts activity for the fiscal years ended June 30, 2009 and 2008 were as follows:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at Beginning of Period	\$ 87	\$ 54
Charged to Costs and Expenses	173	33
Deductions	(157)	-
Balance at End of Period	<u>\$ 103</u>	<u>\$ 87</u>

*Inventories* – Inventories are valued at the lower of cost or market, with cost computed on a first-in, first-out (“FIFO”) basis. In addition to the price of the product purchased, the cost of inventory includes the Company's internal manufacturing costs including warehousing, engineering, material purchasing, quality and product planning expenses and applicable overhead, not in excess of estimated realizable value. Consideration is given to obsolescence, excessive levels, deterioration, direct selling expenses, and other factors in evaluating net realizable value.

Consigned inventory includes product that has been delivered to customers for which revenue recognition criteria have not been met.

The inventory also includes advance replacement units valued at cost provided by the Company to end-users to service defective products under warranty. The value of advance replacement units included in the inventory was \$23 and \$165, as of June 30, 2009 and 2008, respectively.

*Property and Equipment* – Property and equipment are stated at cost less accumulated depreciation and amortization. Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Routine maintenance, repairs, and renewal costs are expensed as incurred. Gains or losses from the sale, trade-in or retirement of property and equipment are recorded in current operations and the related book value of the property is removed from property and equipment accounts and the related accumulated depreciation and amortization accounts.

Estimated useful lives are generally two to ten years. Depreciation and amortization are calculated over the estimated useful lives of the respective assets using the straight-line method. Leasehold improvement amortization is computed using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets.

*Impairment of Long-Lived Assets* – Long-lived assets, such as property, equipment, and definite-lived intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset or asset group to estimated future undiscounted net cash flows of the related asset or group of assets over their remaining lives. If the carrying amount of an asset exceeds its estimated future undiscounted cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. The impairment of long-lived assets requires judgments and estimates. If circumstances change, such estimates could also change.

*Revenue Recognition* – Product revenue is recognized when (i) the products are shipped, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured.

The Company provides a right of return on product sales to major distributors and other resellers under a product rotation program. Under this seldom used program, a distributor or reseller is allowed to return once a quarter products purchased during the prior 180 days for a total value generally not exceeding 15% of the distributor or reseller's net purchases during the preceding quarter. The distributor is however required to place a new purchase order for an amount not less than the value of products returned under the stock rotation program. When products are returned, the associated revenue, cost of goods sold, inventory and accounts receivable originally recorded are reversed. When the new order is placed, the revenue, associated cost of goods sold, inventory and accounts receivable are recorded and the product revenue is subject to deferral analysis described below. In a small number of cases, the distributors are also permitted to return the products for other business reasons.

Revenue from product sales to distributors is not recognized until the return privilege has expired or it can be determined with reasonable certainty that the return privilege has expired, which approximates when product is sold-through to customers of the Company's distributors (dealers, system integrators, value-added resellers, and end-users) rather than when the product is initially shipped to a distributor. The Company evaluates, at each quarter-end, the inventory in the channel through information provided by our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral for revenue and associated cost of goods sold are calculated and recorded based upon the actual channel inventory reported at quarter-end. Further, with respect to distributors and other channel partners not reporting the channel inventory, the revenue and associated cost of goods sold are deferred until the Company receives payment for the product sales made to such distributors or channel partners.

The amounts of deferred cost of goods sold are included in consigned inventory.

The details of deferred revenue and associated cost of goods sold and gross profit as of June 30, 2009 and 2008 are as follows:

	<b>As of June 30,</b>	
	<b>2009</b>	<b>2008</b>
Deferred Revenue	\$ 4,709	\$ 5,795
Deferred Cost of Goods Sold	1,843	2,047
Deferred Gross Profit	2,866	3,748

The Company offers rebates and market development funds to certain of its distributors, dealers/resellers, and end-users based upon volume of product purchased by them. The Company records rebates as a reduction of revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." The Company also follows EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The Company continues to record rebates as a reduction of revenue in the period revenue is recognized.

The Company provides at its discretion advance replacement units to end-users on defective units of certain products under warranty. Since the purpose of these units are not revenue generating, the Company tracks the units due from the end-user, valued at retail price, until the defective unit has been returned, but no receivable balance is maintained on the Company's balance sheet. The retail value of in-transit advance replacement units was \$361 and \$816, as of June 30, 2009 and 2008, respectively.

*Shipping and Handling Costs* – Shipping and handling billed to customers is recorded as revenue. Shipping and handling costs are included in cost of goods sold.

*Warranty Costs* – The Company accrues for warranty costs based on estimated warranty return rates and estimated costs to repair. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty returns, and repair cost. The Company reviews the adequacy of its recorded warranty accrual on a quarterly basis.

Changes in the Company's warranty accrual during the years ended June 30, 2009 and 2008 are as follows:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Balance at the beginning of year	\$ 211	\$ 125
Accruals/additions	262	329
Usage	(324)	(243)
Balance at end of year	<u>\$ 149</u>	<u>\$ 211</u>

*Advertising* – The Company expenses advertising costs as incurred. Advertising expenses consist of trade shows, magazine advertisements, and other forms of media. Advertising expenses for the fiscal years ended June 30, 2009 and 2008 totaled \$786 and \$943, respectively, and are included in the caption Sales and Marketing.

*Research and Product Development Costs* – The Company expenses research and product development costs as incurred.

*Income Taxes* – The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carry-forwards. These temporary differences will result in deductible or taxable amounts in future years when the reported amounts of the assets or liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some or all of the deferred tax assets may not be realized. The Company evaluates the realizability of its net deferred tax assets on a quarterly basis and valuation allowances are provided, as necessary. Adjustments to the valuation allowance increase or decrease the Company's income tax provision or benefit. During 2009 the Company recorded a valuation allowance of \$928 against capital and unrealized loss carryovers, certain state net operating loss carryovers and state research and development credits. During 2008 the Company reversed a \$4,700 valuation allowance recorded primarily against deferred tax assets related to deferred revenue, inventory reserves, and accrued liabilities.

During the first quarter of 2008, the Company adopted FASB issued Interpretation No. 48 ("FIN 48"). Under FIN 48, the Company recognizes the tax benefit from an uncertain tax position only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Judgment is required in determining the provision for income taxes and related accruals, deferred tax assets and liabilities. In the ordinary course of business, there are transactions and calculations where the ultimate tax outcome is uncertain. Additionally, the Company's tax returns are subject to audit by various tax authorities. Although the Company believes that its estimates are reasonable, actual results could differ from these estimates.

*Earnings Per Share* – The following table sets forth the computation of basic and diluted earnings per common share:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Numerator:</b>		
Income from continuing operations	\$ 2,227	\$ 5,243
Gain on disposal of discontinued operations, net of tax	-	16
Net income	<u>\$ 2,227</u>	<u>\$ 5,259</u>
<b>Denominator:</b>		
Basic weighted average shares	9,213,731	10,694,401
Dilutive common stock equivalents using treasury stock method	124,589	103,880
Diluted weighted average shares	<u>9,338,320</u>	<u>10,798,281</u>
<b>Basic earnings per common share:</b>		
Continuing operations	\$ 0.24	\$ 0.49
Disposal of discontinued operations	\$ -	\$ -
Net income	\$ 0.24	\$ 0.49
<b>Diluted earnings per common share:</b>		
Continuing operations	\$ 0.24	\$ 0.49
Disposal of discontinued operations	\$ -	\$ -
Net income	\$ 0.24	\$ 0.49

Options to purchase a weighted-average of 1,146,697 and 1,190,269 shares of common stock were outstanding during fiscal 2009 and 2008, respectively, but were not included in the computation of diluted earnings per share as the effect would be anti-dilutive.

*Share-Based Payment* – The Company applies Financial Accounting Standards Board (“FASB”) SFAS No. 123R, “Share-Based Payments.” SFAS No. 123R is a revision of SFAS No. 123. SFAS No. 123R establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. Primarily, SFAS No. 123R focuses on accounting for transactions in which an entity obtains employee services in share-based payment transactions. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity’s equity instruments or that may be settled by the issuance of those equity instruments.

SFAS No. 123R requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the awards – the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Therefore, if an employee does not ultimately render the requisite service, the costs associated with the unvested options will not be recognized.

Effective July 1, 2005, the Company adopted SFAS No. 123R and its fair value recognition provisions using the modified prospective transition method. Under this transition method, stock-based compensation cost recognized after July 1, 2005 includes the straight-line basis compensation cost for (a) all share-based payments granted prior to July 1, 2005, but not yet vested, based on the grant date fair values used for the pro-forma disclosures under the original SFAS No. 123 and (b) all share-based payments granted or modified on or after July 1, 2005, in accordance with the provisions of SFAS No. 123R. See Note 12 for information about the Company’s various share-based compensation plans, the impact of adoption of SFAS No. 123R, and the assumptions used to calculate the fair value of share-based compensation.

If assumptions change in the application of SFAS No. 123R in future periods, the stock-based compensation cost ultimately recorded under SFAS No. 123R may differ significantly from what was recorded in the current period.

#### *Recent Accounting Pronouncements*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS No. 157”), which defines fair value, establishes guidelines for measuring fair value and expands disclosure regarding fair value measurements. SFAS No. 157 does not require new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, on a prospective basis. The adoption of SFAS No. 157 did not have a material effect on our financial statements.

In February 2007, the FASB issued SFAS 159 “The Fair Value Option for Financial Assets and Financial Liabilities.” This statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have a material effect on our financial statements.

In December 2007, the FASB issued SFAS No. 141(R), “Business Combinations.” SFAS 141(R) requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method). Companies applying this method will have to identify the acquirer, determine the acquisition date and purchase price and recognize at their acquisition-date fair values the identifiable assets acquired, liabilities assumed, and any noncontrolling interests in the acquiree. In the case of a bargain purchase the acquirer is required to reevaluate the measurements of the recognized assets and liabilities at the acquisition date and recognize a gain on that date if an excess remains. SFAS 141(R) becomes effective for fiscal periods beginning after December 15, 2008. We do not expect the adoption of SFAS 141(R) to have a material effect on our financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which is effective for us beginning July 1, 2010. This Statement amends FIN 46(R), Consolidation of Variable Interest Entities an interpretation of ARB No. 51, to require revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe the adoption of this pronouncement will not have any material impact on our financial statements.

### 3. Inventories

Inventories, net of reserves, consist of the following as of June 30, 2009 and 2008:

	As of June 30,	
	2009	2008
Current:		
Raw materials	\$ 352	\$ 724
Finished goods	6,723	7,405
	<u>\$ 7,075</u>	<u>\$ 8,129</u>
Long-term:		
Raw materials	\$ 2,376	\$ -
Finished goods	6,183	-
	<u>\$ 8,559</u>	<u>\$ -</u>

Long-term inventory represents inventory held in excess of our current requirements based on our recent sales and forecasted level of sales. We have developed programs to reduce the inventory to normal operating levels in the near future. We expect to sell the above inventory, net of reserves, at or above the stated cost and believe that no loss will be incurred on its sale.

Current finished goods include consigned inventory in the amounts of approximately \$1.8 million and \$2.0 million for the years ended June 30, 2009 and 2008, respectively. Consigned inventory represents inventory at distributors and other customers where revenue recognition criteria have not been achieved.

The losses incurred on valuation of inventory at lower of cost or market value and write-off of obsolete inventory amounted to \$2,293 and \$136 during the years ended June 30, 2009 and 2008 respectively.

### 4. Property and Equipment

Major classifications of property and equipment and estimated useful lives are as follows as of June 30, 2009 and 2008:

	Estimated useful lives	As of June 30,	
		2009	2008
Office furniture and equipment	3 to 10 years	\$ 8,403	\$ 8,197
Leasehold improvements	1 to 6 years	1,334	1,309
Manufacturing and test equipment	2 to 10 years	2,288	1,532
Total at cost		12,025	11,038
Accumulated depreciation and amortization		(9,263)	(8,484)
Property and equipment, net		<u>\$ 2,762</u>	<u>\$ 2,554</u>

Depreciation expense for the fiscal years ended June 30, 2009 and 2008 was \$866 and \$920, respectively.

## 5. Marketable Securities

The following tables display the gross unrealized gains (losses) and fair value of the Company's investments with unrealized gain (losses) that are not deemed to be other-than-temporarily impaired inclusive of the length of time the securities have been in a continuous unrealized gain (loss) position at June 30, 2009 and 2008:

	<u>Cost Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Recorded Basis</u>	<u>Current Marketable Securities</u>	<u>Long-term Marketable Securities</u>
<b>As of June 30, 2009</b>						
Corporate bonds	\$ 2,098	\$ 5	\$ -	\$ 2,103	\$ 2,103	\$ -
Total	<u>\$ 2,098</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 2,103</u>	<u>\$ 2,103</u>	<u>\$ -</u>
<b>As of June 30, 2008</b>						
Corporate bonds	\$ 5,972	\$ -	\$ (50)	\$ 5,922	\$ 5,922	\$ -
Municipal securities	12,225	-	(1,057)	11,168	-	11,168
Total	<u>\$ 18,197</u>	<u>\$ -</u>	<u>\$ (1,107)</u>	<u>\$ 17,090</u>	<u>\$ 5,922</u>	<u>\$ 11,168</u>

As of June 30, 2009 and 2008, \$0 and \$12,225, respectively, of the Company's investments (at cost) were invested in auction rate securities ("ARSs"). As of June 30, 2008, auctions for these securities were not successful. During October 2008, we accepted offers to repurchase our Auction Rate Securities (ARSs), at par value, from the two investment banks that sold them to us. Between November 2008 and January 2009, UBS and Morgan Stanley fulfilled their offers and repurchased our ARSs, at par value, totaling approximately \$12.2 million.

During the fiscal third quarter of 2008, the Company reclassified its entire ARS investment balance from short-term/current investments to long-term/non-current auction rate securities on its balance sheet due to the Company's inability to determine when its ARS investments will become liquid. The Company also determined there was a decline in the fair value of its ARS investments of \$1,057 which was deemed temporary. The Company determined fair value from a UBS derived pricing model. The Company was advised by UBS that the following variables were used in UBS's pricing model: (1) type of auction security; (2) security rating; (3) insurance (if any); (4) collateral (if any); (5) taxable vs. tax-exempt; (6) estimated duration; (7) nature of the maximum rate formula (e.g. an issuer with a less favorable maximum rate formula would be more likely to refinance); and (8) likelihood of redemption. The Company's assessment of a fair value of all but one of its ARSs at June 30, 2008 conformed to UBS's statement of *current value*. The Company chose to follow UBS's *current value* after determining that using its own discounted cash flow method with the following major assumptions: (1) three month T-Bill plus 120 basis points (generally the minimum rate of annualized interest required by the ARS issuers) and (2) a term of five years (the estimated duration to reach full liquidity), derived a valuation within one percent of UBS's valuation. One ARS was stated at par value on June 30, 2008 as it has experienced recent partial redemption, albeit minimal.

During the year ended June 30, 2008, certain investments in Corporate Bonds was considered other-than-temporarily impaired and \$155 was recognized as loss and reported under Other Income, net.

Changes in the unrealized holding losses on the Company's marketable securities and reported as a separate component of accumulated other comprehensive income are as follows:

	<u>Years ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ (694)	\$ -
Unrealized holding gains (losses), in marketable securities	1,115	(1,107)
Income tax (provision) benefit	(415)	413
Total	<u>\$ 6</u>	<u>\$ (694)</u>

## Fair Value Measurements

We adopted SFAS No. 157 “Fair Value Measurements” (as impacted by SFAS 157-2) on July 1, 2008. This statement defines fair value, establishes a framework to measure fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. SFAS 157 establishes a fair value hierarchy used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is classified into the following three categories:

- Level 1: Valuations based on quoted prices in active markets for identical instruments that we are able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.
- Level 2: Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of June 30, 2009, financial assets utilizing Level 1 inputs included short term investment securities traded on active securities exchanges. We did not have any financial assets utilizing Level 2 or Level 3 inputs. We did not have any liabilities that were required to be measured at fair value as of June 30, 2009.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date.

SFAS No. 157 requires that the valuation techniques used by us are consistent with at least one of the three possible approaches: the market approach, income approach and/or cost approach. Our Level 1 valuations are based on the market approach and consist of quoted prices for identical items on active securities exchanges.

The following table provides our financial assets carried at fair value measured on a recurring basis as of June 30, 2009 (in thousands):

	<b>Total Fair Value at June 30, 2009</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>	<b>Total</b>
Short-term available-for-sale securities	\$ 2,103	\$ 2,103	\$ -	\$ -	\$ 2,103
Total		<u>\$ 2,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,103</u>

## 6. Leases and Deferred Rent

Certain operating leases contain rent escalation clauses based on the consumer price index. Rental expense is recognized on a straight-line basis. Rental expense, which was composed of minimum payments under operating lease obligations, was \$613 and \$569 for the years ended June 30, 2009 and 2008, respectively.

On June 5, 2006, the Company entered into a 62-month lease for its corporate headquarters in Salt Lake City, Utah to house its principal administrative, sales, marketing, customer support, and research and development functions. Under the terms of the lease, the Company occupies a 36,279 square-foot facility which commenced in November 2006. The lease agreement provided that the lessor would provide approximately \$1,088 for leasehold improvements. This amount was recorded as deferred rent and is being amortized to lease expense over the term of the lease. During the year ended June 30, 2007, the Company completed leasehold improvements in excess of the amounts paid by the lessor. These amounts are being depreciated over the life of the lease.



On October 13, 2008, the Company entered into a 60-month lease for a new warehouse which houses its inventory, fulfillment center and repair center in Salt Lake City, Utah. Under the terms of the lease, the Company occupies a 23,712 square-foot facility which commenced in December 2008.

The Company modified the terms of the Company's California Avenue warehouse lease agreement dated September 20, 2006. Under the modified terms, effective March 31, 2008, the Company would lease approximately 6,000 square feet at \$3 per month until expiration in December 2011. This space is being used by the Company for inventory, document and equipment storage.

The Company leases two warehouses measuring approximately 4,000 square-feet at \$4 per month in Hong Kong to support our partners and customers located in the Asia-Pacific region. The lease terms for these warehouses expire in February 2010.

Future minimum lease payments under noncancelable operating leases with initial terms of one year or more are as follows as of June 30, 2009:

<b>Years Ending June 30,</b>	
2010	\$ 803
2011	778
2012	758
2013	739
2014	362
Thereafter	-
Total minimum lease payments	<u>\$ 3,440</u>

## 7. Accrued Liabilities

Accrued liabilities consist of the following as of June 30, 2009 and 2008:

	<b>As of June 30,</b>	
	<b>2009</b>	<b>2008</b>
Accrued salaries and other compensation	\$ 1,112	\$ 974
Accrued taxes	-	72
Other accrued liabilities	1,268	2,626
Total	<u>\$ 2,380</u>	<u>\$ 3,672</u>

Included in other accrued liabilities in June 30, 2008, is \$1,458 which represents the probable amount that as of the date of the financial statements could be reasonably estimated of the Company's liability, through trial, associated with the advancement of funds related to the indemnification agreements with two former officers (see Note 8 - *Former Officer Indemnification* ).

## 8. Commitments and Contingencies

We establish contingent liabilities when a particular contingency is both probable and estimable. For the contingencies noted below we have accrued amounts considered probable and estimable. The Company is not aware of pending claims or assessments, other than as described below, which may have a material adverse impact on the Company's financial position or results of operations.

*Outsource Manufacturers.* We have manufacturing agreements with manufacturers related to the outsourced manufacturing of its products. Certain manufacturing agreements establish annual volume commitments. We are also obligated to repurchase Company-forecasted but unused materials. We have accounted for our current fixed outsourced manufacturing commitments and contingencies as a component of inventory and established a reserve for obsolescence amounting to \$1,147 and \$769, as of June 30, 2009 and 2008, respectively. The Company has non-cancellable, non-returnable, and long-lead time commitments with its outsourced manufacturers and certain suppliers for inventory components that will be used in production. The Company's exposure associated with these commitments is approximately \$3.2 million.

*Legal Proceedings.* In addition to the legal proceedings described below, we are also involved from time to time in various claims and other legal proceedings which arise in the normal course of our business. Such matters are subject to many uncertainties and outcomes that are not predictable. However, based on the information available to us, we do not believe any such proceedings will have a material, adverse effect on our business, results of operations, financial position, or liquidity, except as described below.

**Former Officer Indemnification.** On July 25, 2007, the U.S. Attorney’s Office for the District of Utah indicted two of our former officers, Frances Flood and Susie Strohm, for allegedly causing us to issue materially misstated financial statements for our 2001 and 2002 fiscal years. On January 31, 2008, the U.S. Attorney’s Office filed a Second Superseding Indictment further alleging perjury in connection with the prior investigation by the SEC into the alleged misstatements. We cooperated fully with the U.S. Attorney’s Office in this matter and were advised that we were neither a target nor a subject of the investigation or indictment. In December 2003, we entered into indemnification agreements with each former officer, requiring payment of all reasonable attorneys’ fees and costs incurred in defending against the charges in certain circumstances consistent with and subject to limitations under applicable law. To date, we have paid approximately \$2.2 million in attorneys’ fees and costs to defend against the charges. During August 2008, Ms. Strohm and her counsel filed a lawsuit in the Third Judicial District Court in Salt Lake City, Utah seeking a declaratory judgment and injunctive relief to compel us to continue to advance Ms. Strohm’s attorneys’ fees and costs to defend against the charges, plus interest for amounts previously requested and not paid. Also during August 2008, 2008, Ms. Flood filed a lawsuit in Federal District Court for the District of Utah, seeking similar relief.

The federal criminal trial of both former officers commenced on February 2, 2009 and the jury rendered its verdict on February 27, 2009. Flood was convicted on nine counts, including conspiracy to willfully falsify our books and records, willfully making false statements in quarterly and annual reports, willfully making and causing to be made misleading and false statements to our accountants in connection with the accountants’ audits, federal securities fraud, and perjury in connection with testimony given under oath in an official proceeding brought by the SEC in 2003. Strohm was convicted on one count of perjury in connection with testimony given under oath in an official proceeding brought by the SEC in 2003.

During the third fiscal quarter of 2009 and in accordance with generally accepted accounting principles, we reversed approximately \$1.1 million of this contingent liability as a result of the February 2009 jury verdict in the federal criminal trial. As a result of the jury’s conviction of the two former officers on some or all of the crimes with which they were charged – and based on the Court’s instructions to the jury – it is no longer probable that we will be required to pay the \$1.1 million amount.

*Flood :* During January 2009, the Federal District Court in the *Flood* lawsuit issued a preliminary injunction requiring us (1) to pay 60% of Flood’s legal fees and costs in the criminal proceeding to Flood’s attorneys (as reflected in the invoices submitted by Flood’s attorneys), and (2) to pay the remaining 40% of Flood’s legal fees and costs into a court escrow account. Pursuant to the Court’s order, the Court intends to make a reasonability determination concerning these fees and costs and the Court’s order states that “[t]o the extent fees or costs are found to be unreasonable, the monies held in escrow shall be refunded to ClearOne.” Pursuant to the Court’s order, we paid approximately \$368,000 to Flood’s attorneys and approximately \$248,000 into the Court’s escrow. Our appeal of the Court’s order is currently pending.

The Federal District Court issued a ruling during June 2009 granting Flood’s motion for summary judgment on her claim that we breached her Employment Separation Agreement by stopping the advancement of funds for her defense, and granting our motion to dismiss Flood’s unjust enrichment and promissory estoppel claims. The Court further denied our motion to dismiss Flood’s claim for intentional infliction of emotional distress.

During July 2009 we asserted counterclaims for \$3.3 million based on the undertaking Flood signed in August 2003, in which she promised to repay all advanced expenses if it was ultimately adjudged that she did not meet the requisite standard of conduct. During August 2009, we asserted similar counterclaims against Strohm based on her undertaking to meet requisite standard of conduct.

*Strohm* : Strohm and her counsel seek approximately \$1.1 million in attorneys' fees and costs incurred in defending the federal criminal proceeding, 18% interest, attorneys' fees and costs. During August, 2009, we asserted counterclaims for \$3.2 million against Strohm based on the undertakings she signed in 2003, in which she promised to repay all advanced expenses if it was ultimately adjudged that she did not meet the requisite standard of conduct. Presently before the Court are our motion for summary judgment based on Strohm's undertakings on the grounds that her conviction establishes that she did not meet the requisite standard of conduct. Also pending before the Court is Strohm's summary judgment motion seeking mandatory indemnification based on her claim that she was largely successful at trial.

***Theft of Intellectual Property and Copyright Complaints.*** In January 2007, we filed a lawsuit in the Third Judicial District Court, Salt Lake County, State of Utah against WideBand Solutions, Inc. ("WideBand") and two of its principals, one former employee named Dr. Jun Yang, and Andrew Chiang, who was previously affiliated with an entity which sold certain assets to us (the "Trade Secret Case"). We also brought claims against Biamp Systems Corporation, Inc. ("Biamp"). The matter was subsequently removed to federal court, the United States District Court, District of Utah, Central Division. The case is styled *ClearOne Communications, Inc. v. Jun Yang, et. al.* Civil No. 2:07-co-37 TC. The Complaint brought claims against different combinations of the defendants for, among other things, misappropriation of certain trade secrets, breach of contract, conversion, unjust enrichment and intentional interference with business and contractual relations, primarily in relation to certain algorithms and computer code. The relief being sought included an order enjoining the defendants from further use of our trade secrets and an award consisting of, among other things, compensation and damages. The court subsequently granted leave to add additional defendants to the case, and so WideBand principal Lonny Bowers and a company named Versatile DSP, Inc. owned in whole or in part by defendant Jun Yan, were both added as defendants in the case. The WideBand-related persons and entities have been referred to as the "WideBand Defendants" in the various cases.

In August 2007, we filed a motion for a preliminary injunction in the Trade Secret Case, seeking to enjoin Wideband from licensing certain technology we believe constituted our intellectual property and trade secrets to Harman Music Group, Inc. ("Harman"). On September 13, 2007, the court in the Trade Secret Case granted us leave to add Harman and a former ClearOne employee working for Harman as defendants in that case. For procedural reasons, these claims against Harman and the Harman employee were refiled in Utah state court, the Third Judicial District Court for Salt Lake County, on September 18, 2007 (the "Harman Case"). Like the Intellectual Property Case, the Harman Case also brings claims related to the theft and misuse of ClearOne's confidential and trade secret information. Harman has asserted a counterclaim in this case for bad-faith initiation of litigation. We believe the counterclaim is without merit and estimate that any potential loss from this counterclaim is remote.

On October 30, 2007, the Chief Judge of the United States District Court in the Trade Secret Case, issued a preliminary injunction titled Memorandum Decision and Order (the "Injunction Order"). The Injunction Order "grants ClearOne's motion for a Preliminary Injunction," and orders that "Dr. Yang, as well as his agents, servants, officers, employees, entities and those acting under his direction and control, are hereby enjoined from working on or delivering any computer code – either source code or object code – to Harman until the completion of the trial." In reaching its decision, the Court found that Dr. Yang was subject to a valid and enforceable Confidentiality, Non-Competition, and Invention Assignment Agreement (the "NDA"), and that ClearOne had demonstrated "a substantial likelihood that ClearOne will succeed on its claims that Dr. Yang violated the NDA" and derived the code that WideBand was attempting to license to Harman from code belonging to ClearOne.

During October 2007, we filed a second action against WideBand and the same three principals named as defendants in the Intellectual Property Case, also in the United States District Court, District of Utah, Central Division, this time alleging copyright infringement, vicarious copyright infringement, and contributory copyright infringement (the "Copyright Case"). The claims in the Copyright Case arise out of a copyright issued to us for the same intellectual property, including the algorithms and computer code that is the subject of the claims in the Trade Secret Case. The relief being sought included an order enjoining the defendants from further use of our copyrighted material, and an award consisting of, among other things, compensation and damages related to the copyright infringement. During May 2009, the individual WideBand defendants filed a counterclaim against us in the Copyright Case. ClearOne requested the Court to dismiss with prejudice all of these counterclaims, and the Court granted the motion on August 7, 2009. In light of the judgment in the Trade Secret Case, discussed below, we subsequently voluntarily dismissed the Copyright Case, without prejudice.

During June 2008, ClearOne filed a separate action in the United States District Court, District of Utah, Central Division, against WideBand Solutions, Inc., a Georgia corporation ("WideBand Georgia") and Donald Bowers. The original Complaint brought claims, among others, for declaratory judgment, fraudulent transfer under Utah Code Ann. § 25-6-1, et. seq., and misappropriation of trade secrets. In August 2009, the Court granted us leave to add additional claims against the defendants, including for trade libel and defamation. This action is still pending.

During June 2008, the United States District Court in the Trade Secret Case entered an order granting ClearOne's request for a temporary restraining order ("TRO") against any sale or transfer of ownership of certain assets of WideBand to WideBand Solutions, Inc., a Georgia Corporation. The TRO provides that "ClearOne has met the elements necessary for issuance of a TRO to preserve the status quo," and imposes certain prohibitions against any sale or transfer of ownership of certain of the WideBand Defendants' assets, consisting of certain computer code and algorithms related thereto. The TRO also states that none of WideBand profits from the Disputed Code shall be transferred or conveyed to the Georgia entity.

In October and November 2008, the Trade Secret Case was presented to a jury. On November 5, 2008, the jury returned a unanimous verdict in favor of us and against all of the Defendants. Accordingly, the jury awarded ClearOne approximately \$3.5 million in compensatory damages and \$7.0 million in punitive damages. Among other things, the jury found that all of the Defendants willfully and maliciously misappropriated our trade secrets. The court left in place the previously-entered preliminary injunction, pending our application for entry of a permanent injunction against the Defendants.

On April 8, 2009 the court issued a permanent injunction order against all of the defendants. Specifically, the WideBand defendants were prohibited from any further use of our trade secrets, barred from using any of the trade names associated with products that had been found to have used our trade secrets, and were ordered to provide a copy of the permanent injunction to future employers, potential licensors and anyone interested in acquiring WideBand's assets. Biamp was ordered to destroy and not to use any of the object code that it had previously licensed from WideBand. On April 20, 2009 the court issued a ruling on the parties' post-verdict motions. Among other things, the court affirmed the jury's finding that all of the Defendants had acted willfully and maliciously in misappropriating our trade secrets, denied our request for prejudgment interest, and denied Defendants' post-trial requests to set aside the verdict. The court also ruled that our fiduciary duty claims against Andrew Chiang and Jun Yang were pre-empted by the trade secret act, reducing the damage awards against these two defendants, but for different reasons also increasing the award against Biamp from about \$1.6 million to about \$3.6 million. On April 21, 2009, the court entered a final Judgment in our favor in the amount of approximately \$9.7 million. The WideBand Defendants and Biamp have appealed the Court's judgment and certain other pre- and post-trial rulings.

During July 2009, the Court issued an award of costs to us in the amount of \$75,000. The Court has under consideration our request for an award of attorneys' fees and related litigation costs, in the approximate amount of \$1.9 million.

Biamp has posted a cash bond to secure the judgment against it, in the amount of approximately \$3.7 million. Because the WideBand Defendants have not posted a bond, we are pursuing collection and enforcement of our judgment against the WideBand Defendants. As part of the enforcement proceedings, we have initiated collection proceedings in the courts in Massachusetts, Connecticut, and Georgia. No counterclaims or other claims have been asserted against us in the WideBand collection actions.

In July 2009, we filed a motion in the Trade Secret Case seeking contempt and additional injunctive relief against the WideBand Defendants, and Donald D. Bowers, the father of WideBand defendant Lonny Bowers, a company owned in whole or in part by Donald Bowers named DialHD, Inc. ("DialHD") (a Georgia corporation), and David Sullivan, a resident of Connecticut. We alleged that the WideBand defendants were working in concert with Lonny Bowers' father, Donald Bowers, to circumvent the Court's permanent injunction by establishing DialHD as a new company through which to continue to sell products containing our trade secrets. On July 31, 2009, the Court granted the Temporary Restraint Order (TRO) motion, and issued a written order on August 5, 2009. In its written order, the Court prohibited "any further marketing, selling, manufacturing, development, modification, duplication, or transport or delivery of any of the technology contained in the DialHD Infringing Products" and placed a "restriction upon any further marketing, selling, delivery, support, and/or use of the DialHD Infringing Products, including to service any past or existing customers." The Court further ordered that the WideBand Defendants, along with DialHD, Donald Bowers, and David Sullivan, were not to transfer, hide or dispose of any assets, and were not to transfer any money beyond the jurisdiction of the Court, to preserve evidence, and to communicate the TRO to their suppliers and distributors. The Court has under consideration additional requests for relief from us, including our request for an award of attorneys' fees and costs from DialHD, Donald Bowers, and David Sullivan.

On September 3, 2009, the Court in the Trade Secret Case issued a decision finding Donald Bowers in contempt of Court. More specifically, the Court found that “Donald Bowers is in contempt of court for filing a UCC-1 Financing Statement in Massachusetts on November 6, 2008, thereby encumbering WideBand Solutions’ intellectual property at issue in this trade secret litigation in violation of the court’s June 26, 2008 Order.” Donald Bowers was also found “in contempt of Court for failing to appear at a February 10, 2009 contempt hearing.” The Court awarded us attorneys’ fees and costs, and we have applied for this award in the approximate amount of \$57,000. On September 17, 2009, Donald Bowers filed for personal bankruptcy in the state of Georgia.

While we intend to vigorously pursue collection of the damage awards, there can be no assurance that we will ultimately collect on all or a portion of the award. Furthermore, the jury’s verdict and damage awards are subject to appeal by one or more of the defendants.

***The Lonny Bowers Connecticut Action :*** On or about July 27, 2009, Lonny Bowers, one of the WideBand Defendants, filed a pro se lawsuit against ClearOne, attorney James E. Magleby (who is one of the lawyers representing us in the WideBand matters), and the Honorable Tena Campbell (the judge in the Trade Secret Case), in the United States District Court for the District of Connecticut. The claims asserted by Lonny Bowers in that case relate to various events occurring in the Trade Secret Case in Utah, including claims that Lonny Bowers’ civil rights have been violated by the defendants. We have filed a motion to dismiss that lawsuit, or in the alternative to have the lawsuit transferred to the United States District Court for the District of Utah. We believe Lonny Bowers’ claims are meritless and estimate that any potential loss from this counterclaim is remote.

***The DialHD Georgia Action :*** During July 2009, DialHD and Donald Bowers filed a lawsuit against us in the Superior Court of Columbia County in the State of Georgia. DialHD is apparently owned in whole or in part by Donald Bowers, who is the father of WideBand defendant Lonny Bowers. The complaint asserts that we have interfered with DialHD’s business relationships, conducted abusive litigation, and engaged in RICO violations. The claims asserted in this case relate to various events occurring in the Trade Secret Case in Utah. We have filed a motion to dismiss that lawsuit, or in the alternative to have the lawsuit transferred to the United States District Court for the District of Utah. Donald Bowers and DialHD have filed a request to amend the complaint, which we have opposed. We believe the asserted and pending claims by Donald Bowers and DialHD are meritless and estimate that any potential loss from this counterclaim is remote.

***The Shareholder Derivative Actions.*** Between March and August 2003, four shareholder derivative actions were filed in the Third Judicial District Court of Salt Lake County, State of Utah, by certain of our shareholders against various present and past officers and directors and against Ernst & Young. The complaints asserted allegations similar to those asserted in the SEC complaint that was filed on January 15, 2003 with regard to alleged improper revenue recognition practices and the shareholders’ class action that was filed on June 30, 2003 and also alleged that the defendant directors and officers violated their fiduciary duties to us by causing or allowing us to recognize revenue in violation of U.S. GAAP and to issue materially misstated financial statements and that Ernst & Young breached its professional responsibilities to us and acted in violation of U.S. GAAP and generally accepted auditing standards by failing to identify or prevent the alleged revenue recognition violations and by issuing unqualified audit opinions with respect to our fiscal 2002 and 2001 financial statements. One of these actions was dismissed without prejudice during June 2003. As to the other three actions, our Board of Directors appointed a special litigation committee of independent directors to evaluate the claims. The special committee determined that the maintenance of the derivative proceedings against the individual defendants was not in our best interests. Accordingly, during December 2003, we moved to dismiss those claims. During March 2004, our motions were granted, and the derivative claims were dismissed with prejudice as to all defendants except Ernst & Young. We were substituted as the plaintiff in the action and are now pursued in our own name the claims against Ernst & Young.

During April 2009, as a result of the jury’s conviction of former officers, Frances Flood and Susie Strohm on some or all of the crimes with which they were charged, and after further discussion with and upon considering the advice of counsel following communication with them and other factors such as the expense, company resources and time necessary to adequately prosecute the claims, we entered into a confidential settlement agreement and dismissed with prejudice our claim for damages against Ernst & Young.

***The Insurance Coverage Action.*** On February 9, 2004, ClearOne and Edward Dallin Bagley (“Bagley”), a former director and significant shareholder of ClearOne, jointly filed an action in the United States District Court for the District of Utah, Central Division, against National Union Fire Insurance Company of Pittsburgh, Pennsylvania (“National Union”) and Lumbermens Mutual Insurance Company (“Lumbermens Mutual”), the carriers of certain prior period directors and officers’ liability insurance policies, to recover the costs of defending and resolving claims against certain of our present and former directors and officers in connection with the SEC complaint filed on January 15, 2003, the shareholders’ class action filed on June 30, 2003, and the shareholder derivative actions described above, and seeking other damages resulting from the refusal of such carriers to timely pay the amounts owing under such liability insurance policies. This action was consolidated into a declaratory relief action filed by one of the insurance carriers on February 6, 2004 against us and certain of our current and former directors. In this action, the insurers asserted that they are entitled to rescind insurance coverage under our directors and officers’ liability insurance policies, \$3.0 million of which was provided by National Union and \$2.0 million which was provided by Lumbermens Mutual, based on alleged misstatements in our insurance applications. In February 2005, we entered into a confidential settlement agreement with Lumbermens Mutual pursuant to which ClearOne and Bagley received a lump-sum cash amount and the plaintiffs agreed to dismiss their claims against Lumbermens Mutual with prejudice. The cash settlement was held in a segregated account until the claims involving National Union were resolved, at which time the amounts received in the action were to be allocated between us and Bagley.

ClearOne and Bagley entered into a Joint Prosecution and Defense Agreement in connection with the action under which we were obligated to pay all litigation expenses in the case except those that are solely related to Bagley’s claims. (See “Item 13. Certain Relationships and Related Transactions”).

During October 2005, the court granted summary judgment in favor of National Union on its rescission defense and accordingly entered a judgment dismissing all of the claims asserted by us and Mr. Bagley. On February 2, 2006, we and Mr. Bagley appealed the summary judgment ruling to the U.S. Court of Appeals for the Tenth Circuit, and on July 25, 2007, the Tenth Circuit issued its decision reversing the summary judgment as to our claims but affirming it as to Bagley’s claims. The case was remanded back to the district court for trial on our claims for breach of contract and for breach of the implied covenant of good faith and fair dealing and on National Union’s defenses, including its rescission defense.

During April 2009, because the conviction of former CEO Frances Flood on multiple counts of securities fraud supported National Union’s rescission defense and after further discussion with and upon considering the advice of counsel following discussions with them and other factors such as expense, company resources and time necessary to adequately prosecute the claims, we entered into a confidential settlement agreement and dismissed with prejudice all of our claims against National Union.

On October 7, 2009, we entered into an agreement with Bagley, wherein the Joint Prosecution and Defense Agreement was terminated and Bagley waived all his claims to settlement proceeds received from Lumbermens Mutual and National Union. We also released Bagley of any obligations for attorneys’ fees or other expenses that might have been incurred in the litigation against Lumbermens Mutual or National Union.

Pursuant to this agreement, we recognized as other income the settlement money received from Lumbermens Mutual during the year ended June 30, 2009.

These litigations are subject to all of the risks and uncertainties of litigation and there can be no assurance as to the probable result of the litigations.

The Company believes it is adequately accrued for the aforementioned contingent liabilities. While we intend to defend ourselves in the above matters vigorously and diligently, there exists the possibility of adverse outcomes that we estimate could be up to \$1.6 million. If these adverse outcomes were to occur, our financial position, results of operations and cash flows could be negatively affected materially for the period in which the adverse outcomes are known.

## 9. Shareholders' Equity

### *Stock Buy-Back Program*

On August 30, 2007, the Company announced that its Board of Directors had approved a stock buy-back program to purchase up to \$3,625 of the Company's common stock over a 12 month period in open market and private block transactions. On May 1, 2008 the Company announced that its Board of Directors authorized the purchase of up to an additional \$1 million of the Company's common stock. Each of these approved share repurchase programs have expired. In conjunction with these stock buy-back programs, the Company repurchased 835,000 shares for approximately \$4,300 during the year ended June 30, 2008. All repurchased shares were immediately retired.

### *Tender Offer Program*

On August 11, 2008, we announced that our Board of Directors authorized the repurchase of up to 2,000,000 of our shares in a modified Dutch auction tender offer at a price per share of no less than \$4.00 and no greater than \$5.00 per share. Under the tender offer, which expired on September 16, 2008, we repurchased 1,342,620 shares, or approximately 13% of shares outstanding, for approximately \$6.77 million at a price per share of \$5.00 during the year ended June 30, 2009. All repurchased shares were immediately retired.

## 10. Share-Based Payment

The Company's share-based compensation primarily consists of the following plans:

On June 30, 2009, the Company had two share-based compensation plans, one which was replaced on November 20, 2007, and one which became active on the same date. The plans are described below.

The Company's 1998 Incentive Plan (the "1998 Plan") had shares of common stock available for issuance to employees and directors. Provisions of the 1998 Plan included the granting of stock options. Provisions of the 1998 Plan include the granting of incentive and non-qualified stock options. Through December 1999, 1,066,000 options were granted that would cliff vest after 9.8 years; however, such vesting was accelerated for 637,089 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2003. Subsequent to December 1999 and through June 2002, 1,248,250 options were granted that would cliff vest after 6.0 years; however, such vesting was accelerated for 300,494 of these options upon meeting certain earnings per share goals through the fiscal year ended June 30, 2005. As of June 30, 2009, 12,500 and 125,250 of these options that cliff vest after 9.8 and 6.0 years, respectively, remain outstanding.

The Company also has a 2007 Equity Incentive Plan (the "2007 Plan"). Provisions of the 2007 Plan include the granting of up to 1,000,000 incentive and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. Options may be granted to employees, officers, non-employee directors and other service providers and may be granted upon such terms as the Compensation Committee of the Board of Directors, in their sole discretion, determine, or in the absence of a Compensation Committee, a properly constituted Compensation Committee or the Board itself.

Of the options granted subsequent to June 2002, all vesting schedules are based on 3 or 4-year vesting schedules, with either one-third or one-fourth vesting on the first anniversary and the remaining options vesting ratably over the remainder of the vesting term. Generally, directors and officers have 3-year vesting schedules and all other employees have 4-year vesting schedules. Additionally, in the event of a change in control or the occurrence of a corporate transaction, the Company's Board of Directors have the authority to elect that all unvested options shall vest and become exercisable immediately prior to the event or closing of the transaction. All options outstanding as of June 30, 2009 had contractual lives of ten years. Under the 1998 Plan, 2,500,000 shares were authorized for grant. As of June 30, 2009, there were 1,048,086 options outstanding under the 1998 Plan, which includes the cliff vesting and 3 or 4-year vesting options discussed above. As of June 30, 2009 there were 195,000 options outstanding under the 2007 Plan.

The Company also has an Employee Stock Purchase Plan ("ESPP"). Employees can purchase common stock through payroll deductions of up to 10 percent of their base pay. Amounts deducted and accumulated by the employees are used to purchase shares of common stock on or about the first day of each month. The Company contributes to the account of the employee one share of common stock for every nine shares purchased by the employee under the ESPP.

The Company uses judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. The Company uses the Black-Scholes option pricing model to determine the fair value of share-based payments granted under SFAS No. 123R and the original SFAS No. 123.

In applying the Black-Scholes methodology to the options granted during the fiscal years ended June 30, 2009 and 2008, the Company used the following assumptions:

	<b>Years ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Risk-free interest rate, average	2.4%	4.5%
Expected option life, average	3.9 years	4.3 years
Expected price volatility, average	54.1%	73.9%
Expected dividend yield	0.0%	0.0%
Expected annual forfeiture rate	10.0%	10.0%

The risk-free interest rate is determined using the U.S. Treasury rate in effect as of the date of the grant, based on the expected life of the stock option. The expected life of the stock option is determined using historical data. The expected price volatility is determined using a weighted average of daily historical volatility of the Company's stock price over the corresponding expected option life. The Company does not currently intend to distribute any dividend payments to shareholders. Under SFAS No. 123R, the Company recognizes compensation cost net of an expected forfeiture rate and recognized the associated compensation cost for only those awards expected to vest on a straight-line basis over the underlying requisite service period. The Company estimated the forfeiture rates based on its historical experience and expectations about future forfeitures. The Company determined the annual forfeiture rate for options that will cliff vest after 9.8 or 6.0 years to be 38.0 percent and the annual forfeiture rate for options that vest on 3 or 4 year vesting schedules to be 10.0 percent.

The following table shows the stock option activity for the fiscal years ended June 30, 2009 and 2008.

<b>Stock Options</b>	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>
Outstanding at June 30, 2007	1,273,199	\$ 5.38
Granted	319,000	6.13
Expired and canceled	(68,058)	7.39
Forfeited prior to vesting	(96,727)	5.23
Exercised	(228,368)	3.47
Outstanding at June 30, 2008	1,199,046	5.85
Granted	263,500	3.79
Expired and canceled	(29,047)	6.31
Forfeited prior to vesting	(149,614)	4.69
Exercised	(40,799)	3.29
Outstanding at June 30, 2009	1,243,086	5.62
Exercisable	946,281	5.92



The following table summarizes information about stock options outstanding as of June 30, 2009:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Options Exercisable	Weighted Average Exercise Price
\$ 0.00 to \$4.00	479,919	\$ 3.40	6.3 years	403,037	\$ 3.46
\$ 4.01 to \$8.00	625,417	5.57	6.4 years	418,108	5.99
\$ 8.01 to \$12.00	52,500	11.83	1.1 years	51,688	11.86
\$ 12.01 to \$16.00	84,500	14.66	0.8 years	73,025	14.89
\$ 16.01 to \$20.00	750	18.80	0.8 years	423	19.13
Total	<u>1,243,086</u>	\$ 5.62	5.8 years	<u>946,281</u>	\$ 5.92

The following table summarizes information about non-vested stock options outstanding as of June 30, 2009:

Non-vested Shares	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested at June 30, 2008	451,310	\$ 3.44
Granted	263,500	1.64
Vested	(268,391)	3.24
Forfeited prior to vesting	(149,614)	2.54
Non-vested at June 30, 2009	<u>296,805</u>	<u>\$ 2.48</u>

As of June 30, 2009, the total compensation cost related to stock options not yet recognized and before the affect of any forfeitures was \$507, which is expected to be recognized over approximately the next 3 years on a straight-line basis.

The weighted-average estimated grant date fair value of the stock options granted during the fiscal year ended June 30, 2009 and 2008 was \$1.64 and \$3.69 per share, respectively.

## 11. Significant Customers

Sales to significant customers that represented more than 10 percent of total revenues are as follows:

	Years ended June 30,	
	2009	2008
Customer A	31.0%	31.0%
Customer B	15.0%	14.4%
Customer C	12.0%	14.4%
Total	<u>58.0%</u>	<u>59.8%</u>

The following table summarizes the percentage of total gross accounts receivable from significant customers.

	As of June 30,	
	2009	2008
Customer A	19.2%	22.5%
Customer B	15.5%	15.3%
Customer C	9.1%	12.3%
Total	<u>43.8%</u>	<u>50.1%</u>

These customers facilitate product sales to a large number of end-users, none of which is known to account for more than 10 percent of the Company's revenue from product sales. Nevertheless, the loss of one or more of these customers could reduce revenues and have a material adverse effect on the Company's business and results of operations.

## 12. Retirement Savings and Profit Sharing Plan

The Company has a 401(k) retirement savings and profit sharing plan to which it makes discretionary matching contributions, as authorized by the Board of Directors. All full-time employees who are at least 21 years of age and have a minimum of sixty days of service with the Company are eligible to participate in the plan. The Company's contribution is determined annually by the board of directors. The Company's retirement plan contribution expense for the fiscal years ended June 30, 2009 and 2008 totaled \$107 and \$108, respectively.

## 13. Income Taxes

Income (loss) from continuing operations before income taxes consisted of the following:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
U.S.	\$ 3,166	\$ 2,296
Non-U.S.	56	(149)
	<u>\$ 3,222</u>	<u>\$ 2,147</u>

The benefit (provision) for income taxes on income from continuing operations consisted of the following:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Current:		
U.S. Federal	\$ (236)	\$ (1,396)
U.S. State	(405)	(61)
Non-U.S.	(5)	-
Total current	<u>\$ (646)</u>	<u>\$ (1,457)</u>
Deferred:		
U.S. Federal	16	3,663
U.S. State	562	890
Change in deferred before valuation allowance	578	4,553
Decrease (increase) in valuation allowance	(927)	-
Total deferred	<u>(349)</u>	<u>4,553</u>
(Provision) benefit for income taxes	<u>\$ (995)</u>	<u>\$ 3,096</u>

The following table presents the principal reasons for the difference between the actual effective income tax rate and the expected U.S. federal statutory income tax rate of 34.0 percent on income from continuing operations:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
U.S. federal statutory income tax rate at 34.0 percent	\$ (1,096)	\$ (730)
State income tax (provision) benefit, net of federal income tax effect	(454)	547
Repatriated foreign earnings	-	(308)
Foreign tax credit	-	185
Non-deductible SFAS No. 123R compensation expense	-	(106)
Research and development credit	343	58
Foreign earnings or losses taxed at different rates	14	(45)
Uncertain tax positions	(53)	(295)
Non-deductible items and other	334	51
Change in valuation allowance	(83)	3,739
<b>Tax (provision) benefit</b>	<b>\$ (995)</b>	<b>\$ 3,096</b>

Deferred income taxes are determined based on the differences between the financial reporting and income tax bases of assets and liabilities using enacted income tax rates expected to apply when the differences are expected to be settled or realized. As of June 30, 2009 and 2008, significant components of the net U.S. deferred income tax assets and (liabilities) were as follows:

	<b>As of June 30,</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Current</b>	<b>Long-term</b>	<b>Current</b>	<b>Long-term</b>
Deferred revenue	\$ 1,118	\$ -	\$ 1,462	\$ -
Basis difference in intangible assets	-	525	-	599
Inventory reserve	1,471	-	815	-
Net operating loss carryforwards	-	211	-	10
Accumulated research and development credits	-	852	-	341
Alternative minimum tax credits	-	409	-	287
Accrued liabilities	255	-	848	-
Deductible SFAS 123R compensation expense	-	638	-	513
Allowance for sales returns and doubtful accounts	37	-	34	-
Difference in property and equipment basis	-	(517)	-	(324)
Other	89	(31)	9	213
<b>Total net deferred income tax asset</b>	<b>2,970</b>	<b>2,087</b>	<b>3,168</b>	<b>1,639</b>
<b>Less valuation allowance</b>	<b>-</b>	<b>(928)</b>	<b>-</b>	<b>-</b>
<b>Net deferred income tax asset</b>	<b>\$ 2,970</b>	<b>\$ 1,159</b>	<b>\$ 3,168</b>	<b>\$ 1,639</b>

The Company has not provided for U.S. deferred income taxes or foreign withholding taxes on undistributed earnings of its non-U.S. subsidiary located in Hong Kong since these earnings are intended to be reinvested indefinitely in operations in Hong Kong, in accordance with APB No. 28. It is not practical to estimate the amount of additional taxes that might be payable on such undistributed earnings. For other non-U.S. subsidiaries the Company will provide for U.S. deferred income taxes or foreign withholding taxes on undistributed earnings. As of June 30, 2009 there are no earnings on which to provide U.S. taxes.

In accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, the Company's analyzed its valuation allowance at June 30, 2009 and determined that, based upon available evidence, it is more likely than not that certain of its deferred tax assets may not be realized and, as such, has established a valuation allowance against certain deferred tax assets. These deferred tax assets include capital and unrealized loss carryovers, and certain state net operating loss carryovers and state research and development credits.

As of June 30, 2009, the Company had federal alternative minimum tax ("AMT") credit carryforwards of \$409 which have no expiration date. The Company had capital loss carryforwards of \$89, which will begin to expire in 2013 if not utilized. The Company had federal and state research credit carryovers of \$107 and \$745, respectively, which will begin to expire in 2029 and 2016, respectively, if not utilized. The Company has state net operating loss ("NOL") carryforwards of approximately \$4,225 which expire depending on the rules of the various states to which the carryovers relate.

The Company adopted the provisions of FIN 48 on July 1, 2007. This interpretation clarifies the accounting for uncertain tax positions and requires companies to recognize the impact of a tax position in their financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position.

The total liability for unrecognized tax benefits at June 30, 2009 and 2008, including temporary tax differences, was \$1,262 and \$1,209, respectively, of which \$1,190 and \$1,054, respectively, would favorably impact our effective tax rate if recognized. As of June 30, 2009 and 2008, we accrued \$63 and \$57, respectively, in interest and penalties related to unrecognized tax benefits. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision. We do not anticipate that unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

During the twelve month period ended June 30, 2009, we increased our liability for unrecognized tax benefits by \$47. This increase in our unrecognized tax benefits is a result of utilization of certain tax attributes for which we typically record an unrecognized tax benefit. We recorded an unrecognized tax benefit related to the lapse of applicable statute of limitations of \$213, of which \$131 favorably impacted our effective tax rate. We also added \$179 to our liability for unrecognized tax benefits, of which \$97 had an unfavorable impact on our effective tax rate.

Although we believe our estimates are reasonable, we can make no assurance that the final tax outcome of these matters will not be different from that which we have reflected in our historical income tax provisions and accruals. Such difference could have a material impact on our income tax provision and operating results in the period in which we make such determination.

A reconciliation of the beginning and ending amount of liabilities associated with uncertain tax positions is as follows:

	<b>As of June 30,</b>	
	<b>2009</b>	<b>2008</b>
Unrecognized tax benefits, opening balance	\$ 1,152	\$ 862
Tax positions taken in a prior period		
Gross increases	163	63
Gross decreases	-	-
Tax positions taken in the current period		
Gross increases	97	419
Settlements with taxing authorities	-	-
Lapse of applicable statute of limitations	(213)	(192)
Unrecognized tax benefits, ending balance	<u>\$ 1,199</u>	<u>\$ 1,152</u>

The Company's U.S. federal income tax returns for 2005 through 2008 are open tax years. The Company also files in various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to state or non-U.S. income tax examinations by tax authorities for years prior to 2005. The Company is currently under audit by the Internal Revenue Service ("IRS") for its 2008 tax return. As of the report date, the audit by the IRS has not progressed to a point to estimate what, if any, adjustments will be proposed by the IRS.

#### 14. Related-Party Transactions

The Company and Edward Dallin Bagley, former Chairman of the Board of Directors and significant shareholder of the Company, jointly filed an action against National Union and Lumbermens Mutual. For additional discussion see Note 8 under *The Insurance Coverage Action*.

#### 15. Geographic Sales Information

The United States was the only country to contribute more than 10 percent of total revenues in each fiscal year. The Company's revenues are substantially denominated in U.S. dollars and are summarized geographically as follows:

	<b>Years Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
United States	\$ 24,214	\$ 27,371
All other countries	11,486	11,387
Total	<u>\$ 35,700</u>	<u>\$ 38,758</u>

#### 16. Correction of revenue recognition

The Company provides a right of return on product sales to distributors and other resellers. The revenue from product sales to distributors and resellers is not recognized until the return privilege has expired, which approximates when the product is sold through to customers of the Company's distributors, rather than when the product is initially shipped to a distributor. The Company estimated at each quarter-end the amount of revenue and costs to be deferred based on the channel inventory information provided by certain distributors. Although only certain distributors provided channel inventory amounts, the Company made estimates with regard to the amount of inventory in the entire channel for all distributors and for all channel inventory items based on information provided by certain distributors.

The Company has corrected the deferral method to defer revenue and associated costs based on the actual channel inventory items reported by the distributors and other channel partners. Further, with respect to distributors and other channel partners not reporting the channel inventory, the revenue and associated costs are deferred until the Company receives payment for the product sales made to such distributors or channel partners.

The following tables reflect the effect of correction of this immaterial error on previously issued interim financial statements for the quarters ended September 30, 2008, December 31, 2008, and March 31, 2009.

	<b>Quarter ended September 30, 2008 (Unaudited)</b>		
	<b>Previously reported</b>	<b>Correction</b>	<b>After correction</b>
Revenue	\$ 10,258	\$ 824	\$ 11,082
Cost of goods sold	(3,625)	(317)	(3,942)
Sales and marketing	(1,977)		(1,977)
Research and product development	(1,776)		(1,776)
General and administrative	(1,072)		(1,072)
Other income, net	65		65
Income from continuing operations before income taxes	1,873	507	2,380
Provision for income taxes	(739)	(114)	(853)
Net income	<u>\$ 1,134</u>	<u>\$ 393</u>	<u>\$ 1,527</u>
Basic and diluted earnings per common share	\$ 0.11	\$ 0.04	\$ 0.15

<b>Quarter ended December 31, 2008 (Unaudited)</b>			
	<b>Previously reported</b>	<b>Correction</b>	<b>After correction</b>
Revenue	\$ 9,970	\$ (14)	\$ 9,956
Cost of goods sold	(4,168)	223	(3,945)
Sales and marketing	(1,934)		(1,934)
Research and product development	(1,844)		(1,844)
General and administrative	(1,257)		(1,257)
Other income, net	96		96
Income from continuing operations before income taxes	863	209	1,072
Provision for income taxes	(259)	(71)	(330)
Net income	<u>\$ 604</u>	<u>\$ 138</u>	<u>\$ 742</u>
Basic and diluted earnings per common share	\$ 0.07	\$ 0.02	\$ 0.08

<b>Quarter ended March 31, 2009 (Unaudited)</b>			
	<b>Previously reported</b>	<b>Correction</b>	<b>After correction</b>
Revenue	\$ 7,612	\$ (10)	\$ 7,602
Cost of goods sold	(3,605)	56	(3,549)
Sales and marketing	(1,690)		(1,690)
Research and product development	(1,810)		(1,810)
General and administrative	(123)		(123)
Other income, net	60		60
Income from continuing operations before income taxes	444	46	490
Provision for income taxes	(105)	(25)	(130)
Net income	<u>\$ 339</u>	<u>\$ 21</u>	<u>\$ 360</u>
Basic and diluted earnings per common share	\$ 0.04	\$ -	\$ 0.04

<b>As of September 30, 2008 (Unaudited)</b>			
	<b>Previously reported</b>	<b>Correction</b>	<b>After correction</b>
Inventories, net	\$ 10,757	\$ 12	\$ 10,769
Deferred income taxes	2,773	226	2,999
Deferred product revenue	4,432	(424)	4,008
Accumulated deficit	(10,660)	(186)	(10,846)

<b>As of December 31, 2008 (Unaudited)</b>			
	<b>Previously reported</b>	<b>Correction</b>	<b>After correction</b>
Inventories, net	\$ 12,859	\$ 235	\$ 13,094
Deferred income taxes	3,124	155	3,279
Deferred product revenue	4,881	(439)	4,442
Accumulated deficit	(10,056)	(49)	(10,105)

	<b>As of March 31, 2009 (Unaudited)</b>		
	<b>Previously reported</b>	<b>Correction</b>	<b>After Correction</b>
Inventories, net	\$ 14,046	\$ 291	\$ 14,337
Deferred income taxes	2,606	131	2,737
Deferred product revenue	4,163	(448)	3,715
Accumulated deficit	(9,717)	(26)	(9,743)

## 17. Subsequent Events

On October 7, 2009, the Company executed an agreement with Edward Bagley as further discussed in Note 8 to the financial statements within the section titled *The Insurance Coverage Action*.

The Company has evaluated subsequent events from the balance sheet date through October 13, 2009, which is the date these financial statements were available to be issued.

## FLEXTRONICS CONFIDENTIAL

## Flextronics Manufacturing Services Agreement

This Flextronics Manufacturing Services Agreement ("Agreement") is entered into this 3<sup>rd</sup> day of November 2008 ("Effective Date") by and between ClearOne Communications having its place of business at 5225 Wiley Post Way suite 500 Salt Lake City Utah 84116 ("Customer") and Flextronics Industrial, Ltd., having its place of business at Level 3, Alexander House, 35 Cyberville, Ebene, Mauritius, ("Flextronics").

Customer desires to engage Flextronics to perform manufacturing services as further set forth in this Agreement. The parties agree as follows:

### 1. DEFINITIONS

Flextronics and Customer agree that capitalized terms shall have the meanings set forth in this Agreement and Exhibit 1 attached hereto and incorporated herein by reference.

### 2. MANUFACTURING SERVICES

2.1. **Work**. Customer hereby engages Flextronics to perform the work (hereinafter "**Work**"). "**Work**" shall mean to procure Materials and to manufacture, assemble, and test products (hereinafter "**Product(s)**") pursuant to detailed written Specifications. Flextronics agrees not to move or transfer manufacturing from one location to another location without Customer's prior written consent, not to be unreasonably withheld. All changes to manufacturing processes are required to be reviewed and approved by Customer prior to implementation by Flextronics, which will be obligated to provide Customer with a clear definition of the proposed manufacturing process change. The "**Specifications**" for each Product or revision thereof, shall include but are not limited to bill of materials, designs, schematics, assembly drawings, process documentation, test specifications, current revision number, and Approved Vendor List. The Specifications as provided by Customer and included in Flextronics's production document management system and maintained in accordance with the terms of this Agreement are incorporated herein by reference as Exhibit 2.1. This Agreement does not include any new product introduction (NPI) or product prototype services related to the Products. In the event that Customer requires any such services, the parties will enter into a separate agreement. In case of any conflict between the Specifications and this Agreement, this Agreement shall prevail.

2.2. **Engineering Changes**. Customer may request that Flextronics incorporate engineering changes into the Product by providing Flextronics with a description of the proposed engineering change sufficient to permit Flextronics to evaluate its feasibility and cost. Flextronics agrees only to accept and shall only be responsible for acting upon information or directions pertaining to any level of change to form, fit or function of product, product specification, inspection, material or product disposition, or testing provided by Customer's authorized employees. Customer's authorized employees shall be designated in writing by Customer and provided to Flextronics in the ordinary course of business. Flextronics will proceed with engineering changes when the parties have agreed upon the changes to the Specifications, delivery schedule and Product pricing and the Customer has issued a purchase order for the implementation costs.

2.3. **Tooling; Non-Recurring Expenses; Software**. Customer shall pay for or obtain and consign to Flextronics any Product-specific tooling, equipment or software and other reasonably necessary non-recurring expenses, to be set forth in Flextronics's quotation. All software that Customer provides to Flextronics or any test software that Customer engages Flextronics to develop is and shall remain the property of Customer.

2.4. **Cost Reduction Projects**. Flextronics agrees to seek ways to reduce the cost of manufacturing Products by methods such as elimination of Materials, redefinition of Specifications, and re-design of assembly or test methods. Upon implementation of such ways that have been initiated by Flextronics and approved by Customer, Flextronics will receive 50% of the demonstrated cost reduction for six months. Customer will receive 100% of the demonstrated cost reduction upon implementation of such ways initiated by Customer.

### 3. FORECASTS; ORDERS; FEES; PAYMENT

3.1. **Forecast**. Customer shall provide Flextronics, on a monthly basis, a rolling twelve (12) month forecast indicating Customer's monthly Product requirements. The first ninety (90) days of the forecast will constitute Customer's written purchase order for all Work to be completed within the first ninety (90) day period. Such purchase orders will be issued in accordance with Section 3.2 below.

3.2. **Purchase Orders; Precedence**. Customer may use its standard purchase order form for any notice provided for hereunder; provided that all purchase orders must reference this Agreement and the applicable Specifications. The parties agree that the terms and conditions contained in this Agreement shall prevail over any terms and conditions of any such purchase order, acknowledgment form or other instrument.



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3.3. **Purchase Order Acceptance**. Purchase orders shall normally be deemed accepted by Flextronics, provided however that Flextronics may reject any purchase order: (a) that is an amended order in accordance with Section 5.2 below because the purchase order is outside of the Flexibility Table; (b) if the fees reflected in the purchase order are inconsistent with the parties' agreement with respect to the fees; (c) if the purchase order represents a significant deviation from the forecast for the same period, unless such deviation is within the parameters of the Flexibility Table; or (d) if a purchase order would extend Flextronics's liability beyond Customer's approved credit line. Flextronics shall notify Customer of rejection of any purchase order within five (5) business days of receipt of such purchase order.

3.4. **Fees; Changes; Taxes**.

(a) The fees will be agreed by the parties and will be indicated on the purchase orders issued by Customer and accepted by Flextronics. The initial fees shall be as set forth on the Fee List attached hereto and incorporated herein as Exhibit 3.4 (the "**Fee List**"). If a Fee List is not attached or completed, then the initial fees shall be as set forth in a quote and purchase orders issued by Customer and accepted by Flextronics in accordance with the terms of this Agreement.

(b) Customer is responsible for additional fees and costs due to: (a) changes to the Specifications; (b) failure of Customer or its subcontractor to timely provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule; and (c) any pre-approved expediting charges reasonably necessary because of a change in Customer's requirements.

(c) The fees may be reviewed periodically by the parties. Any changes and timing of changes shall be agreed by the parties, such agreement not to be unreasonably withheld or delayed. By way of example only, the fees may be increased if the market price of fuels, Materials, equipment, labor and other production costs, increase beyond normal variations in pricing or currency exchange rates as demonstrated by Flextronics.

(d) All fees are exclusive of federal, state and local excise, sales, use, VAT, and similar transfer taxes, and any duties, and Customer shall be responsible for all such items. This subsection (d) does not apply to taxes on Flextronics's net income.

(e) The Fees List will be based on the exchange rate(s) for converting the purchase price for Inventory denominated in the Parts Purchase Currency(ies) into the Functional Currency. The fees will be adjusted, on a monthly basis based on changes in the Exchange Rate(s) as reported on the last business day of each month, for the following month to the extent that such Exchange Rates change more than +/- .75% from the prior month (the "Currency Window"). "Exchange Rate(s)" is defined as the closing currency exchange rate(s) as reported on Reuters' page FIX on the last business day of the current month prior to the following month. "Functional Currency" means the currency in which all payments are to be made pursuant to Section 3.5 below. "Parts Purchase Currency(ies)" means U.S. Dollars, Japanese Yen and/or Euros to the extent such currencies are different from the Functional Currency and are used to purchase Inventory needed for the performance of the Work forecasted to be completed during the applicable month.

3.5. **Payment**. Customer agrees to pay all invoices in U.S. Dollars within thirty (30) days of the date of the invoice.

3.6. **Late Payment**. Customer agrees to pay one and one-half percent (1.5%) monthly interest on all late payments. Furthermore, if Customer is late with payments, or Flextronics has reasonable cause to believe Customer may not be able to pay, Flextronics may (a) stop all Work under this Agreement until assurances of payment satisfactory to Flextronics are received or payment is received; (b) demand prepayment for purchase orders; (c) delay shipments; and (d) to the extent that Flextronics's personnel cannot be reassigned to other billable work during such stoppage and/or in the event restart cost are incurred, invoice Customer for additional fees before the Work can resume. Customer agrees to provide all necessary financial information required by Flextronics from time to time in order to make a proper assessment of the creditworthiness of Customer.

3.7. **Letter of Credit or Escrow Account**. Upon Flextronics's request at any time during the term of this Agreement, Customer agrees to obtain and maintain a stand-by letter of credit or escrow account on behalf of Flextronics to minimize the financial risk to Flextronics for its performance of the Work under this Agreement. The stand-by letter of credit or escrow account shall be for a minimum period of time of six (6) months and shall be for a total amount that is equal to the total value of the risks associated with Inventory, Special Inventory, and the accounts receivable from Customer. The calculation shall be based upon the forecast provided by Customer pursuant to Section 3.1. The draw down procedures under the stand-by letter of credit or the escrow account shall be determined solely by Flextronics. Flextronics will, in good faith, review Customer's creditworthiness periodically and may provide more favorable terms once it feels it is prudent to do so.

#### 4. MATERIALS PROCUREMENT; CUSTOMER RESPONSIBILITY FOR MATERIALS

4.1. **Authorization to Procure Materials, Inventory and Special Inventory**. Customer's accepted purchase orders and forecast will constitute authorization for Flextronics to procure, without Customer's prior approval, (a) Inventory to manufacture the Products covered by such purchase orders based on the Lead Time and (b) certain Special Inventory based on Customer's purchase orders and forecast as follows: Long Lead-Time Materials as required based on the Lead Time when such purchase orders are placed and Minimum Order Inventory as required by the supplier. Flextronics will only purchase Economic Order Inventory with the prior approval of Customer.

4.2. **Customer Controlled Materials**. Customer may direct Flextronics to purchase Customer Controlled Materials in accordance with the Customer Controlled Materials Terms. Customer acknowledges that the Customer Controlled Materials Terms will directly impact Flextronics's ability to perform under this Agreement and to provide Customer with the flexibility Customer is requiring pursuant to the terms of this Agreement. In the event that Flextronics reasonably believes that Customer Controlled Materials Terms will create an additional cost that is not covered by this Agreement, then Flextronics will notify Customer and the parties will agree to either (a) compensate Flextronics for such additional costs, (b) amend this Agreement to conform to the Customer Controlled Materials Terms or (c) amend the Customer Controlled Materials Terms to conform to this Agreement, in each case at no additional charge to Flextronics. Customer agrees to provide copies to Flextronics of all Customer Controlled Materials Terms upon the execution of this Agreement and promptly upon execution of any new agreements with suppliers. Customer agrees not to make any modifications or additions to the Customer Controlled Materials Terms or enter into new Customer Controlled Materials Terms with suppliers that will negatively impact Flextronics's procurement activities.

4.3. **Preferred Supplier**. Customer shall provide to Flextronics and maintain an Approved Vendor List. Flextronics shall purchase from vendors on a current AVL the Materials required to manufacture the Product. Customer shall give Flextronics every opportunity to be included on AVL's for Materials that Flextronics can supply, and if Flextronics is competitive with other suppliers with respect to reasonable and unbiased criteria for acceptance established by Customer, Flextronics shall be included on such AVL's. If Flextronics is on an AVL and its prices and quality are competitive with other vendors, Customer will raise no objection to Flextronics sourcing Materials from itself. For purposes of this Section 4.3 only, the term "Flextronics" includes any companies affiliated with Flextronics.

4.4. **Customer Responsibility for Inventory and Special Inventory**. Customer is responsible under the conditions provided in this Agreement for all Materials, Inventory and Special Inventory purchased by Flextronics under this Section 4.

4.5. **Materials Warranties**. Flextronics shall endeavor to obtain and pass through to Customer the following warranties with regard to the Materials (other than the Production Materials): (i) conformance of the Materials with the vendor's specifications and/or with the Specifications; (ii) that the Materials will be free from defects in workmanship; (iii) that the Materials will comply with Environmental Regulations; and (iv) that the Materials will not infringe the intellectual property rights of third parties.

#### 5. SHIPMENTS, SCHEDULE CHANGE, CANCELLATION, STORAGE

5.1. **Shipments**. All Products delivered pursuant to the terms of this Agreement shall be suitably packed for shipment in accordance with the Specifications and marked for shipment to Customer's destination specified in the applicable purchase order. Shipments will be made EXW (Ex works, Incoterms 2000) Flextronics's facility (unless otherwise expressly agreed by the parties, in writing, and designated in a top level assembly quote), at which time risk of loss and title will pass to Customer. All freight, insurance and other shipping expenses, as well as any special packing expenses not included in the original quotation for the Products, will be paid by Customer. In the event Customer designates a freight carrier to be utilized by Flextronics, Customer agrees to designate only freight carriers that are currently in compliance with all applicable laws relating to anti-terrorism security measures and to adhere to the C-TPAT (Customs-Trade Partnership Against Terrorism) security recommendations and guidelines as outlined by the United States Bureau of Customs and Border Protection and to prohibit the freight carriage to be sub-contracted to any carrier that is not in compliance with the C-TPAT guidelines. Any deviations from the requirements specified on the purchase order, relevant drawings and specifications must be documented by Flextronics and submitted to Customer for acceptance consideration prior to shipment.

## 5.2. Quantity Increases and Shipment Schedule Changes.

(a) For any accepted purchase order, Customer may (i) increase the quantity of Products or (ii) reschedule the quantity of Products and their shipment date as provided in the flexibility table below (the "Flexibility Table"):

Maximum Allowable Variance From Accepted Purchase Order Quantities/Shipment Dates

# of days before Shipment Date on Purchase Order	Allowable Quantity Increases	Maximum Reschedule Quantity	Maximum Reschedule Period
0-14	0%	0%	0
15-30	10%	0%	0
31-60	20%	10%	30 days
61-90	30%	20%	30 days

Any decrease in quantity is considered a cancellation, unless the decreased quantity is rescheduled for delivery at a later date in accordance with the Flexibility Table. Quantity cancellations are governed by the terms of Section 5.3 below. Any purchase order quantities increased or rescheduled pursuant to this Section 5.2 (a) may not be subsequently increased or rescheduled.

(b) All reschedules to push out delivery dates outside of the table in subsection (a) require Flextronics's prior written approval, which, in its sole discretion, may or may not be granted. If Customer does not request prior approval from Flextronics for such reschedules, or if Customer and Flextronics do not agree in writing to specific terms with respect to any approved reschedule, then Customer will pay Flextronics the Monthly Charges for any such reschedule, calculated as of the first day after such reschedule for any Inventory and/or Special Inventory that was procured by Flextronics to support the original delivery schedule that is not used to manufacture Product pursuant to an accepted purchase order within thirty (30) days of such reschedule. In addition, if Flextronics notifies Customer that such Inventory and/or Special Inventory has remained in Flextronics's possession for more than ninety (90) days since such reschedule, then Customer agrees to immediately purchase any affected Inventory and/or Special Inventory upon receipt of the notice by paying the Affected Inventory Costs. In addition, any finished Products that have already been manufactured to support the original delivery schedule will be treated as cancelled as provided in Sections 5.3 and 5.4 below.

(c) Flextronics will use reasonable commercial efforts to meet any quantity increases, which are subject to Materials and capacity availability. All reschedules or quantity increases outside of the table in subsection (a) require Flextronics's approval, which, in its sole discretion, may or may not be granted. If Flextronics agrees to accept a reschedule to pull in a delivery date or an increase in quantities in excess of the flexibility table in subsection (a) and if there are extra costs to meet such reschedule or increase, Flextronics will inform Customer for its acceptance and approval in advance.

(d) Any delays in the normal production or interruption in the workflow process caused by Customer's changes to the Specifications or failure to provide sufficient quantities or a reasonable quality level of Customer Controlled Materials where applicable to sustain the production schedule, will be considered a reschedule of any affected purchase orders for purposes of this Section 5.2 for the period of such delay. In addition, Customer shall be responsible for costs related to adjusting foreign currency hedging contracts due to changes in cash flows resulting from such delays.

(e) For purposes of calculating the amount of Inventory and Special Inventory subject to subsection (b), the "Lead Time" shall be calculated as the Lead Time at the time of procurement of the Inventory and Special Inventory.

## 5.3. Cancellation of Orders and Customer Responsibility for Inventory.

(a) Customer may not cancel all or any portion of Product quantity of an accepted purchase order without Flextronics's prior written approval, which, in its sole discretion, may or may not be granted. If Customer does not request prior approval, or if Customer and Flextronics do not agree in writing to specific terms with respect to any approved cancellation, then Customer will pay Flextronics Monthly Charges for any such cancellation, calculated as of the first day after such cancellation for any Product or Inventory or Special Inventory procured by Flextronics to support the original delivery schedule. In addition, if Flextronics notifies Customer that such Product, Inventory and/or Special Inventory has remained in Flextronics's possession for more than thirty (30) days since such cancellation, then Customer agrees to immediately purchase from Flextronics such Product, Inventory and/or Special Inventory by paying the Affected Inventory Costs. In addition, Flextronics shall calculate the cost or gain of unwinding any currency hedging contracts entered into by Flextronics to support the cancelled purchase order(s). Should the unwinding result in a loss to Flextronics, Customer agrees to cover such loss amount for Flextronics immediately upon receipt of an invoice for such amount. Should the unwinding result in a gain to Flextronics, a credit note will be immediately issued to Customer.

(b) If the forecast for any period is less than the previous forecast supplied over the same period, that amount will be considered canceled and Customer will be responsible for any Special Inventory purchased or ordered by Flextronics to support the forecast.

(c) Products that have been ordered by Customer and that have not been picked up in accordance with the agreed upon shipment dates shall be considered cancelled and Customer will be responsible for such Products in the same manner as set forth above in Section 5.3(a).

(d) For purposes of calculating the amount of Inventory and Special Inventory subject to subsection (a), the "Lead Time" shall be calculated as the Lead Time at the time of (i) procurement of the Inventory and Special Inventory; (ii) cancellation of the purchase order or (iii) termination of this Agreement, whichever is longer.

5.4. **Mitigation of Inventory and Special Inventory**. Prior to invoicing Customer for the amounts due pursuant to Sections 5.2 or 5.3, Flextronics will use reasonable commercial efforts for a period of thirty (30) days, to return unused Inventory and Special Inventory and to cancel pending orders for such inventory, and to otherwise mitigate the amounts payable by Customer. Customer shall pay amounts due under this Section 5 within ten (10) days of receipt of an invoice. Flextronics will ship the Inventory and Special Inventory paid for by Customer under this Section 5.4 to Customer promptly upon said payment by Customer. In the event Customer does not pay within ten (10) days, Flextronics will be entitled to dispose of such Inventory and Special Inventory in a commercially reasonable manner and credit to Customer any monies received from third parties. Flextronics shall then submit an invoice for the balance amount due and Customer agrees to pay said amount within ten (10) days of its receipt of the invoice.

5.5. **No Waiver**. For the avoidance of doubt, Flextronics's failure to invoice Customer for any of the charges set forth in this Section 5 does not constitute a waiver of Flextronics's right to charge Customer for the same event or other similar events in the future.

## 6. PRODUCT ACCEPTANCE AND EXPRESS LIMITED WARRANTY

6.1. **Product Acceptance**. The Products delivered by Flextronics will be inspected and tested as required by Customer within (15) days of receipt at the "ship to" location on the applicable purchase order. If Products do not comply with the express limited warranty set forth in Section 6.2 below, Customer has the right to reject such Products during said period. Products not rejected during said period will be deemed accepted. Customer may return defective Products, freight collect, after obtaining a return material authorization number from Flextronics to be displayed on the shipping container and completing a failure report. Rejected Products will be promptly repaired or replaced, at Flextronics's option, and returned freight pre-paid. Customer shall bear all of the risk, and all costs and expenses, associated with Products that have been returned to Flextronics for which there is no defect found.

6.2. **Express Limited Warranty**. This Section 6.2 sets forth Flextronics's sole and exclusive warranty and Customer's sole and exclusive remedies with respect to a breach by Flextronics of such warranty.

(a) Flextronics warrants that the Products will have been manufactured in accordance with the applicable Specifications and will be free from defects in workmanship for a period of two (2) years from the date of shipment. In addition, Flextronics warrants that Production Materials are in compliance with Environmental Regulations.

(b) Notwithstanding anything else in this Agreement, this express limited warranty does not apply to, and Flextronics makes no representations or warranties whatsoever with respect to: (i) Materials and/or Customer Controlled Materials; (ii) defects resulting from the Specifications or the design of the Products; (iii) Product that has been abused, damaged, altered or misused by any person or entity after title passes to Customer; (iv) first articles, prototypes, pre-production units, test units or other similar Products; (v) defects resulting from tooling, designs or instructions produced or supplied by Customer, or (vi) the compliance of Materials or Products with any Environmental Regulations. Customer shall be liable for costs or expenses incurred by Flextronics related to the foregoing exclusions to Flextronics's express limited warranty.

(c) Upon any failure of a Product to comply with this express limited warranty, Flextronics's sole obligation, and Customer's sole remedy, is for Flextronics, at its option, to promptly repair or replace such unit and return it to Customer freight prepaid. Customer shall return Products *covered* by this warranty freight prepaid after completing a failure report and obtaining a return material authorization number from Flextronics to be displayed on the shipping container. Customer shall bear all of the risk, and all costs and expenses, associated with Products that *have* been returned to Flextronics for which there is no defect found.

(d) Customer will provide its own warranties directly to any of its end users or other third parties. Customer will not pass through to end users or other third parties the warranties made by Flextronics under this Agreement. Furthermore, Customer will not make any representations to end users or other third parties on behalf of Flextronics, and Customer will expressly indicate that the end users and third parties must look solely to Customer in connection with any problems, warranty claim or other matters concerning the Product.

6.3. **No Representations or Other Warranties**. FLEXTRONICS MAKES NO REPRESENTATIONS AND NO OTHER WARRANTIES OR CONDITIONS ON THE PERFORMANCE OF THE WORK, OR THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH CUSTOMER, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR NONINFRINGEMENT.

## 7. INTELLECTUAL PROPERTY LICENSES

7.1. **Licenses**. Customer hereby grants Flextronics a non-exclusive license during the term of this Agreement to use Customer's patents, trade secrets and other intellectual property as necessary to perform Flextronics's obligations under this Agreement.

7.2. **No Other Licenses**. Except as otherwise specifically provided in this Agreement, each party acknowledges and agrees that no licenses or rights under any of the intellectual property rights of the other party are given or intended to be given to such other party.

## 8. TERM AND TERMINATION

8.1. **Term**. The term of this Agreement shall commence on the date hereof above and shall continue for two (2) years thereafter until terminated as provided in Section 8.2 (Termination) or 10.8 (Force Majeure). After the expiration of the initial term hereunder (unless this Agreement has been terminated), this Agreement shall be automatically renewed for separate but successive one-year terms unless either party provides written notice to the other party that it does not intend to renew this Agreement one hundred and twenty (120) days or more prior to the end of any term.

8.2. **Termination**. This Agreement may be terminated by either party (a) for convenience upon (120) days written notice to the other party, or (b) if the other party defaults in any payment to the terminating party and such default continues without a cure for a period of fifteen (15) days after the delivery of written notice thereof by the terminating party to the other party, (c) if the other party defaults in the performance of any other material term or condition of this Agreement and such default continues unremedied for a period of thirty (30) days after the delivery of written notice thereof by the terminating party to the other party, or (d) pursuant to Section 10.8 (Force Majeure).

8.3. **Effect of Expiration or Termination**. Expiration or termination of this Agreement under any of the foregoing provisions: (a) shall not affect the amounts due under this Agreement by either party that exist as of the date of expiration or termination, and (b) as of such date the provisions of Sections 5.2, 5.3, and 5.4 shall apply with respect to payment and shipment to Customer of finished Products, Inventory, and Special Inventory in existence as of such date, and (c) shall not affect Flextronics's express limited warranty in Section 6.2 above. Termination of this Agreement, settling of accounts in the manner set forth in the foregoing sentence shall be the exclusive remedy of the parties for breach of this Agreement, except for breaches of Section 6.2, 9.1, 9.2, or 10.1. Sections 1, 3.5, 3.6, 3.7, 4, 5.2, 5.3, 5.4, 6.2, 6.3, 7, 8, 9, and 10 shall be the only terms that shall survive any termination or expiration of this Agreement.

## 9. INDEMNIFICATION; LIABILITY LIMITATION

9.1. **Indemnification by Flextronics**. Flextronics agrees to defend, indemnify and hold harmless,

Customer and all directors, officers, employees, and agents (each, a " **Customer Indemnatee** ") from and against all claims, actions, losses, expenses, damages or other liabilities, including reasonable attorneys' fees (collectively, " **Damages** ") incurred by or assessed against any of the foregoing, but solely to the extent the same arise out of third-party claims relating to:

(a) any actual or threatened injury or damage to any person or property caused, or alleged to be caused, by a Product sold by Flextronics to Customer hereunder, but solely to the extent such injury or damage has been caused by the breach by Flextronics of its express limited warranties related to Flextronics's workmanship and manufacture in accordance with the Specifications only as further set forth in Section 6.2;

(b) any infringement of the intellectual property rights of any third party but solely to the extent that such infringement is caused by a process that Flextronics uses to manufacture, assemble and/or test the Products; provided that, Flextronics shall not have any obligation to indemnify Customer if such claim would not have arisen but for Flextronics's manufacture, assembly or test of the Product in accordance with the Specifications; or

(c) noncompliance with any Environmental Regulations but solely to the extent that such non-compliance is caused by a process or Production Materials that Flextronics uses to manufacture the Products; provided that, Flextronics shall not have any obligation to indemnify Customer if such claim would not have arisen but for Flextronics's manufacture of the Product in accordance with the Specifications.

9.2. **Indemnification by Customer**. Customer agrees to defend, indemnify and hold harmless, Flextronics and its affiliates, and all directors, officers, employees and agents (each, a " **Flextronics Indemnatee** ") from and against all Damages incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to third-party claims relating to:

(a) any failure of any Product (and Materials contained therein) sold by Flextronics hereunder to comply with any safety standards and/or Environmental Regulations to the extent that such failure has not been caused by Flextronics's breach of its express limited warranties set forth in Section 6.2 hereof;

(b) any actual or threatened injury or damage to any person or property caused, or alleged to be caused, by a Product, but only to the extent such injury or damage has not been caused by Flextronics's breach of its express limited warranties related to Flextronics's workmanship and manufacture in accordance with the Specifications only as further set forth in Section 6.2 hereof; or

(c) any infringement of the intellectual property rights of any third party by any Product except to the extent such infringement is the responsibility of Flextronics pursuant to Section 9.1(b) above.

9.3. **Procedures for Indemnification**. With respect to any third-party claims, either party shall give the other party prompt notice of any third-party claim and cooperate with the indemnifying party at its expense. The indemnifying party shall have the right to assume the defense (at its own expense) of any such claim through counsel of its own choosing by so notifying the party seeking indemnification within thirty (30) calendar days of the first receipt of such notice. The party seeking indemnification shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party. The indemnifying party shall not, without the prior written consent of the indemnified party, agree to the settlement, compromise or discharge of such third-party claim.

9.4. **Sale of Products Enjoined**. Should the use of any Products be enjoined for a cause stated in Section 9.1(b) or 9.2(c) above, or in the event the indemnifying party desires to minimize its liabilities under this Section 9, in addition to its indemnification obligations set forth in this Section 9, the indemnifying party's sole responsibility is to either substitute a fully equivalent Product or process (as applicable) not subject to such injunction, modify such Product or process (as applicable) so that it no longer is subject to such injunction, or obtain the right to continue using the enjoined process or Product (as applicable). In the event that any of the foregoing remedies cannot be effected on commercially reasonable terms, then, all accepted purchase orders and the current forecast will be considered cancelled and Customer shall purchase all Products, Inventory and Special Inventory as provided in Sections 5.3 and 5.4 hereof. Any changes to any Products or process must be made in accordance with Section 2.2 above. Notwithstanding the foregoing, in the event that a third party makes an infringement claim, but does not obtain an injunction, the indemnifying party shall not be required to substitute a fully equivalent Product or process (as applicable) or modify the Product or process (as applicable) if the indemnifying party obtains an opinion from competent patent counsel reasonably acceptable to the other party that such Product or process is not infringing or that the patents alleged to have been infringed are invalid.

9.5. **No Other Liability**. EXCEPT WITH REGARD TO A BREACH OF SECTIONS 9.1 AND 9.2 ABOVE OR SECTION 10.1 BELOW, IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY "COVER" DAMAGES (INCLUDING INTERNAL COVER DAMAGES WHICH THE PARTIES AGREE MAY NOT BE CONSIDERED "DIRECT" DAMAGES), OR ANY INCIDENTAL, CONSEQUENTIAL, SPECIAL OR PUNITIVE DAMAGES OF ANY KIND OR NATURE ARISING OUT OF THIS AGREEMENT OR THE SALE OF PRODUCTS, WHETHER SUCH LIABILITY IS ASSERTED ON THE BASIS OF CONTRACT, TORT (INCLUDING THE POSSIBILITY OF NEGLIGENCE OR STRICT LIABILITY), OR OTHERWISE, EVEN IF THE PARTY HAS BEEN WARNED OF THE POSSIBILITY OF ANY SUCH LOSS OR DAMAGE, AND EVEN IF ANY OF THE LIMITED REMEDIES IN THIS AGREEMENT FAIL OF THEIR ESSENTIAL PURPOSE.

THE FOREGOING SECTION 9 STATES THE ENTIRE LIABILITY OF THE PARTIES TO EACH OTHER CONCERNING INFRINGEMENT OF PATENT, COPYRIGHT, TRADE SECRET OR OTHER INTELLECTUAL PROPERTY RIGHTS.

## 10. MISCELLANEOUS

10.1. **Confidentiality**. Each party shall refrain from using any and all Confidential Information of the disclosing party for any purposes or activities other than those specifically authorized in this Agreement. Except as otherwise specifically permitted herein or pursuant to written permission of the party to this Agreement owning the Confidential Information, no party shall disclose or facilitate disclosure of Confidential Information of the disclosing party to anyone without the prior written consent of the disclosing party, except to its employees, consultants, parent company, and subsidiaries of its parent company who need to know such information for carrying out the activities contemplated by this Agreement and who have agreed in writing to confidentiality terms that are no less restrictive than the requirements of this Section. Notwithstanding the foregoing, the receiving party may disclose Confidential Information of the disclosing party pursuant to a subpoena or other court process only (i) after having given the disclosing party prompt notice of the receiving party's receipt of such subpoena or other process and (ii) after the receiving party has given the disclosing party a reasonable opportunity to oppose such subpoena or other process or to obtain a protective order. Confidential Information of the disclosing party in the custody or control of the receiving party shall be promptly returned or destroyed upon the earlier of (i) the disclosing party's written request or (ii) termination of this Agreement. Confidential Information disclosed pursuant to this Agreement shall be maintained confidential for a period of three (3) years after the disclosure thereof. The existence and terms of this Agreement shall be confidential in perpetuity.

10.2. **Use of a Party's Name is Prohibited**. The existence and terms of this Agreement are Confidential Information and protected pursuant to Section 10.1 above. Accordingly, neither party may use the other party's name or identity or any other Confidential Information in any advertising, promotion or other public announcement without the prior express written consent of such party.

10.3. **Entire Agreement; Severability**. This Agreement constitutes the entire agreement between the Parties with respect to the transactions contemplated hereby and supersedes all prior agreements and understandings between the parties relating to such transactions. If the scope of any of the provisions of this Agreement is too broad in any respect whatsoever to permit enforcement to its full extent, then such provisions shall be enforced to the maximum extent permitted by law, and the parties hereto consent and agree that such scope may be judicially modified accordingly and that the whole of such provisions of this Agreement shall not thereby fail, but that the scope of such provisions shall be curtailed only to the extent necessary to conform to law.

10.4. **Amendments; Waiver**. This Agreement may be amended only by written consent of both parties. The failure by either party to enforce any provision of this Agreement will not constitute a waiver of future enforcement of that or any other provision. Neither party will be deemed to have waived any rights or remedies hereunder unless such waiver is in writing and signed by a duly authorized representative of the party against which such waiver is asserted.

10.5. **Independent Contractor**. Neither party shall, for any purpose, be deemed to be an agent of the other party and the relationship between the parties shall only be that of independent contractors. Neither party shall have any right or authority to assume or create any obligations or to make any representations or warranties on behalf of any other party, whether express or implied, or to bind the other party in any respect whatsoever.

10.6. **Expenses**. Each party shall pay their own expenses in connection with the negotiation of this Agreement. All fees and expenses incurred in connection with the resolution of Disputes shall be allocated as further provided in Section 10.11 below.

10.7. **Insurance**. -Flextronics and Customer agree to maintain appropriate insurance to cover their respective risks under this Agreement with coverage amounts commensurate with levels in their respective markets. Customer specifically agrees to maintain insurance coverage for any finished Products or Materials the title and risk of loss of which passes to Customer pursuant to this Agreement and which is stored on the premises of Flextronics.

10.8. **Force Majeure**. In the event that either party is prevented from performing or is unable to perform any of its obligations under this Agreement (other than a payment obligation) due to any act of God, acts or decrees of governmental or military bodies, fire, casualty, flood, earthquake, war, strike, lockout, epidemic, destruction of production facilities, riot, insurrection, Materials unavailability, or any other cause beyond the reasonable control of the party invoking this section (collectively, a " **Force Majeure** "), and if such party shall have used its commercially reasonable efforts to mitigate its effects, such party shall give prompt written notice to the other party, its performance shall be excused, and the time for the performance shall be extended for the period of delay or inability to perform due to such occurrences. Regardless of the excuse of Force Majeure, if such party is not able to perform within ninety (90) days after such event, the other party may terminate the Agreement.



10.9. **Successors, Assignment**. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, assigns and legal representatives. Neither party shall have the right to assign or otherwise transfer its rights or obligations under this Agreement except with the prior written consent of the other party, not to be unreasonably withheld. Notwithstanding the foregoing, Flextronics may assign some or all of its rights and obligations under this Agreement to an affiliated Flextronics entity.

10.10. **Notices**. All notices required or permitted under this Agreement will be in writing and will be deemed received (a) when delivered personally; (b) when sent by confirmed facsimile; (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a commercial overnight carrier. All communications will be sent to the addresses set forth above or to such other address as may be designated by a party by giving written notice to the other party pursuant to this section.

10.11. **Disputes Resolution; Waiver of Jury Trial**.

(a) Except as otherwise provided in this Agreement, the following binding dispute resolution procedures shall be the exclusive means used by the parties to resolve all disputes, differences, controversies and claims arising out of or relating to the Agreement or any other aspect of the relationship between Flextronics and Customer or their respective affiliates and subsidiaries (collectively, "**Disputes**"). Either party may, by written notice to the other party, refer any Disputes for resolution in the manner set forth below.

(b) Any and all Disputes shall be referred to arbitration under the rules and procedures of Judicial Arbitrator Group, Inc. ("**JAG**"), who shall act as the arbitration administrator (the "**Arbitration Administrator**").

(c) The parties shall agree on a single arbitrator (the "**Arbitrator**"). The Arbitrator shall be a retired judge selected by the parties from a roster of arbitrators provided by the Arbitration Administrator. If the parties cannot agree on an Arbitrator within seven (7) days of delivery of the demand for arbitration ("**Demand**") (or such other time period as the parties may agree), the Arbitration Administrator will select an independent Arbitrator.

(d) Unless otherwise mutually agreed to by the parties, the place of arbitration shall be Denver, Colorado, although the arbitrators may be selected from rosters outside Denver.

(e) The Federal Arbitration Act shall govern the arbitrability of all Disputes. The Federal Rules of Civil Procedure and the Federal Rules of Evidence (the "**Federal Rules**"), to the extent not inconsistent with this Agreement, govern the conduct of the arbitration. To the extent that the Federal Arbitration Act and Federal Rules do not provide an applicable procedure, Colorado law shall govern the procedures for arbitration and enforcement of an award, and then only to the extent not inconsistent with the terms of this Section. Disputes between the parties shall be subject to arbitration notwithstanding that a party to this Agreement is also a party to a pending court action or special proceeding with a third party, arising out of the same transaction or series of related transactions and there is a possibility of conflicting rulings on a common issue of law or fact.

(f) Unless otherwise mutually agreed to by the parties, each party shall allow and participate in discovery as follows:

(i) **Non-Expert Discovery**. Each party may (1) conduct three (3) non-expert depositions of no more than five (5) hours of testimony each, with any deponents employed by any party to appear for deposition in Denver, Colorado; (2) propound a single set of requests for production of documents containing no more than twenty (20) individual requests; (3) propound up to twenty written interrogatories; and (4) propound up to ten (10) requests for admission.

(ii) **Expert Discovery**. Each party may select a witness who is retained or specially employed to provide expert testimony and an additional expert witness to testify with respect to damages issues, if any. The parties shall exchange expert reports and documents under the same requirements as Federal Rules of Civil Procedure 26(a)(2) & (4).

(iii) **Additional Discovery**. The Arbitrator may, on application by either party, authorize additional discovery only if deemed essential to avoid injustice. In the event that remote witnesses might otherwise be unable to attend the arbitration, arrangements shall be made to allow their live testimony by video conference during the arbitration hearing.

(g) The Arbitrator shall render an award within six (6) months after the date of appointment, unless the parties agree to extend such time. The award shall be accompanied by a written opinion setting forth the findings of fact and conclusions of law. The Arbitrator shall have authority to award compensatory damages only, and shall not award any punitive, exemplary, or multiple damages. The award (subject to clarification or correction by the arbitrator as allowed by statute and/or the Federal Rules) shall be final and binding upon the parties, subject solely to the review procedures provided in this Section.

(h) Either party may seek arbitral review of the award. Arbitral review may be had as to any element of the award.

(i) This Agreement's arbitration provisions are to be performed in Denver, Colorado. Any judicial proceeding arising out of or relating to this Agreement or the relationship of the parties, including without limitation any proceeding to enforce this Section, to review or confirm the award in arbitration, or for preliminary injunctive relief, shall be brought exclusively in a court of competent jurisdiction in the county of Denver, Colorado (the "**Enforcing Court**"). By execution and delivery of this Agreement, each party accepts the jurisdiction of the Enforcing Court.

(j) Each party shall pay their own expenses in connection with the resolution of Disputes pursuant to this Section, including attorneys' fees.

(k) Notwithstanding anything contained in this Section to the contrary, in the event of any Dispute, prior to referring such Dispute to arbitration pursuant to Subsection (b) of this Section, Customer and Flextronics shall attempt in good faith to resolve any and all controversies or claims relating to such Disputes promptly by negotiation commencing within ten (10) calendar days of the written notice of such Disputes by either party, including referring such matter to Customer's then-current President and Flextronics's then current executive in charge of manufacturing operations in the region in which the primary activities of this Agreement are performed by Flextronics. The representatives of the parties shall meet at a mutually acceptable time and place and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute for a period of four (4) weeks. In the event that the parties are unable to resolve such Dispute pursuant to this Subsection (k), the provisions of Subsections (a) through U) of this Section, inclusive, as well as Subsections (I), (m) and (n) of this Section shall apply.

(I) The parties agree that the existence, conduct and content of any arbitration pursuant to this Section shall be kept confidential and no party shall disclose to any person any information about such arbitration, except as may be required by law or by any governmental authority or for financial reporting purposes in each party's financial statements.

(m) IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES, WHETHER IT RESULTS IN PROCEEDINGS IN ANY COURT IN ANY JURISDICTION OR IN ARBITRATION, THE PARTIES HEREBY KNOWINGLY AND VOLUNTARILY, AND HAVING HAD AN OPPORTUNITY TO CONSULT WITH COUNSEL, WAIVE ALL RIGHTS TO TRIAL BY JURY, AND AGREE THAT ANY AND ALL MATTERS SHALL BE DECIDED BY A JUDGE OR ARBITRATOR WITHOUT A JURY TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW.

(n) In the event of any lawsuit between the parties arising out of or related to this Agreement, the parties agree to prepare and to timely file in the applicable court a mutual consent to waive any statutory or other requirements for a trial by jury.

10.12. **Even-Handed Construction.** The terms and conditions as set forth in this Agreement have been arrived at after mutual negotiation, and it is the intention of the parties that its terms and conditions not be construed against any party merely because it was prepared by one of the parties.

10.13. **Controlling Language.** This Agreement is in English only, which language shall be controlling in all respects. All documents exchanged under this Agreement shall be in English.

10.14. **Controlling Law.** This Agreement shall be governed and construed in all respects in accordance with the domestic laws and regulations of the State of Colorado, without regard to its conflicts of laws provisions; except to the extent there may be any conflict between the law of the State of Colorado and the Incoterms of the International Chamber of Commerce, 2000 edition, in which case the Incoterms shall be controlling. The parties specifically agree that the '1980 United Nations Convention on Contracts for the International Sale of Goods, as may be amended from time to time, shall not apply to this Agreement. The parties acknowledge and confirm that they have selected the laws of the State of Colorado as the governing law for this Agreement in part because jury trial waivers are enforceable under Colorado law. The parties further acknowledge and confirm that the selection of the governing law is a material term of this Agreement.

10.15. **Use of Subcontractors.** Flextronics shall notify Customer when it uses any subcontractors to perform any Work under this Agreement. Customer reserves the right to approve Flextronics's use of any subcontractors prior to commencement of any Work. With respect to Customer, Flextronics shall at all times be the party responsible for the performance of the Work.

10.16. Flextronics shall maintain a Quality Management System (OMS) certified to ISO 9001 Standard. Flextronics's OMS is subject to audit and approval or disapproval at any time by Customer regardless of ISO certification status. Flextronics's OMS must ensure that all Products have been inspected and meet Customer's acceptance criteria prior to shipment. The OMS records shall provide evidence that the material being furnished meet the requirements, drawings and specifications referenced. The report and/or record of certification entity will be on file at the Flextronics facility for a period of three years.

10.17. **Nonsolicitation** . Each of the parties hereto agree that, during the term of this Agreement, neither party will, except with the other party's prior written consent, directly solicit the other party's employees who were engaged in the activities related to this Agreement. This section shall not be construed as a general prohibition against either party from offering positions of employment to the public. If an employee of a party becomes an employee of the other party in contravention of this section 10.17, then the other party shall promptly pay to the other party a sum equaling seventy-five percent (75%) of such employee's annual base salary to be paid by said other party.

10.18. **Counterparts** . This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed by their duly authorized representatives as of the Effective Date.

**CLEARONE COMMUNICATIONS:**

**FLEXTRONICS INDUSTRIAL, LTD.:**

By: /s/ Zeynep Hakimoglu

Printed Name: Zeynep Hakimoglu

Title: President & CEO

By: /s/ Manny Marimuthu

Printed Name: Manny Marimuthu

Title: Director

**Exhibit 1****Definitions**

<b>" Affected Inventory Costs "</b>	shall mean: (i) 110% of the Cost of all affected Inventory and Special Inventory in Flextronics's possession and not returnable to the vendor or reasonably usable for other customers, whether in raw form or work in process, less the salvage value thereof, (ii) 105% of the Cost of all affected Inventory and Special Inventory on order and not cancelable, (iii) any vendor cancellation charges incurred with respect to the affected Inventory and Special Inventory accepted for cancellation or return by the vendor, (iv) the then current fees for any affected Product, and (v) expenses incurred by Flextronics related to labor and equipment specifically put in place to support the purchase orders and forecasts that are affected by such reschedule or cancellation (as applicable).
<b>" Approved Vendor List " or " AVL "</b>	shall mean the list of suppliers currently approved to provide the Materials specified in the bill of materials for a Product.
<b>" Confidential Information "</b>	shall mean (a) the existence and terms of this Agreement and all information concerning the unit number and fees for Products and Inventory/Special Inventory and (b) any other information that is marked "Confidential" or the like or, if delivered verbally, confirmed in writing to be "Confidential" within 30 days of the initial disclosure. Confidential Information does not include information that (i) the receiving party can prove it already knew at the time of receipt from the disclosing party; or (ii) has come into the public domain without breach of confidence by the receiving party; (iii) was received from a third party without restrictions on its use; (iv) the receiving party can prove it independently developed without use of or reference to the disclosing party's data or information; or (v) the disclosing party agrees in writing is free of such restrictions.
<b>" Cost "</b>	shall mean the cost represented on the bill of materials supporting the most current fees for Products at the time of cancellation, expiration or termination, as applicable.
<b>" Customer Controlled Materials "</b>	shall mean those Materials provided by Customer or by suppliers with whom Customer has a commercial contractual or non-contractual relationship.
<b>" Customer Controlled Materials Terms "</b>	shall mean the terms and conditions that Customer has negotiated with its suppliers for the purchase of Customer Controlled Materials.
<b>" Customer Indemnitees "</b>	shall have the meaning set forth in Section 9.1.
<b>" Damages "</b>	shall have the meaning set forth in Section 9.1.
<b>" Disputes "</b>	shall have the meaning set forth in Section 10.11 (a).
<b>" Economic Order Inventory "</b>	shall mean Materials purchased in quantities, above the required amount for purchase orders, in order to achieve price targets for such Materials.
<b>" Environmental Regulations "</b>	shall mean any hazardous substance content laws and regulations including, without limitation, those related to the EU Directive 2002/95/EC about the Restriction of Use of Hazardous Substances (RoHS).

" Fee List "	shall have the meaning set forth in Section 3.4.
" Flexibility Table "	shall have the meaning set forth in Section 5.2.
" Flextronics Indemnatee "	shall have the meaning set forth in Section 9.2.
" Force Majeure "	shall have the meaning set forth in Section 10.8.
" Inventory "	shall mean any Materials that are used to manufacture Products that are ordered pursuant to a purchase order from Customer.
" Lead Time(s) "	shall mean the Materials Procurement Lead Time plus the manufacturing cycle time required from the delivery of the Materials at Flextronics's facility to the completion of the manufacture, assembly and test processes.
" Long Lead Time Materials "	shall mean Materials with Lead Times exceeding the period covered by the accepted purchase orders for the Products.
" Materials "	shall mean components, parts and subassemblies that comprise the Product and that appear on the bill of materials for the Product.
" Materials Procurement Lead Time "	shall mean with respect to any particular item of Materials, the longer of (a) lead time to obtain such Materials as recorded on Flextronics's MRP system or (b) the actual lead time, if a supplier has increased the lead time but Flextronics has not yet updated its MRP system.
" Minimum Order Inventory "	shall mean Materials purchased in excess of requirements for purchase orders because of minimum lot sizes available from the supplier.
" Monthly Charges "	shall mean a finance carrying charge of one and one-half of one percent (1.5%) and a storage and handling charge of one-half of one percent (0.5%), in each case of the Cost of the Inventory and/or Special Inventory and/or of the fees for the Product affected by the reschedule or cancellation (as applicable) per month until such Inventory and/or Special Inventory and/or Product is returned to the vendor, used to manufacture Product or is otherwise purchased by Customer.
" Product "	shall have the meaning set forth in Section 2.1.
" Production Materials "	shall mean Materials that are consumed in the production processes to manufacture Products including without limitation, solder, epoxy, cleaner solvent, labels, flux, and glue. Production Materials do not include any such production materials that have been specified by the Customer or any Customer Controlled Materials.
" Special Inventory "	shall mean any Long Lead Time Materials and/or Minimum Order Inventory and/or Economic Order Inventory.
" Specifications "	shall have the meaning set forth in Section 2.1.
" Work "	shall have the meaning set forth in Section 2.1.

## EXHIBIT 2.1

### SPECIFICATIONS

Incorporated herein by reference only, but inclusive of the following statement of work:

#### 1. PLANNING REQUIREMENTS

1.1 A written transition plan and or checklist for the implementation of the contracted for product, component manufacture and/or service provision is required. This plan will be reviewed by Customer for adequacy to meet requirements. Milestone activities and deliverable dates are a required part of the implementation plan. Verification of compliance to the plan shall be required. Customer reserves the right at their discretion to witness the first production run at Flextronics's facility to verify the production processes meet planned activities.

#### 2. PROCUREMENT

2.1 Product shipments are expected on the date specified on the purchase order (PO). Flextronics's performance metrics are maintained by the assigned supplier managers and on time delivery is one of those metrics.

2.3 Flextronics's performance is reviewed using a defined Customer scorecard. Corrective action is required when performance metrics are not satisfactory. Flextronics will need more details on the Customer scorecard and determine if additional resources, processes needed to support such scorecard which could result in additional costs.

2.4 Customer shall be assured the "right of entry" to perform quality audits at a maximum of twice a year and/or source inspections at any time with 72 hours written notice. Email notification to the assigned Customer Program manager is considered written notice. It is the assigned Customer Program manager's responsibility to ensure notification within their organization of the scheduled visit.

#### 3. CERTIFICATIONS

3.1 Flextronics shall maintain a Quality Management System (QMS) certified to ISO 9001 Standard. The providers QMS is subject to audit and approval or disapproval at any time by Customer regardless of ISO certification status. Flextronics's QMS must ensure that all finished goods/services have been inspected and meet acceptance criteria prior to delivery. The QMS records shall provide evidence that the material being furnished meet the requirements, drawings and specifications referenced. The report and/or record of certification entity will be on file at the Flextronics facility for a period of three years.

3.2 Flextronics is required to maintain all regulatory and statutory required certifications on the product provided. This may include CCC, CSA and UL certifications. In the case, were Customer pays for the certification inspections and/or audits associated with the certification, Flextronics shall send copies of all inspection and/or audit reports to the Customer compliance department within 10 working days of receiving the inspection or audit report. Failure to provide Customer with copies of the report will require another inspection or audit to be scheduled and performed at Flextronics's expense.

3.3 Flextronics is responsible to maintain needed certifications and business license need to provide product or services compliant to all requirements for international product sales and shipping. Any additional certification costs will be passed to customer (example: Mii China cert). If said business license needs to be changed it will be up to Flextronics to ultimately make that business decision as it may have other business implications and costs that will be passed onto the customer.

#### 4. TEST REQUIREMENTS

4.1 Test procedures for deliverable product are provided by Customer to the provider. It is the responsibility of Flextronics to ensure that test staff has adequate training, skills and tools to perform all needed testing for the acceptance of the product. Customer will make their Test staff available for supplier to gain additional training and skills to support program.

4.2 Product specific test equipment is required to be used for the testing of Customer products following all required procedure steps. All test equipment and associated software, cables, jigs, etc. remains the property of Customer. It is Flextronics's responsibility to maintain provided test equipment in good working order and provide any needed calibration of the test equipment. All calibration costs will be paid by Customer.

4.3 Flextronics shall maintain a Calibration system in full compliance with all the requirements of either ISO 10012-1 or ANSI/NCSL Z540 standards. Flextronics's calibration system is subject to assessment at any time by Customer as part of a scheduled audit or during a scheduled source inspection.

4.4 Product test results are to be tracked and maintained by individual product serial number and made available to Customer upon request. This is an additional NRE costs that will be paid by Customer to develop the IT linkages from test systems to our SFDM (shop floor data mgmt system). If Flex does not develop automated tracking systems, using a manual tracking system could result in a increase in unit price as it will require additional steps and resource time to accomplish.

## **5. EMPLOYEE TRAINING REQUIREMENT**

5.1 All assembly or sub-assembly employees that work on product that contains electronics are required to have specific training before working on Customer product. Employees are required to be trained and certified at a minimum to IPC 610 workmanship and ESD protection. It is Flextronics's responsibility to maintain employee training records and certifications. Training records are to be made available to Customer during the performance audits and/or source inspections upon request.

5.2 All Test personnel are required to have the needed skills and educations to perform needed test operations. Training records are to be made available to Customer during the performance of audits and/or source inspections upon request.

## **6. MANUFACTURING**

6.1 Flextronics shall maintain quality workmanship standards in accordance with IPC 610, IPC 7711 and IPC 7721 as well as all other pertinent workmanship standards that are required for fabrication or assembly of Customer products.

6.2 Flextronics is required to provide and maintain a program of electrostatic discharge (ESD) control for all items to be incorporated into Customer product, during the manufacture of Customer product or the servicing of Customer product. Electro-Static Sensitive devices are to be handled, packaged, identified and shipped in accordance with the requirements of Mil-STD-1686, Class 1 or ANSI/ESD S20.20

6.3 Materials or articles having characteristics subject to degradation with age shall be marked in a manner to indicate the date of manufacture and the expiration date. A first in/first out (FIFO) system is expected for the management of these materials

6.4 Flextronics shall package products to prevent damage during shipment. The Customer drawing references the specific packaging and the pallet requirements for shipping Customer product. When packaging is specified by Customer only the approved packaging materials are to be used. Alternate sources of packaging are required to be approved by Customer prior to use.

6.5 When product is refurbished by Flextronics to be used by Customer for advanced replacement purposes it shall pass the original manufacturing test requirements and be inspected for rework/repair workmanship to original manufacturing requirements. Records for the inspection are to be maintained by product serial number.

## **7. QUALITY ASSURANCE**

7.1 Inspection sampling may be used based on ANSI/ASO Z1.4 Sampling Procedures and Tables for Inspection by Attributes. A sampling plan is a requirement of the inspection planning and is to be available upon request

7.2 Flextronics is required to respond to Customer request for corrective action on or before the requested response due date. Corrective action is required to be completed within 15 working days of the receipt of the request.

7.3 Customer or its designee may conduct an audit, perform surveillance audits and to do source inspection of the suppliers OMS, manufacturing processes or product to determine the supplier's ability to comply with applicable requirements and specifications. Source inspection access is a requirement of this contract. Flextronics shall furnish the necessary facilities, equipment, supply data and perform tests as required by the Customer source inspector to show conformance to the purchase order and reference documents. The Customer supplier manager will notify the provider three (3) days in advance of the required inspection. Final acceptance of any product will be performed at a Customer designated facility upon shipment arrival.

7.4 Routine quality reporting, is to be sent to Customer quality manager monthly on the fifth day of every month. A quarterly scorecard is provided to the supplier as a measure of the quality level provided to Customer. Supplier also has a customer scorecard that could be used as well.

## **8. Compliance**

8.1 Flextronics to facilitate compliance requirements of CCC and Mii that are required for China. This is required for Flextronics China factory. Customer will pay for additional costs associated with certification compliance. These certifications are not required for Charlotte, NC factory. Flextronics will be allowed time to review the specifics of the additional certifications and ultimately have final decision.

8.2. Flextronics factories to be UL and/or CSA certified.

8.3 Flextronics is required to facilitate and perform periodic audits conducted by the agencies specified on item 8.1 and 8.2 above.



**EXHIBIT 3.4**

**FEES LIST**

To be attached or incorporated by reference

**SETTLEMENT AND RELEASE AGREEMENT**

This Settlement and Release Agreement ("Agreement"), effective as of October 7, 2009, is entered into by and between ClearOne Communications, Inc. ("ClearOne" or "the Company") and Edward D. Bagley ("Bagley") (ClearOne and Bagley shall sometimes be hereinafter referred to collectively as the "Parties").

WHEREAS, in February 2004 ClearOne and Bagley jointly filed an action in the United States District Court for the District of Utah, Central Division, against National Union Fire Insurance Company of Pittsburgh, Pennsylvania ("National Union") and Lumbermens Mutual Insurance Company ("Lumbermens"), which had issued directors and officers liability insurance policies to the Company for the period of October 29, 2002 to October 29, 2003, alleging that National Union and Lumbermens had breached their legal obligations under the policies and were therefore liable to ClearOne and Bagley for compensatory and punitive damages (the "Insurance Coverage Litigation");

WHEREAS, in connection with the Insurance Coverage Litigation, ClearOne and Bagley entered into a Joint Prosecution and Defense Agreement in April 2004, wherein (as amended) ClearOne agreed to pay all litigation expenses, including attorney's fees, of counsel for both the Company and Bagley except for litigation expenses which were solely related to Bagley's claims in the Insurance Coverage Litigation;

WHEREAS, in February 2005, ClearOne and Bagley entered into a confidential settlement agreement with Lumbermens, whereby Lumbermens paid a significant lump-sum cash payment (the "Lumbermens Settlement Payment") to ClearOne and Bagley in exchange for ClearOne and Bagley dismissing and releasing all of their respective claims against Lumbermens;

WHEREAS, in connection with the Lumbermens settlement, ClearOne and Bagley agreed that the Lumbermens Settlement Payment should be held by the Company in a segregated account until the claims involving National Union had been resolved and ClearOne and Bagley had agreed upon an acceptable allocation of the Lumbermens Settlement Payment and any additional monies that might be recovered from National Union through settlement or litigation;

WHEREAS, subsequent to the Lumbermens settlement, ClearOne and Bagley continued to pursue the Insurance Coverage Litigation against National Union, but in October 2005 the District Court granted summary judgment in favor of National Union and against ClearOne and Bagley on all pending claims;

WHEREAS, ClearOne and Bagley appealed the adverse summary judgment to the United States Court of Appeals for the Tenth Circuit, and in July 2007 the Tenth Circuit issued its decision reversing the summary judgment as to ClearOne's claims but affirming it as to Bagley's claims;

WHEREAS, following the Tenth Circuit's remand of the Insurance Coverage Litigation to the District Court in July 2007 and the conclusion of Frances Flood's criminal trial in February 2009, ClearOne entered into a confidential settlement agreement with National Union in April 2009, whereby National Union paid a nominal lump-sum cash payment to ClearOne in exchange for ClearOne dismissing and releasing all of its claims against National Union;

WHEREAS, the Parties now desire to document their agreement regarding the allocation of the Lumbermens Settlement Payment;

NOW, THEREFORE, in consideration of the mutual promises set forth below, the sufficiency and adequacy of which are hereby acknowledged, the Parties agree as follows:

1. The Parties hereby terminate the Joint Prosecution and Defense Agreement and any and all amendments thereto.
2. Bagley waives any right to claim any share of the Lumbermens Settlement Payment and hereby releases ClearOne and all of its present and former officers, directors, employees, and agents from any and all claims pertaining to the Insurance Coverage Litigation, including but not limited to any claim for any settlement funds, further attorneys' fees or expenses.
3. ClearOne releases Bagley from any and all claims pertaining to the Insurance Coverage Litigation, including but not limited to any claim for the recovery of any attorneys' fees and expenses paid by the Company on Bagley's behalf.
4. This Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original but both of which taken together shall constitute one and the same Agreement. Facsimile and .pdf signatures sent by electronic mail will constitute valid evidence of execution.

CLEARONE COMMUNICATIONS, INC.

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By: Zee Hakimoglu  
Its: President

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EDWARD D. BAGLEY

**SUBSIDIARIES OF THE REGISTRANT**

ClearOne Communications Hong Kong, Limited  
ClearOne Communications Limited UK  
Gentner Communications, Ltd. - Ireland  
Gentner Ventures, Inc.  
E.mergent, Inc.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

ClearOne Communications, Inc.

We consent to the incorporation by reference in Registration Statement Nos. 333-148789 and 333-137859 of ClearOne Communications, Inc. on Forms S-8 of our financial statement audit report dated October 13, 2009, appearing in this Annual Report on Form 10-K of ClearOne Communications, Inc. for the years ended June 30, 2009 and 2008.

/s/ Jones Simkins, P.C.  
JONES SIMKINS, P.C.  
Logan, Utah  
October 13, 2009

**CERTIFICATION**

I, Zeynep Hakimoglu, certify that:

1. I have reviewed this annual report of ClearOne Communications, Inc. on Form 10-K;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2009

By: /s/ Zeynep Hakimoglu  
Zeynep Hakimoglu  
Chief Executive Officer

**CERTIFICATION**

I, Narsi Narayanan, certify that:

1. I have reviewed this annual report of ClearOne Communications, Inc. on Form 10-K;
2. Based on my knowledge, this report 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 13, 2009

By: /s/ Narsi Narayanan  
Narsi Narayanan  
Vice President of Finance

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**Pursuant to  
18 U.S.C. Section 1350,  
As Adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Zeynep Hakimoglu, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of ClearOne Communications, Inc. on Form 10-K for the year ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: October 13, 2009

By: /s/ Zeynep Hakimoglu  
Zeynep Hakimoglu  
Chief Executive Officer

A signed original of the written statement above required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to ClearOne Communications, Inc. and will be retained by ClearOne Communications, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.



**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**Pursuant to  
18 U.S.C. Section 1350,  
As Adopted pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Narsi Narayanan, certify, to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of ClearOne Communications, Inc. on Form 10-K for the year ended June 30, 2009, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of ClearOne Communications, Inc.

Date: October 13, 2009

By: /s/ Narsi Narayanan  
Narsi Narayanan  
Vice President of Finance

**A signed original of the written statement above required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to ClearOne Communications, Inc. and will be retained by ClearOne Communications, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.**

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Zeynep Hakimoglu**  
Chairman  
President and CEO  
ClearOne

**Brad R. Baldwin**  
General Counsel  
Wasatch Front  
Regional MLS Inc.

**Larry R. Hendricks**  
Retired, formerly VP  
of Finance and GM  
Daily Foods, Inc.

**Scott M. Huntsman**  
President and CEO  
GlobalSim

### CORPORATE OFFICERS

**Zeynep Hakimoglu**  
Chairman  
President and CEO

**Narsi Narayanan**  
Vice President of Finance

**Tracy A. Bathurst**  
Chief Technology Officer

**Joseph P. Sorrentino**  
Executive Vice President  
of Worldwide Sales

### CORPORATE HEADQUARTERS

Edgewater Corporate Park  
South Tower  
5225 Wiley Post Way  
Suite 500  
Salt Lake City, UT 84116  
801 975 7200

### CORPORATE COUNSEL

Greenberg Traurig, LLP  
2375 East Camelback Road  
Suite 700  
Phoenix, AZ 85016  
602 445 8000

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Jones Simkins, PC  
1011 West 400 North  
Suite 100  
Logan, UT 84321  
435 752 1510

### TRANSFER AGENT

American Stock Transfer  
& Trust Company  
59 Maiden Lane  
New York, NY 10038

### SECURITIES LISTING


The company's common  
stock trades on the NASDAQ  
Capital Market under the  
symbol of CLRO

**NASDAQ**  
LISTED

### INVESTOR RELATIONS

PondelWilkinson Inc.  
1880 Century Park East  
Suite 700  
Los Angeles, CA 90067  
310 279 5980  
investor@pondel.com

**FORWARD-LOOKING INFORMATION** Statements contained in this Annual Report, which are not historical facts, are forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995, and as such, are subject to risk and uncertainties which can cause actual results to differ materially from those currently anticipated. Readers are referred to the documents filed by CleraOne Communications with the Securities and Exchange Commission, specifically the most recent reports on forms 10-K and 10-Q, including amendments thereto, which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements.



SOUNDS GOOD TO ME

**ClearOne**

[www.clearone.com](http://www.clearone.com)

Edgewater Corporate Park

South Tower

Suite 500

5225 Wiley Post Way

Salt Lake City, UT 84116